WORLD BANK OPERATIONS EVALUATION DEPARTMENT

OED

2003 Annual Review of Development Effectiveness

The Effectiveness of Bank Support for Policy Reform

2004
The World Bank
Washington, D.C.

http://www.worldbank.org/oed

© 2004 The International Bank for Reconstruction and Development / The World Bank
1818 H Street, NW
Washington, DC 20433
Telephone 202-473-1000
Internet www.worldbank.org
E-mail feedback@worldbank.org

All rights reserved
Manufactured in the United States of America
First edition May 2004

The findings, interpretations, and conclusions expressed here are those of the author(s) and do not necessarily reflect the views of the Board of Executive Directors of the World Bank or the governments they represent.

The World Bank cannot guarantee the accuracy of the data included in this work. The boundaries, colors, denominations, and other information shown on any map in the work do not imply on the part of the World Bank any judgment of the legal status of any territory or the endorsement or acceptance of such boundaries.

Rights and Permissions

The material in this publication is copyrighted. Copying and/or transmitting portions or all of this work without permission may be a violation of applicable law. The World Bank encourages dissemination of its work and will normally grant permission promptly.

For permission to photocopy or reprint any part of this work, please send a request with complete information to the Copyright Clearance Center, Inc., 222 Rosewood Drive, Danvers, MA 01923, USA, telephone 978-750-8400, fax 978-750-4470, www.copyright.com.

All other queries on rights and licenses, including subsidiary rights, should be addressed to the Office of the Publisher, World Bank, 1818 H Street NW, Washington, DC 20433, USA, fax 202-522-2422, e-mail pubrights@worldbank.org.

Cover photo by Ray Witlin, World Bank Photo Library, Burkina Faso.

ISBN 0-8213-5938-X
e-ISBN 0-8213-5939-8

Library of Congress Cataloging-in-Publication data has been applied for.

World Bank InfoShop
E-mail: pic@worldbank.org
Telephone: 202-458-5454
Facsimilie: 202-522-1500

Operations Evaluation Department
Partnerships & Knowledge Programs (OEDPK)
E-mail: eline@worldbank.org
Telephone: 202-458-4497
Facsimilie: 202-522-3125

Printed on Recycled Paper

Contents

v Acknowledgments

vii Foreword

ix Executive Summary

xiii Abbreviations and Acronyms

1 **1 Development Policy Reform**
- 2 Policy Reform Is Difficult Business
- 3 Are Developing Countries' Policies Improving?
- 8 Why and How Does the Bank Support Policy Reform?

13 **2 Ownership: Linking Bank Support to Policy Reform**
- 13 Is Bank Support Linked to Policy Reform?
- 16 How Does the Bank Handle the "Tough Cases"?
- 22 Are Partnership Approaches Working?

25 **3 Country Fit: Adapting Bank Support to Country Conditions**
- 25 Do Bank Country Strategies "Fit"?
- 33 Is the Bank Effective in Advancing Corporate Advocacy Priorities and Harnessing Global Knowledge?

39 **4 Conclusions**
- 39 The Bank Has Been Reasonably Good at Aligning Its Support with Countries That Are Improving Their Policies
- 39 The Bank's Record In Customizing Its Support for Reform to Client Needs Is Mixed
- 40 Implications for the Future

43 **Appendix: Project Performance Results**

61 **Annexes**
- 61 A: Indicators of Economic Policies
- 67 B: Technical Notes
- 77 C: World Bank Operational Instruments
- 81 D: Outcomes and Bank Contributions to Country Cases Listed in Figure 2.2
- 91 E: Effectiveness of Bank Support for Policy Reform: An Overview from the CODE Chairperson

95 **Endnotes**

99 **Bibliography**

Boxes

4 1.1 Indicators of Country Policies
7 1.2 Yemen Improved Its Macroeconomic Policies after Emerging from Conflict
8 1.3 Brazil's Policies Were Highly Rated, but Its Growth Was Disappointing
10 1.4 Customizing Policies to Country Contexts
14 2.1 The Bank Definition of a "Relatively Good" Policy Environment
16 2.2 Bank Support Contributed to Improved Educational Outcomes in Ghana
20 2.3 Conflicting Incentives Sometimes Make Conditionality Difficult to Enforce
21 2.4 Outcomes-Based Conditionality Shows Promise in a Pilot in Burkina Faso
23 2.5 CDF Principles Foster Country-Owned Strategies
26 3.1 The Uncertainties of Policy Reform Depend on the Policy Area
26 3.2 Adapting Support to Policy Reform Styles in Tunisia
28 3.3 Bank Support for Policy Reform in China Relies Primarily on Dialogue and Demonstration
29 3.4 Fostering Ownership of Education Reforms
30 3.5 Specific Country Knowledge Is Necessary for Project Success
33 3.6 Inadequate Debt Sustainability Analysis Can Contribute to Excessive Accumulation of Debt
35 3.7 New Paradigms: Private Sector Participation in Water and Sanitation
36 3.8 Electricity Development in Ukraine: Good Idea, Bad Fit

Figures

5 1.1 Developing Countries Have Made Gradual But Definite Progress in Improving Their Policies
6 1.2 Policies Improved in All Regions
6 1.3 Countries with Relatively Large and Consistent Recent Changes in Policy Indicators (1999–03)
7 1.4 Most Areas of Developing-Country Policies Improved
8 1.5 Countries with Better/Improving Policies Grew Faster
11 1.6 World Bank Instruments Available to Support Policy Reform
14 2.1 Bank Lending Is Concentrated in Countries with Good Policy Environments
15 2.2 Good Outcomes of Bank Assistance Are Associated with Progress in Policy Reform
17 2.3 Improved Project Outcomes Are Associated with Improvements in Related Policies
31 3.1 High-Quality, Timely ESW Contributes to the Bank's Impact on Policy Reform

Acknowledgments

This Review was prepared by a team led by Robert J. Anderson. The core team comprised Mirafe Marcos and Irina Tratch. Team members and background paper authors were Soniya Carvalho, Howard Nial White, Deepa Chakrapani, Hans Genberg (consultant), James W. Fox (consultant), and Miguel Kiguel (consultant). Contributions from numerous OED staff are also gratefully acknowledged.

Peer review was provided by David Dollar and Sanjay Pradhan. The Review also benefited from the advice of Ravi Kanbur. In addition, helpful comments were received from the following Bank staff: Yaw Ansu, Shawki Barghouti, Daniela Gressani, Roumeen Islam, Aloysius Ordu, and Padmanhaba Hari Prasad.

The team was assisted in production of the report by Julia Akumu Ooro.

The Review was prepared under the direction of Victoria Elliott, Manager of OEDCM.

Director-General, Operations Evaluation: *Gregory K. Ingram*
Director, Operations Evaluation Department: *Ajay Chhibber*
Manager, Corporate Evaluation and Methods: *Victoria Elliott*
Task Manager: *Robert J. Anderson*

Foreword

Over the years, the Bank's strategy has broadened its focus beyond physical investments to policies and institutions. Policy reform and institutional development are seen not as ends in themselves, but rather as necessary to creating an environment that is—based on the Bank's and others' analyses of development experience—conducive to pro-poor growth and widespread, sustainable poverty reduction. Recognizing the inherently political character of policy reform and the diversity of country contexts, the Bank espouses an approach to policy reform that is grounded in country leadership and ownership of the development agenda, with Bank support customized to country circumstances.

The *2003 Annual Review of Development Effectiveness* examines the effectiveness of Bank support to borrower countries to help them put in place policies conducive to sustainable poverty reduction. The Review focuses primarily on the years from 1999 through 2003, which may have been an unusually favorable period for reform due to the large number of countries coming out of crisis or advancing with transition. This period is chosen to facilitate the juxtaposition of recent evaluation evidence concerning the Bank's support for policy reform with trends in a number of policy indicators.

Findings

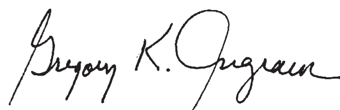
- Two thirds of developing countries—both low- and middle-income—have improved their development policies as reflected by trends in a number of policy indicators. Policies improved in most policy areas. The most widespread increases occurred in policies related to gender, financial stability, efficiency of resource mobilization, and quality of budget and financial management.
- Policy reform paid off. Countries whose policies improved grew in per capita terms on average at more than twice the rate of those that did not.
- Bank lending, both overall and on a per capita basis, was concentrated in countries that had "relatively good" policy environments. Bank support was also linked to improvements in policy at both the country and project levels, and to higher levels of indicators related to Millennium Development Goals.
- The Bank was less successful in linking its support to policy reform in countries with no or

weak track records, or in countries where the environment for reform was fluid or highly uncertain. The instruments the Bank uses to link lending to policy performance—Country Assistance Strategy triggers and conditionality, which pre-specify Bank responses to borrower performance—have not resulted in good outcomes in highly uncertain situations. In such situations, large-scale lending should normally be undertaken only when there are clear signals that policy reform is under way.

- Outcomes of Bank country assistance have been moderately satisfactory or better about 70 percent of the time. Good results have been obtained with very different policies and institutions, supported by different combinations of Bank instruments and thematic/sectoral mixes, with the mix tailored to the country situation and country preferences, and usually evolving over time. However, a number of factors appear to play an important role in determining outcomes of Bank assistance.
- Economic and sector work is critical for good outcomes. It informs the Country Assistance Strategy, contributes to the policy dialogue, and shapes the design of Bank operations. The Bank should, normally, not engage in lending before economic and sector work has established an adequate base of country and sector knowledge.
- The amount and terms of financing of development assistance need to be calibrated carefully to countries' debt carrying capacity. The Bank's Debt Sustainability Analysis needs to be upgraded to require more critical examination of the realism of assumptions and examination of the sensitivity of the analysis to key assumptions. This should be done prior to any change in lending policies, such as removing ceilings on adjustment lending or efforts to ramp up IBRD infrastructure lending that could result in increased lending levels.
- The knowledge content of Bank products needs to be adapted to country circumstances. The Bank is perceived to have been too narrowly focused in the analyses and "best practices" that it presents, with insufficient attention to alternative perspectives or to individual country circumstances. Networks and regions should strengthen their respective procedures in the capture, validation, and application of lessons learned and good practices. The search for "generic best practices" should be altered in favor of intensified efforts to customize and adapt knowledge to specific localized problems—often done best in collaboration with in-country expertise.

Implications

To support countries' efforts to deepen reforms, the Bank may need to adapt its processes and instruments—particularly those for managing the risks associated with policy reform. One possibility for doing so would be to experiment with approaches that would complement intermediate indicators and conditions with indicators of direct poverty reduction results or other outcome-related indicators in Bank programming decisions. To date, there has been only limited experience with this type of approach. That experience has been promising, but has also revealed a number of practical problems, including lack of timely availability of data. The Bank should promote further piloting and experimentation with outcomes-based lending and other approaches to strengthening country leadership, ownership, and results orientation in willing countries.



Gregory K. Ingram
Director-General, Operations Evaluation

Executive Summary

Over the years, as more has been learned about the conditions for successful development assistance, the Bank's strategy has broadened its focus beyond physical investments to policies and institutions. Policy reform and institutional development are seen not as ends in themselves, but rather as necessary to creating an environment conducive to pro-poor growth and to widespread, sustainable poverty reduction. The *2003 Annual Review of Development Effectiveness* (ARDE 2003) examines the effectiveness of Bank support to borrower countries to help them put in place such policies. The Review focuses primarily, although not exclusively, on the years 1999 through 2003. This is done to facilitate the juxtaposition of recent evaluation evidence with trends in policy indicators.

Policy reform entails a high degree of uncertainty since it depends not only on the policy sciences, but also on politics. Uncertainty, unpredictability, and surprise have been a central part of the challenge of development since the early days of aid, when development strategies focused on seemingly simple project investments. What is different about policy reform is that the uncertainties can be even greater, and prior analysis and contingency planning generally have limited power to reduce them.

Recent Trends in Developing Countries' Policies

Developing countries have improved their policies in the last few years. Indicators of various dimensions of policy and institutional performance compiled by four organizations agree that developing countries' policies have, on average, improved modestly. Improvement is seen in all regions and among both low- and middle-income countries. Moreover, recent reforms have touched most areas of development policy. In most countries that accomplished strong reform over the period 1999-2003, change was driven by necessity or opportunities such as transition from socialism, economic crisis, European Union accession, and change of government. Development research suggests that such factors tend to galvanize support for change and thus make the politics of policy reform easier.

Such circumstances occurred often during the 1990s. Twenty-one countries emerged from crises, and 26 countries in Europe and Central Asia were in various stages of transition to a market economy. Moreover, as aggregate aid flows shrank and donors emphasized development performance over foreign policy in allocating aid, recipient countries faced strengthened incentives to reform. These trends may account for the fact that—despite the difficulties of policy reform—fairly widespread progress seems to have been made.

Policy reform paid off in terms of higher growth. Countries whose policies improved over the period 1999-2003 tended to grow on average at more than twice the rate of those whose policies did not improve.

Linkage of Bank Support to Policy Reform

The Bank was successful in linking its support with good and/or improving policy environments during the period covered by this Review. IBRD/IDA lending over the period 1999-2003, both overall and on a per capita basis, was concentrated in countries that had "relatively good" policy environments.

Evaluation evidence links Bank support to recent improvements in policy. Countries with good or improving policies as reflected in policy indicators were also countries where Bank assistance—as evaluated by OED—has contributed to good outcomes. Countries with satisfactory Bank assistance outcomes and improving policies also scored higher on indicators related to the Millennium Development Goals than did countries with unsatisfactory outcomes and deteriorating policies. At the project level, too, good country policy ratings tend to be associated with good evaluation ratings on project outcomes. The Bank was less successful in linking its support to policy reform in countries with no or weak track records or with deteriorating policy environments. *Triggers and conditionality have helped keep lending support aligned with reform performance in cases where the environment for reform was stable—either favorable or unfavorable. But when the environment for reform is in flux, and especially when it is deteriorating, triggers and conditions have been less effective*.

In countries with poor policy environments, therefore, the Bank should limit or postpone lending before there are clear signals that reform is under way. Assistance programs for these countries should initially emphasize analytical work, dialogue, and technical assistance, and they should modulate lending carefully. Premature lending may not only be wasted, but counterproductive. It weakens the linkage between sound policies and access to development finance. It adds to the country's debt burden without a strong likelihood of development payoff. This would suggest a gradual approach to lending re-engagement in countries in which the Bank starts a new relationship or re-activates a program after a long hiatus. *In non-crisis/non-emergency situations, adjustment lending should be provided only when a solid track record of reform implementation has been established.*

The uncertainties associated with policy reform are reduced when the Bank's support is aligned with country priorities that have been set and validated through country-led, inclusive political processes. A start has been made in this direction in some cases in the development of country-owned programs through the process of preparing Poverty Reduction Strategy Papers (PRSPs). *The PRSP's potential as a vehicle for fostering country leadership and ownership is undermined, according to some borrowing countries, by its role as condition for access to concessional assistance from the Bank and Fund*.

Adapting Bank Support to Country Conditions

How effective is the Bank in customizing its support to country conditions? The outcomes of Bank country assistance as rated by OED in Country Assistance Evaluations (CAEs) are moderately satisfactory or better about 70 percent of the time. There is thus room for improvement. An important aspect of success is tailoring the pace and instruments of reform to country policymaking processes. Even when country ownership of reform is strong, a mismatch between Bank strategy and country conditions creates tensions and can result in poor outcomes of Bank assistance.

Economic and sector work (ESW) is critical for good outcomes. It informs the Country Assis-

tance Strategies (CASs), contributes to the policy dialogue, and shapes the design of Bank operations. In countries where recent outcomes of Bank assistance were evaluated as satisfactory, high quality, relevant, and timely ESW generally made a substantial contribution. Where outcomes were not satisfactory, deficiencies of ESW in one or more of these dimensions was a contributing factor. *The Bank should not normally engage in lending before ESW has established an adequate base of country and sector knowledge.*

There is considerable unexploited potential for applying ESW through better adaptation to specific country contexts and dissemination. The Bank should ensure that adequate resources and managerial attention are devoted to realizing this potential. The Bank has also not been effective in giving operational value to its various knowledge initiatives in country contexts and sector strategies. There is inadequate oversight and quality assurance of the process by which possibilities suggested by new approaches become "best practices." These inadequacies limit the effectiveness of the Bank's networks and their interactions with the regions, and represent a risk to the Bank's reputation. This risk is potentially most serious in those areas—such as competitive supply of infrastructure services and governance—where thinking on policy is evolving very rapidly. *Networks and regions should strengthen their respective procedures in the capture, validation, and application of lessons learned and good practices*. *The development of generic "best practice" should be augmented, and where necessary replaced, by development of knowledge adapted to local problems generated in collaboration with local expertise*.

A properly customized country assistance program requires a medium-term macroeconomic framework that includes a sustainable debt burden. The Bank and its donor partners have not always calibrated the size and financing of their assistance to recipients' debt carrying capacity. *The Bank's Debt Sustainability Analysis (DSA) needs to be upgraded to require more critical examination of the realism of assumptions and of the sensitivity of the analysis to key assumptions.* In addition, the Bank's monitoring indicators and CAS triggers should call for reconsideration and recalibration of the Bank's assistance as necessary to ensure progress toward or maintenance of debt sustainability. This should be done prior to any change in lending policies that could result in increased lending levels.

Implications for the Future

The recent environment for policy reform may have been unusually favorable due to the large number of countries coming out of crisis or advancing with transition. *To support the deeper and wider reforms needed to maintain recent trends will require the Bank to further adapt its processes and instruments—particularly those for managing the uncertainties associated with policy reform.*

Evaluations of early experience with Comprehensive Development Framework (CDF) processes and policy research on development effectiveness identify three obstacles to doing so. First, as noted above, some borrower countries consider that the PRSP's multiple roles are incompatible. Second, there is a potential tension between triggers and conditionality—particularly when these are not aligned with country-owned objectives—and the development of country ownership. And third, the use of policy indicators that appraise countries' policies against uniform criteria may discourage the customization of policies to country circumstances. *Good outcomes can be fostered by a range of policy and institutional options, which can differ across countries based on their institutional history, norms, and cultural attributes.*

Many of these tensions are addressed by current Bank processes. The Bank is, for example, endeavoring to align CASs and operational conditionality with country-owned programs, and supporting those programs through programmatic lending instruments. It also aims to strengthen the country focus by using differentiated approaches for countries at different stages of development (e.g., initiatives for low income countries under stress, or LICUS, and middle-income countries), decentralization of operations, and doing joint analytical work. It applies the CPIA flexibly in programming decisions. There is as yet not enough experience, however, to determine whether these efforts

are paying off in terms of improved development effectiveness.

The Bank also has a number of mechanisms designed to link its support to the achievement of results. These include new lending instruments such as Adaptable Program Loans and Poverty Reduction Support Credits, as well as ongoing efforts to ground triggers and conditionality in country-owned programs. In these mechanisms, support is usually linked to completion of intermediate steps such as legal and regulatory changes, organizational improvements, and expenditure or other input targets. This linkage to intermediate steps—while relatively practical to monitor—has one main weakness: It does not address the "qualitative" dimensions—"due diligence" or "best effort" in implementation in pursuit of the objectives of the development program. While strong county ownership would mitigate this problem, it would not eliminate it.

The Bank could begin to experiment with additional mechanisms to introduce a more direct linkage between its support and results in terms of poverty reduction or other Millennium Development Goals. Such a link would be added to or blended with existing mechanisms, in order to help sharpen the results focus, provide countries latitude during implementation in pursuing their objectives, and help take account of the uncertainties associated with policy reform. There are practical problems to be addressed to link aid to results operationally, notably the difficulty of obtaining timely data. To find solutions to these problems, the Bank should promote pilot projects in willing countries with the potential to increase aid effectiveness. The challenge facing the Bank remains to continually re-examine and modify its approaches to delivering development support so as to yield better results in terms of sustainable poverty reduction.

ABBREVIATIONS AND ACRONYMS

AAA	Analytic and Advisory Services
AFR	Africa Region
APL	Adaptable Program Loan
ARDE	Annual Review of Development Effectiveness
CAE	Country Assistance Evaluation
CAS	Country Assistance Strategy
CBO	Community-based Organization
CDF	Comprehensive Development Framework
CEM	Country Economic Memorandum
CIS	Commonwealth of Independent States
CODE	Committee on Development Effectiveness
CPIA	Country Policy and Institutional Assessment
DSA	Debt Sustainability Analysis
EAP	East Asia and Pacific Region
ECA	Europe and Central Asia Region
ESW	Economic and Sector Work
FY	Fiscal Year
GDP	Gross Domestic Product
HIPC	Heavily Indebted Poor Countries
HNP	Health, Nutrition, and Population
IBRD	International Bank for Reconstruction and Development (World Bank)
ICR	Implementation Completion Report
IDA	International Development Association
IEO	Independent Evaluation Office (of the International Monetary Fund)
IMF	International Monetary Fund
LCR	Latin America and the Caribbean Region
LICUS	Low-Income Countries Under Stress
LIL	Learning and Innovation Loan
MDGs	Millennium Development Goals
MNA	Middle East and North Africa Region
NGO	Nongovernmental Organization
ODA	Official Development Assistance
OED	Operations Evaluation Department
PPAR	Project Performance Assessment Report
PRSC	Poverty Reduction Support Credit (also PRC)
PRSP	Poverty Reduction Strategy Paper
PSAL	Programmatic Structural Adjustment Loan (also PSL)
QAG	Quality Assurance Group
SAR	South Asia Region
SAL	Structural Adjustment Loan
SSAL	Special Structural Adjustment Loan (also SSL)
SSP	Sector Strategy Paper
SWAP	Sectorwide Approach
UNDP	United Nations Development Program
WDR	World Development Report

Development Policy Reform

Today's World Bank Group is very different from the institution that first opened its doors at the end of World War II. In those early days, the Bank …focused very much on the reconstruction of war-torn Europe. As the immediate postwar reconstruction needs subsided, the Bank's focus shifted to financing infrastructure projects in Europe, Latin America, and Asia, in line with then-current thinking about development gaps and constraints. Over the years, as more was learned about the necessary conditions for successful development and poverty reduction, the paradigm for development assistance changed—to focus less on bricks and mortar, and more on policies and institutions, country ownership of the development process, the role of the private sector, partnerships, knowledge, and learning. The Bank's approach and instruments evolved along with this paradigm.

—World Bank (2000)

The *2003 Annual Review of Development Effectiveness* (ARDE 2003) examines the effectiveness of Bank support in helping borrower countries put in place policies that are conducive to sustainable poverty reduction.[1] The Bank views policy reform not as an end in itself, but as necessary for creating an environment that is conducive to pro-poor growth and widespread sustainable poverty reduction. Its concept of appropriate policy reform is based on its distillation of a substantial body of research and evaluation evidence. In promoting policy reform, the Bank focuses on policies that: (a) improve the climate for investment and growth (e.g., fiscal and monetary policies conducive to macroeconomic stability, trade policies conducive to integration into the global economy, policies conducive to the development of a stable and efficient financial system and supporting infrastructure services); (b) promote social inclusion in growth and development (e.g., access of the poor to quality basic services in health and education, gender equity); (c) promote environmental sustainabil-

ity (e.g., environmental standards and regulations); and (d) improve governance (e.g., policies with respect to civil service, information disclosure).

ARDE 2003 focuses primarily, although not exclusively, on the years from 1999 through 2003. This allows examination of both recent evaluation evidence concerning the Bank's support for policy reform and independently produced policy indicators available for approximately the same time period. ARDE 2003 does not distinguish between "policy" and "institutional" reform. Although these are in fact distinct, they are not distinguishable in the data over the short period considered here. Institutions change more slowly than policies, so the data examined here—while they contain institutional components—primarily reflect policy developments. The report addresses the following questions:

- What distinguishes support for policy reform from support for investments?
- Have developing countries been making progress in reforming their policies?
- Has the Bank been effective in targeting its support to countries that are improving their policies?
- Has the Bank been effective in tailoring its support to country conditions?

This chapter briefly considers the challenge posed by supporting policy reforms (in contrast to physical investments) and recent trends in developing countries' economic and social policies as reflected by a number of policy indicators. In general, the indicator data show recent improvements in most developing countries' policies, although this trend is by no means universal. The chapter also briefly reviews the Bank's rationale for its emphasis on policy reform.

Policy Reform Is Difficult Business

Policy reform generally entails a high degree of uncertainty since it, inevitably and appropriately, depends not only on the policy sciences, but also crucially on politics. Policy reform attempts can and frequently do set off an unpredictable cascade of political, social, and economic consequences. In all but the most monolithic of political environments, it is frequently impossible to foresee how the process will unfold or where and when it will end.

The process does not end when a policy is adopted. Policy implementation determines whether incentives really change and whether costs and benefits actually flow. The various interests must thus continue to struggle to control the administrative regulations and processes that govern implementation, which ultimately determine how policies will impinge on those interests. The timing and nature of the outcomes—there may be several, and they may change over time—are also unpredictable. Indeed, this second act—implementation—has no natural end as long as a policy is in force.

Another dimension of uncertainty that complicates policy reform is disagreement among experts about the most appropriate policy package for any given situation. Although there is substantial professional consensus about many broad policy areas, the myriad options available for implementation (e.g., timing, sequence of related policies) mean that few universally accepted "engineering blueprints" exist that can be relied upon to focus and limit the scope of debate and discussion.

Uncertainty, unpredictability, and surprise have been a central part of the challenge of development since the early days of development assistance, when development strategies were focused on seemingly simple project investments.[2] In the case of policy reform, the uncertainties can be even greater, and prior analysis and contingency planning have limited power to reduce many of them.

The degree of "policy science" and political uncertainty associated with policy reform depends upon the particular kind of policy at issue. The challenge to effective support for policy reform, given these uncertainties, is achieving the proper balance between (a) prior analysis of the likelihood of various possible outcomes and planning for contingencies (e.g., the policy outcomes of a country's political processes, the social or environmental effects of alternative proposed changes in policies)

and (b) monitoring of outcomes and adjustment of policies and their implementation as events unfold.

Prior analysis (e.g., use of a computable general equilibrium model to analyze the allocative and distributive outcomes of a tax reform)[3] can be costly, and its predictions are subject to error. This raises the question of whether the benefits of such analysis—in terms of its utility in improving the outcomes of policies—outweigh the costs of conducting the analysis. In general, the greater the uncertainty, and the more limited the power of prior analysis and contingency planning to reduce it, the greater the emphasis that needs to be given to monitoring and midcourse adjustment of policies.

Are Developing Countries' Policies Improving?

This section uses four widely used policy indicators to briefly review recent trends in developing countries' policies. These four indicators are the Bank's internal Country Policy and Institutional Assessment (CPIA), the Heritage Foundation's Index of Economic Freedom (Heritage), the Economist Intelligence Unit's Index of Country Risk (EIU), and the Political Risk Services Group's International Country Risk Guide (ICRG). These indicators, used to appraise—inter alia—countries' economic prospects, are described in box 1.1.

Although there are overlaps in coverage, each indicator also captures some unique elements of countries' policy environments, and the criteria and weights used to arrive at countries' scores differ. All—no matter how comprehensive—give only partial and stylized assessments of policy. In-depth case studies suggest that the specific features of the policies and institutions that have driven growth over sustained periods—while embodying certain underlying common features—are highly country specific and are not easily captured in any simple set of cross-country indicators (Rodrik 2003b). For example, China's early strategic policy of permitting market incentives to operate for a relatively small number of transactions and maintaining most transactions through the "command and control" system probably would have received low scores on some dimensions of these indicators. To ensure rough comparability over time, the focus here is on the period since 1999, when the CPIA underwent its most recent major revision.[4]

Developing countries' policies are gradually improving.

Even though a country enters difficult terrain when it undertakes to improve its policies, in general, the last few years have seen progress on reform. The various indicators of policy and institutional performance examined here indicate that developing countries' policies have, on average, improved modestly. Improvement is seen in both low- and middle-income countries (figure 1.1). Although there are some distinctive regional patterns, average CPIA ratings for every one of the Bank's regions improved—a pattern reflected in the other three indicators as well (figure 1.2).

In all four indicators, the average improvement is quite small in relation to plausible margins of variation in the judgments made in applying rating criteria. Can we be confident that these modest increases reflect real improvements, or are they mere statistical artifacts?

Three observations tend to support the conclusion that the observed increases reflect real improvements. First, all four indicators point in the same direction even though they are based on different criteria.[5] Second, the modest scale of the improvements is plausible because the indicators are based on variables that tend to change slowly. Third, significantly more countries' ratings increased than decreased.[6]

The strongest and most consistent indications of reform are associated with transition countries.

Although improvements in general have been widespread and small, some countries stand out (figure 1.3).[7] The countries with improving policies are mostly transition countries in Europe and Central Asia. These countries started the reform effort from a considerably lower base than the average, and many indeed were in crisis in the early to mid 1990s. Five countries aspire to European Union accession

Box 1.1 Indicators of Country Policies

World Bank Country Policy and Institutional Assessment (CPIA). The Country Policy and Institutional Assessment assesses borrower countries' policy and institutional frameworks annually with regard to their capacity to foster poverty reduction, sustainable growth, and the effective use of development assistance. The CPIA evaluates 20 dimensions (each with the same weight in the overall rating) of policy encompassing economic management, private and financial sector development, social inclusion and equity, and public sector management and institutions.

Heritage Foundation Index of Economic Freedom (Heritage). The Heritage Foundation has produced the Index of Economic Freedom annually since 1995. The Heritage Foundation/Wall Street Journal 2003 Index measures the performance of 161 developed and developing countries with respect to 50 policy dimensions, divided into 10 broad factors of economic freedom: trade policy, fiscal burden of government, government intervention in the economy, monetary policy, capital flows and foreign investment, banking and finance, wages and prices, property rights, regulation, and black market.

International Country Risk Guide (ICRG). The ICRG risk rating system is a proprietary service that rates the risks faced by investors in a country. It is used primarily by businesses as a predictive tool to analyze investment options. The system assigns a numerical value (risk points) to a set of risk components, according to a preset weighted scale, for each country covered by the system. ICRG rates countries monthly on risk of political instability, economic vulnerability, and ability to meet financial obligations.

Economist Intelligence Unit Country Risk Service (EIU). The EIU Country Risk Service is a proprietary service designed to rate risks for commercial bankers, institutional investors, and corporate executives who invest in emerging markets. This service monitors and rates risks in 100 countries, including political, economic policy, economic structure, and liquidity risks as well as currency, sovereign debt, and banking sector risks. Countries are rated monthly.

Source: Annex A.

and are striving to close the gap between their present policies and those required for membership. Three countries, in addition to the reforms they have undertaken, have received a substantial macroeconomic boost from the increase in oil prices since 1999.

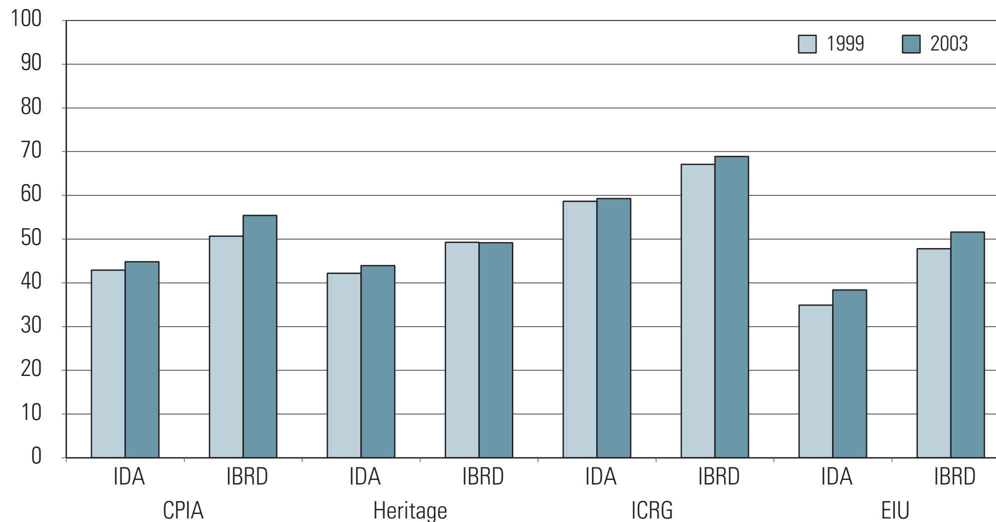
Countries whose ratings have deteriorated are more diverse, although several have been characterized by vacillation or backtracking on policy reform over extended periods of time. Argentina's ratings are clearly related to the economic and political crisis that has gripped the country since 2001. Five of the ten countries (including Argentina) are in Latin America or the Caribbean, a region that has been hit by several crises and has grown very slowly over the last several years (1999-2003).

Strong reform occurs in conducive environments. Most of the cases of strong reform in figure 1.3 occurred in environments that were conducive to change; they were driven by necessity (e.g., transition and/or crisis) and/or opportunity (e.g., accession to the European Union, new regime). Development research suggests that these kinds of factors are frequently associated with episodes of policy reform (Devarajan, Dollar, and Holmgren, 2001), as in the case of Yemen (box 1.2). Such factors tend to galvanize support for change and thus make the politics of policy reform easier.

The environment for policy reform in the 1990s may have been unique in some respects. A number of countries had been or were afflicted by crises (conflict, natural disaster, and/or financial)[8] and 26 countries in Europe and Central Asia were in various stages of transition to a market economy.[9] With greater competition for diminishing aid flows and the disappearance of cold-war-motivated flows, these factors may in part account for the fact that—despite the difficulties of policy reform—fairly widespread progress seems to have been made.

Progress is occurring on most dimensions of policy. Recent reform has also been fairly widespread across the different areas of development policy, as reflected in the various components of the CPIA (figure 1.4). In 1999, the highest rated policy areas were generally those that had

Figure 1.1 Developing Countries Have Made Gradual But Definite Progress in Improving Their Policies



Notes: CPIA = World Bank Country Policy and Institutional Assessment, Overall Rating; Heritage = Heritage Foundation/Wall Street Journal Composite Index of Economic Freedom; ICRG = International Country Risk Guide Composite Index of Country Risk; EIU = Economist Intelligence Unit Country Risk Service Composite Country Risk.

IDA refers to low-income countries that are eligible to receive assistance from the International Development Association (IDA). *IBRD* refers to middle-income countries that are eligible to borrow from the International Bank for Reconstruction and Development (IBRD).

All indices are re-scaled to range between 0 (lowest value) and 100 (highest value). Different indices cover different sets of countries, with the CPIA, which covers 134 countries in both 1999 and 2003, being the most inclusive. Sixty-seven countries are common to all three indicators.

Source: Annex A.

been on the Bank's agenda for many years, such as macroeconomic management, goods and factor markets, trade and foreign exchange, and management of public debt[10]—areas long addressed by the Bank in its support for stabilization and structural adjustment. Newer items on the Bank's agenda—such as financial stability, transparency, environment, public administration, and property rights and governance—had lower average ratings.

Rates of progress, however, differed among policy areas.[11] Progress was most pronounced with regard to gender, financial stability, revenue efficiency, and macroeconomic management. The smallest increases were registered in trade and foreign exchange (which remains the most highly rated policy area), fiscal policy, property rights and rules-based governance, and financial sector depth and efficiency. Debt management is the only indicator for which an absolute decrease was registered.[12]

Patterns of reform are time and country specific. It is unusual for a country to improve in some areas of reform and regress in others. Country factors explain by far the largest portion of the variation in changes in policy ratings. Policy area factors, while significant in a statistical sense, explain a smaller fraction of the variation in changes in policy ratings.[13]

Policy area patterns of reform differ among countries, differ among policies within any country, and also change over time within any country. Between 1999 and 2003, for example, many European and Central Asian countries had already made substantial progress on

Figure 1.2 Policies Improved in All Regions

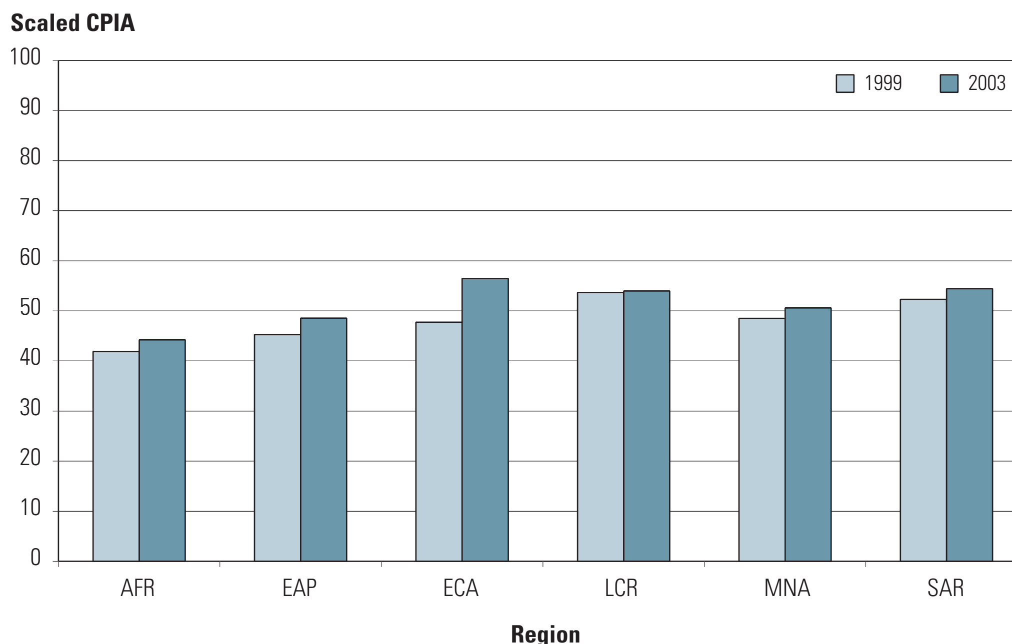


Figure 1.3 Countries with Relatively Large and Consistent Recent Changes in Policy Indicators (1999–03)

Policy Improvement	Policy Deterioration
Azerbaijan	Argentina
Brazil	Egypt
Croatia	Dominican Republic
Estonia	Lebanon
Kazakhstan	Malawi
Lithuania	Panama
Nicaragua	Trinidad & Tobago
Romania	Uruguay
Russian Federation	Zambia
Slovak Republic	Zimbabwe
Ukraine	
Yemen, Republic of	

Note: Based on concordance of two or more indicators, as per endnote 7.

macroeconomic and trade policy and were changing their pensions and social assistance policies to make them more affordable and improve targeting of the poor (OED 2004a). In the area of pension reform, for example, some chose to introduce funded systems or pillars within existing systems, and some opted for changes to existing non-funded systems.

Policy improvement is associated with faster growth.

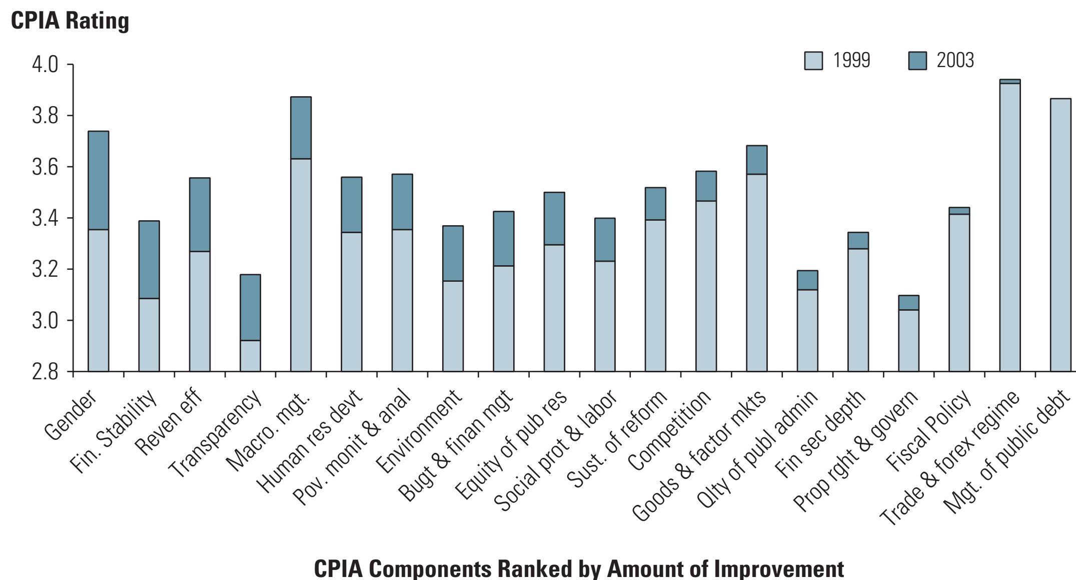
Countries with better policies and/or improving policies grew more rapidly than did countries with weak policies and/or deteriorating policies (figure 1.5).[14] Cumulative per capita growth between 1998 and 2002 (the most recent period for which growth data are available that overlap

Box 1.2 **Yemen Improved Its Macroeconomic Policies after Emerging from Conflict**

Having achieved political stability after years of civil war and exogenous shocks, the government of Yemen embarked on an ambitious economic stabilization and structural reform program in the mid-1990s. It succeeded in bringing the fiscal deficit down from 17 percent of GDP in 1994 to 1 percent in 1997, liberalizing interest rates while containing the money supply, devaluing the currency, and introducing a market exchange-rate regime. Inflation was brought down to 6.3 percent and real non-oil and overall GDP growth reached 5.3 percent and 5.2 percent, respectively, in 1997.

Source: OED (2001g).

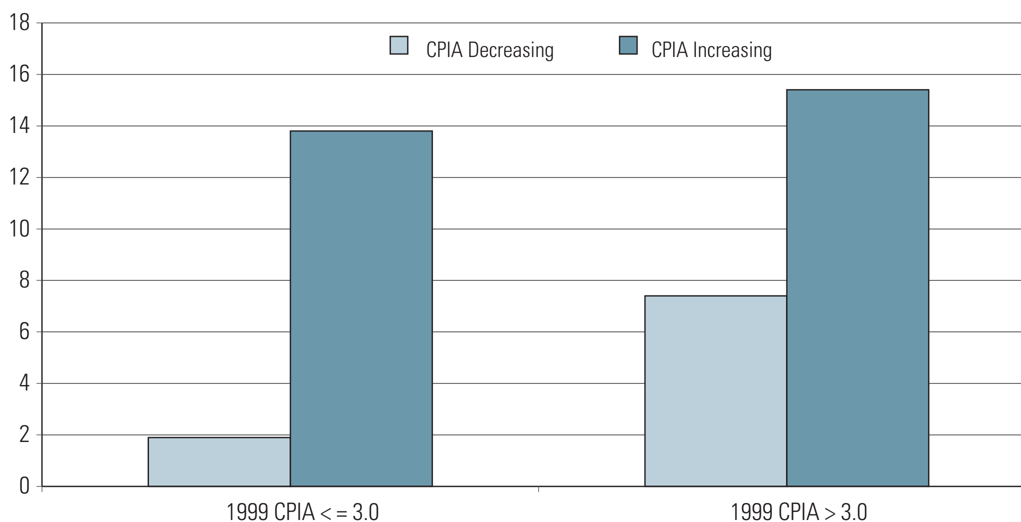
Figure 1.4 **Most Areas of Developing-Country Policies Improved**



with the period covered by the CPIA data) in countries whose policies were improving was two to six times greater than in countries with deteriorating policies. This was attributable both to the effect of policy on growth and to the greater effectiveness of aid in good and/or improving policy environments.

But good policies—at least as they are reflected in broad policy indicators—do not guarantee that a country will do well (box 1.3). Brazil's policies, for example, were rated highly on a number of indicators yet its growth was only about average for Latin America, and well below the average for developing countries, during the period 1998-2002. Statistical relationships linking policy indicators to growth typically explain only 40 to 60 percent of the variation in countries' growth rates over the very limited time period covered by the data examined here. Shocks and other factors also play a role. Those other factors could in some instances be elements of policy that may not be fully captured in broad policy indicators. For example, Brazil's low investment rate could have been a result of its relatively high cost of doing business—as reflected in the Bank's new Cost of Doing Business indicators (World Bank 2004).

Figure 1.5 Countries with Better/Improving Policies Grew Faster



Box 1.3 Brazil's Policies Were Highly Rated, but Its Growth Was Disappointing

Brazil has had disappointing growth performance for over two decades. Studies have indicated that the country's low rate of capital accumulation during this time may explain as much as 70 percent of Brazil's decline in output after 1980. The growth studies also show that the structural reforms implemented in the 1990s actually generated significant productivity gains — total factor productivity (TFP) increased more in the 1990s than in any other period and explains a large share of GDP growth in this period. The literature concludes that the reforms in the 1990s failed to restore high growth rates not because they failed to generate productivity gains, but because they failed to raise the levels of investment to a significant degree. The 2001 energy crisis provides an example of how insufficient investment in infrastructure has affected the country's growth performance—energy rationing of in 2001 reduced GDP growth in that year alone by a full percentage point.

Source: OED (2004e).

Why and How Does the Bank Support Policy Reform?

The Bank's strategy for poverty reduction rests on three premises.

The Bank's corporate strategy for poverty reduction emphasizes mutually reinforcing developed- and developing-country policy reforms and developing-country-led partnerships as keys to scaling up development impact and attainment of the Millennium Development Goals (MDGs). This emphasis is based on the Bank's distillation of a substantial and growing body of policy research and evaluation evidence. The fundamental premises of the Bank's strategy are that:

- Aid is more effective in promoting poverty reduction and growth in good developed- and developing-country policy/institutional envi-

ronments (World Bank 1997; Burnside and Dollar 2000, 2004).[15]

- Aid is neither necessary nor sufficient for good policy. Formulation and implementation of policies are the result of complex, uncertain, and risky political and administrative processes—i.e., the evolution of "ownership"—in adopting countries. Aid can complement and catalyze these processes by fostering and reinforcing the development of ownership, but aid per se is no substitute for ownership (Dollar and Svensson 1998; Killick 1998; Mosley et al.1995).
- Good policy is context specific. All successful reforms align incentives to reward growth, but what works well in one country at a specific time to accomplish this alignment may be ineffective or counterproductive in another (Rodrik 2003a). Donors can help by ensuring that aid recipients have access to the knowledge and experience of others.

The statistical evidence relating policy and aid effectiveness is not robust.

The proposition that aid is more effective in good recipient-country policy environments—notwithstanding the additional corroborating evidence presented here—has been challenged by a number of researchers (Hansen and Tarp 2000, 2001; Easterly et al. 2003). The challengers have shown that the empirical evidence relating policy to growth is not robust, and have argued that there are equally plausible, no less robust relationships between aid, growth, and poverty absent policy factors. Other research finds positive, non-policy-related linkages between aid and improvements in non-income dimensions of welfare (Lensink and White 2000).

Given the numerous factors that potentially affect growth, the multiple ways in which each can be measured, and the possibility that growth relationships may change over time, empirical analysis cannot fully resolve these issues.[16] Just as in health, certain factors seem to be associated with higher probabilities of good outcomes (e.g., people who don't smoke have a lower probability of contracting certain diseases than people who do smoke), but there is also a wide range of potential outcomes (e.g., not all smokers contract these diseases, and not all non-smokers are spared them). In the case of growth, the evidence suggests that countries that maintain prudent fiscal balances, appropriate exchange rates, and reasonably open trade appear to have a higher probability of good growth outcomes than do countries that do not (Rodrik 2003b). But these relationships do not hold for all times and all places. The specifics of policy design and the sequence in which countries implement policies in order to maintain fiscal balances, trade openness, and appropriate exchange rates vary widely across countries.

Country ownership is crucial.

Meaningful policy change (i.e., change that alters incentives and affects the distribution of income and power) does not happen unless a strong enough consensus for change can be forged among the various interests. In many recent successful reform cases, like the countries with policy improvement shown in figure 1.3, there has been some event, predicament, or opportunity that unexpectedly shifted the center of political gravity in the direction of policy change. Whatever the cause, a consensus of sufficient cohesiveness to deliver and sustain change through the country's political and administrative processes is a necessary condition for meaningful change to occur. This "sufficient consensus" for change is what is meant here by "ownership."

Good policy is context specific.

The highly differentiated experiences of the most successful developing countries suggest that many policy approaches—including a variety of instruments and sequences—are conducive to growth and poverty reduction. There is some degree of agreement on underlying common elements that may account for success—an incentive environment that rewards growth and poverty reduction, medium-term macroeconomic balance, and stability and predictability of property rights and the rule of law. There is much less agreement on the specific design of policies

that will achieve these in any particular country context at any point in time. The key to success is finding an approximately (not "the") right country policy fit in view of the country's institutions and politics (box 1.4).[17]

Policy reform plays a critical role in the Bank's strategy.

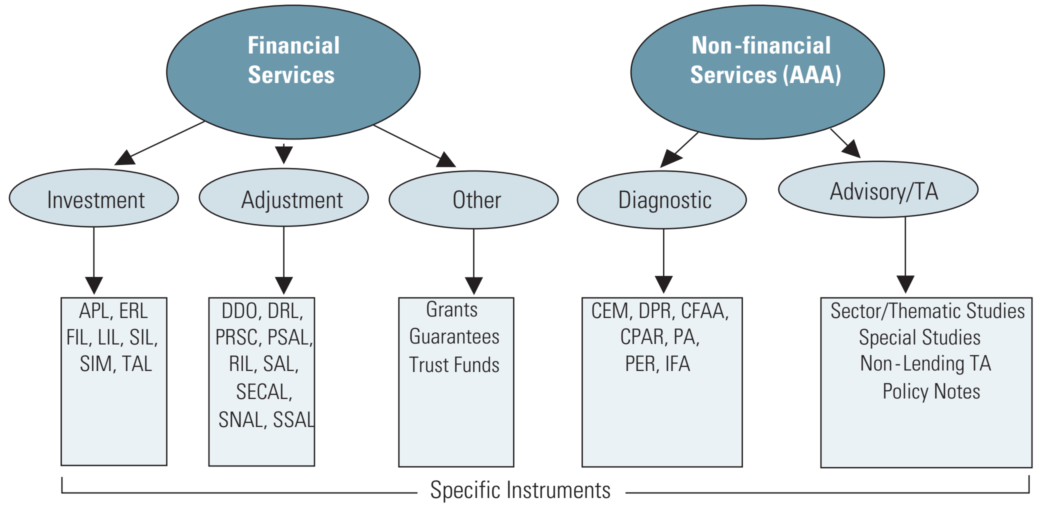
Country assistance programs are calibrated to the Bank's assessment of the capability of the recipient country's policies and institutions to use aid effectively as embodied in its system for performance-based allocations. However, in practice, the Bank's assistance strategies also typically emphasize not only the status of a country's policies but also possibilities for improvement of these policies with Bank assistance. Indeed, policy reform objectives figure prominently in almost all Country Assistance Strategies (CASs)—irrespective of whether policy-based lending is planned—to promote better long-term development outcomes. Virtually all planned Bank country operations—economic and sector work (ESW), project lending, donor coordination, etc.—have policy reform objectives, and the Bank uses its full range of instruments (shown in figure 1.6) to support policy reform objectives. The CAS structure indeed is frequently conditional, through triggers that link Bank assistance to policy, on policy developments.

Box 1.4 Customizing Policies to Country Contexts

The principle that property rights should be protected implies very little about what is the best way to do this under a society's existing institutional preconditions. It certainly does not imply that a system of private property rights and Anglo-American corporate governance is the right approach for all countries at all times. Look at the tremendous amount of investment and entrepreneurial activity that China has managed to elicit through a hybrid system of property rights and a legal regime that is as far from the Anglo-American system as one can imagine. Similarly, the principle that private incentives should be aligned with social costs and benefits hardly results in unconditional support for policies of trade liberalization, deregulation, and privatization. Finally, debt sustainability, fiscal prudence, and sound money are also obviously compatible with diverse institutional arrangements.

***Source*: Excerpted from Rodrik (2003a), pg. 3.**

Figure 1.6 World Bank Instruments Available to Support Policy Reform



Note: Acronyms for specific investment and adjustment lending instruments and non-lending instruments are defined in Annex C.

Ownership: Linking Bank Support to Policy Reform

We can do it with or without the Bank, but with you we can do it faster.
—Deng Xiaoping
China Country Assistance Evaluation (OED 2004f)

Chapter 1 argued that meaningful policy reform happens only where a strong enough consensus for change—ownership—is present, or can be forged, and that the politics and outcomes of the consensus-forming processes underlying reform are uncertain. Policy reform is therefore high risk. The payoff is high, too—improved prospects for growth and sustainable poverty reduction.

This chapter examines how the Bank links its support to policy reform in this highly uncertain environment. It shows that the Bank has, in general, been effective in directing its lending support to countries that have been improving their policies. It also shows that, in a number of cases, evaluation evidence associates these improvements in part with Bank assistance.

Is Bank Support Linked to Policy Reform?

Since ownership is not directly observable, the Bank attempts to link its support to ownership of policy reform indirectly through several mechanisms: the CPIA, which reflects cumulative policy reform achievements; CAS triggers, which link Bank support to, inter alia, progress on the policy agenda; and conditions or covenants of specific lending operations that link disbursements to satisfaction of specific conditions—often conditions related to policies. How effectively have these instruments worked in focusing Bank support on countries that are improving their policies?

Bank lending is focused on countries with good and improving policy environments.

Bank lending over the period 1999-2003 was concentrated in countries that had "relatively good" policy environments (box 2.1), with 89.4 percent of Bank lending going to countries with a CPIA ranking of 3.0 or better in 1999 and 96.6 percent going to such countries in 2003 (figure 2.1).[1] Lending during the period thus tended to be associated with countries that were improving their development policy environments as captured by the CPIA and other indicators.[2] To some extent, this could have been a result of the general improvement in policy indicators that was taking place during this time.

This same pattern of increasing concentration of assistance on countries with relatively good performance holds when comparisons are done in terms of countries' policy ranks.

Box 2.1 The Bank Definition of a "Relatively Good" Policy Environment

The Bank defines "relatively good" policies for productive use of development assistance for poverty reduction as an overall score of at least 3.0 on the Bank's Country Policy and Institutional Assessment (CPIA) index. Of 136 countries rated in 2003, 112 had CPIAs of 3.0 or greater.

A "3.0" rating on the CPIA rating scale in a policy area indicates that there are deficiencies in one or more of the criteria being rated in that area, while a rating of "4.0" indicates that a country is dealing quite effectively with most issues in the policy area.

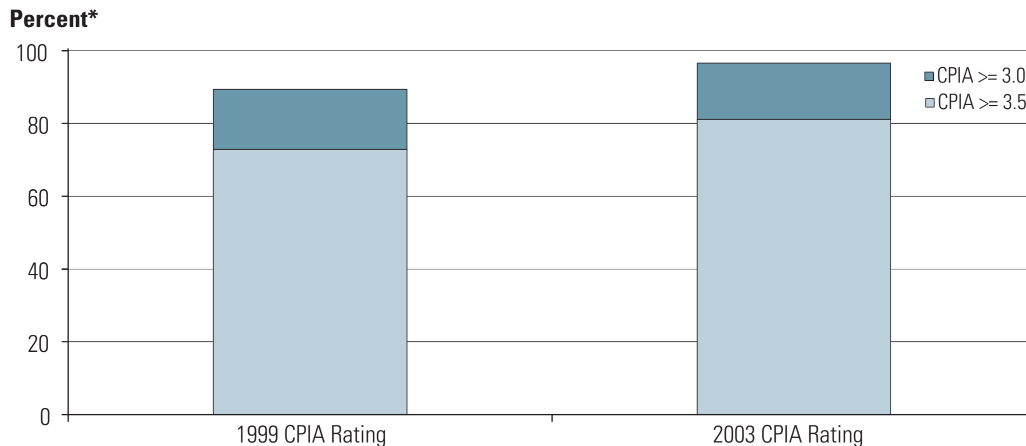
For example:

A country rated "3.0" on macroeconomic management is a country that "sporadically or partially attempts to correct major imbalances"; a country rated "4.0" is one "applies measures to address major imbalances, but its program is not fully consistent,"

On environmental policy, a "3.0" indicates that gaps "exist in the coverage of policies concerning pollution and natural resources. Funding levels are low and not well matched to environmental priorities. Capacity to implement and enforce policies is weak." A "4.0" indicates that, "Policies concerning pollution and natural resources are fairly broad, reasonably matched to environmental priorities and funded at minimally acceptable levels. Basic capacity to implement and enforce policies exists."

Source: World Bank (2003b), World Bank (2003d).

Figure 2.1 Bank Lending Is Concentrated in Countries with Good Policy Environments



*% of FY99-03 loans to countries with CPIA of 3 or higher, 1999 and 2003.

Notes: Countries with a CPIA ranking of 3.0 are defined as having "relatively good" policy environments (see box 2.1 and Annex A). Only the 134 countries rated in both the 1999 and 2003 rankings are included here.

Using 1999 CPIA ranks, 12 percent of the Bank's FY99-03 lending was to countries ranking in the top quintile, and 73 percent of Bank lending was to countries above the median CPIA rating. Using 2003 CPIA ranks, 23.5 percent of FY99-03 lending was to countries ranked in the top quintile, and 79 percent to countries ranked above the median.

Bank lending is correlated with the policy environment, much more so than official development assistance (ODA). CPIA ranking is correlated positively and significantly with lending per capita, although there is a great deal of variability in this relationship—as would be expected given the other factors that affect Bank lending decisions.[3] Changes in lending

per capita over the period are also correlated positively (although not significantly) with changes in the CPIA. By way of comparison, ODA per capita during this period is correlated positively (but not significantly) with the average CPIA.[4]

Good Bank country assistance outcomes are associated with policy improvement.

Countries with good policies—as reflected in CPIA ratings—tended to be countries in which Country Assistance Evaluations (CAEs) rated the outcome of Bank assistance as satisfactory. CAEs issued since 1999, when the practice of rating country assistance outcomes was initiated, have rated outcomes of a total of 544 Bank "country assistance years"[5] in 53 countries, of which approximately 70 percent were rated as "moderately satisfactory" or better. Countries' CPIA ratings in the terminal year of CAE evaluations are strongly correlated with CAE outcome ratings.[6]

Countries in which policies improved also tended to be countries where Bank assistance contributed to good development outcomes. Sixteen (16) of the 53 most recent evaluations rate Bank assistance outcomes for 2001 or later, the midpoint of the period covered by the CPIA indicator data examined here. Of these, the outcomes of Bank assistance were judged to be "moderately satisfactory" or better in 13 cases, and "unsatisfactory" in three. Of the 13 countries, the CPIA rating increased in 11; CPIA ratings declined in all three of the countries whose outcomes were rated "unsatisfactory" (figure 2.2).

The eleven countries with satisfactory Bank assistance outcomes and with improving policies had better development outcomes than did the three countries with both unsatisfactory outcomes and deteriorating policies (figure 2.2). GDP growth over the period 1998-2002 averaged 5 percent annually in the former group, versus 0 percent in the latter; the poverty headcount in the former averaged 30 percent, versus 75 percent in the latter. Life expectancy in the former increased by about one year between 1998 and 2002, while life expectancy in the latter group declined by about one year. Annex D presents these data in more detail and summarizes the role played by Bank assistance—as analyzed in recent CAEs—in these countries.

OED's recent impact evaluation of the Bank's support to education in Ghana illustrates at a micro level the linkage between effective Bank

Figure 2.2 Good Outcomes of Bank Assistance Are Associated with Progress in Policy Reform

Outcome of Bank Assistance[a]	Policy Improvement	Policy Deterioration
Moderately Satisfactory Or Higher	Armenia Brazil Bulgaria China Croatia Lithuania Mongolia Russia Rwanda Tunisia Vietnam	Guatemala Dominican Republic
Moderately Unsatisfactory Or Lower		Haiti Zambia Zimbabwe

a. Based on sixteen countries for which CAEs rated Bank assistance in 2001 or later, the mid-year of the period covered by the CPIA data used in this report.

support and better sectoral outcomes. This analysis shows, on the basis of a careful specification of the results chain and examination of data collected specifically for the study, that Bank support has had a substantial positive impact on education outcomes in Ghana (box 2.2). Bank support increased access and resulted in improved educational outcomes.

Good policies and good project evaluation outcomes go together.

CPIA ratings are relatively highly correlated with country-level project evaluation results—with correlation coefficients of the order of about 0.5, which is significant at the 1 percent level. This is true for MDG-related projects, as was demonstrated in ARDE 2002, which examined the relationship between the overall-CPIA index and disbursement weighted project outcomes.[7] Projects aimed at Education for All, Basic Health, and Environment, like all projects, were much more successful in medium and high CPIA countries than were comparable projects in low CPIA countries. Irrespective of thematic focus, country factors are thus important determinants of development effectiveness (Dollar and Svensson 1998).

Policy improvements are linked to project outcomes.

Not only are project outcomes better in good policy environments, they tend to improve where policies are improving. To test this relationship, the thematic categories assigned to projects were matched to the twenty components of the CPIA.[8] Changes in thematic project evaluation outcome ratings between FY94-98 and FY99-03 exits are fairly strongly correlated (correlation coefficient of roughly 0.5 with 20 observations) with changes in the corresponding mapped CPIA components between 1999 and 2003 (figure 2.3).

How Does the Bank Handle the "Tough Cases"?

The Bank thus has done reasonably well in the aggregate in associating its support with opportunities for policy reform. Bank assistance has been concentrated in reforming countries, and improved project performance has been associated with policy improvements at both the country level and the policy theme level. As noted in chapter 1, this may be due in part to the fact that during these last several years the Bank has been operating in an environment that has been favorable for reform.

How did the Bank handle country situations where there was no prior information on a country's policy track record, where the track record was brief (e.g., new borrowers), or where the track record was mixed or bad? Has it used triggers and conditionality effectively?

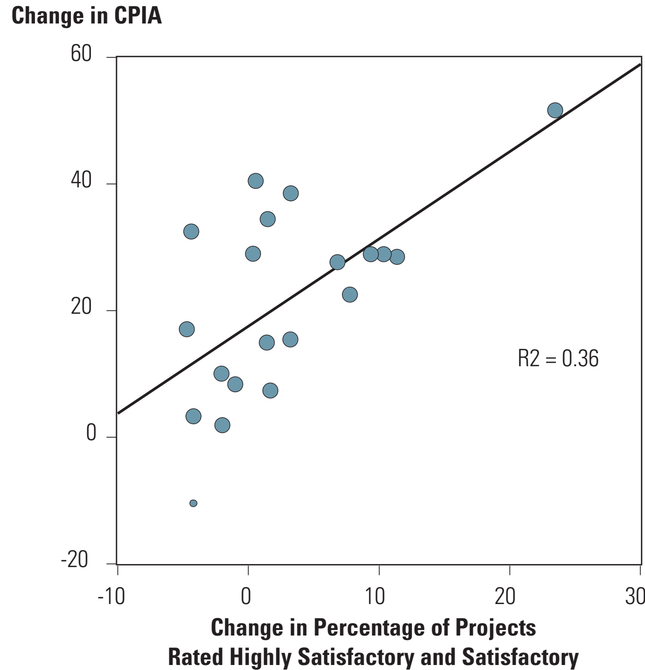
Box 2.2 — Bank Support Contributed to Improved Educational Outcomes in Ghana

OED studied how Bank-supported educational reforms introduced in Ghana affected educational outcomes, and how these changes were related to Bank-supported interventions. Between 1988 and 2003, enrolments in basic education increased by over 10 percent and learning outcomes increased substantially. These improvements are associated with higher income, better nutrition, and reduced mortality.

The gains in educational outputs can be attributed directly to better school quality, manifested in improved infrastructure and greater availability of school supplies. Today it is the norm to have one textbook per child for math and English, rather than one per class as was common before the reforms. Increased school quality can in turn be linked to the Bank's support, which financed the construction of 8,000 classroom blocks and provided 35 million textbooks over the 15-year period. . . . In one community surveyed in which a new school was built, enrolments rose from less than a quarter to 80 percent of children. Bank support helped sustain initially unpopular reforms, demonstrating the efficacy of working in partnership with a government committed to a well-defined sectoral strategy.

Source: OED (2004d).

Figure 2.3 **Improved Project Outcomes Are Associated with Improvements in Related Policies**



Note: Change in CPIA is change between 1999 and 2003. Change in percentage of projects rated highly satisfactory and satisfactory is change in ratings mapped to the 20 CPIA themes for FY94-98 exits versus FY99-03 exits.

Country assistance outcomes are less good—at least initially—when there is no track record to guide engagement.

The Bank gained a number of new clients in the early 1990s with the breakup of the former Soviet Union and the realignment of countries in Central and Eastern Europe. These countries had no established policy track record, and the Bank had little country knowledge—whether basic economic or practical country operational knowledge—to inform its lending decisions.

The Bank initially approved substantial volumes of adjustment lending to support ambitious programs of stabilization and structural reform—particularly in many of the twelve Commonwealth of Independent States (CIS) transition countries. Total lending to CIS countries amounted to $16 billion between FY92 and FY98, equivalent to 12 percent of total IDA and IBRD lending. This stance was adopted at least in part in response to strong encouragement from G-7 shareholders to build Bank programs quickly and to help ensure that the transition process was a success. Special allocations of IDA beyond those indicated by IDA's system of performance-based allocations were made for the poorer CIS transition countries.

The early results were not good in comparison with overall Bank averages. In six of ten countries evaluated (60 percent), the early outcomes of Bank assistance were unsatisfactory compared to a Bank-wide average of 30 percent unsatisfactory outcomes in recent Bank CAEs. Institutional development impact was rated high or substantial in only three transition countries (and modest in the other seven) and sustainability was rated likely in six cases and uncertain in four.

Outcomes of Bank assistance to three countries have been rated as satisfactory in

subsequent years. Performance in two others has not been evaluated by OED, but there has been a substantial improvement in the policy and outcome indicators for these countries. In each of these five cases, improvements followed a shift by the Bank to more cautious lending stances.

In Bulgaria (one of the three countries in which the CAE found improved outcomes), for example, in the year before the 1996 financial crisis, the Bank—foreseeing crisis and inadequate government action to forestall it—adopted a cautious stance and only gradually re-launched a full lending program in 1997. In the interim, the Bank worked closely with the International Monetary Fund, providing advice on the Fund's structural reform program for the country. With growing evidence of government commitment and achievement of macroeconomic stabilization, the Bank began to support a broad reform program through a series of sectoral reform loans.

Countries with poor track records: an opportunity to jump-start reform or another program that could fail in the making?

Sometimes countries with poor or mixed track records on policy reform request Bank support for a reform program. These requests may be triggered by crisis or its aftermath; a change of government; the opportunity to join a regional free trade agreement, the World Trade Organization, or the European Union; or perhaps, unusually well-coordinated donor pressure. The difficulty facing the Bank is in knowing whether ownership will be real and durable "this time," as opposed to all those other times. The Bank has to balance the risk of lending that is not validated by subsequent reform performance with the opportunity to support reform that might otherwise fail.

The case of Kenya illustrates the difficulties the Bank faces in assisting countries with a poor track record (OED 2003f). For over two decades and over nine adjustment operations prior to the 1998 CAS, disappointing progress had been recorded in most Bank operations. The lending program in the 1998 CAS recognized the risks to program implementation by starting the CAS period with a relatively low level of lending, and providing for gradual increases in lending levels if certain policy triggers were met. Early implementation under the 1998 CAS was promising, but was not sustained and did not fully meet the policy triggers for increased lending. Nonetheless, the Bank scaled up lending levels. This sent the wrong signal to the government concerning the importance the donors attach to reform in Kenya.

In the Dominican Republic, in spite of a legacy of difficult relations, the Bank maintained an active and influential policy dialogue in the late 1980s, helping to shape the government's "New Economic Program." Bank ESW in the early 1990s identified an agenda for reform that would consolidate initial efforts (OED 2003b).[9] But unconvinced of the country's ability to sustain the reform effort, the Bank operated without an official country assistance strategy from FY92 to FY95. It did not lend during a crucial period of successful economic reform and has since had difficulty in re-establishing a dialogue with the government.[10]

In the Dominican Republic, the Bank was probably too cautious; in Kenya, not cautious enough. While each country situation must be addressed on its merits, cases of a poor track record call for at least as much caution as cases of no track record. Unless the underlying political economy has changed, the odds are against success. In the transition economies, as mentioned above, the political economy of reform eventually changed, but this is not always the case.

Can triggers help link Bank support to reform?

The Bank has long used program CAS "triggers," as it did in Kenya, to adjust its country programs during CAS implementation to events as they unfold.[11] These are intended to ensure that the volume and composition of Bank support provided during the CAS period adjust appropriately in view of developments in the borrowers' internal and external circumstances.

There is no quantitative evidence on the role played by triggers (as distinct from other instruments) in maintaining the aggregate

linkage of Bank support to performance that is documented in figure 2.1. A review of recent CAS progress reports suggests that triggers play a constructive role in linking Bank support to policy reform at the country level when events evolve more or less in line with the range of expectations at the time the CAS was prepared. Sometimes, demand/capacity factors also play important roles in limiting support to a country whose policy performance meets triggers for higher lending levels.

Experience in the few cases in which programs have not been triggered effectively suggests that the absence of provisions for adjusting Bank support to evolving conditions can contribute to low effectiveness of Bank assistance. In Peru, the 1997 CAS identified the risks to the reforms supported by the proposed country assistance program, but argued that calibrating the Bank's lending program at that time was not appropriate in view of the government's strong track record and a planned halving of Bank lending to Peru. In effect, the CAS committed the Bank to a single lending strategy irrespective of progress in implementing policy reforms; the environment for reform deteriorated sharply. The absence of triggers to reduce lending and of an alternative strategy reduced the leverage and the margin of maneuver the Bank had in its negotiations with the Peruvian government once the downside risks started to materialize. As a result, the Bank was slow to adjust its operations and committed considerable sums into a rapidly deteriorating policy environment.

In Zambia, the 1996 CAS argued that a high-case lending scenario was the only plausible strategic option. But the FY96-99 period was characterized by repeated slippage in IMF-agreed programs, delays in key structural reforms, and a halving of net ODA commitments, including the withholding of virtually all balance-of-payments support from the international community. The Bank continued—indeed, modestly increased—its high-case lending (committing 5 percent more than originally planned) while international support waned. The result was an under-implemented, under-financed program in which exceptional allocations of IDA helped to service debt while net transfers for development were small. Minimal creditworthiness was maintained, but stabilization was complicated by inflationary measures to service debt, and the development impact of Bank assistance was unsatisfactory (OED 2002j).

Even where triggers have been specified, the Bank may need to override them to respond adequately to unforeseen events. The 1997 Brazil CAS did not foresee the possible need for a substantial amount of adjustment lending in the period covered by the CAS. But the financial crises of 1997 in Asia and 1998 in Russia revealed the need for a change in Brazil's policies and for increased policy-based lending. The Bank submitted a Framework Paper that effectively constituted a new CAS, approved by the Board in December 1998 (OED 2004e).

These cases underscore the important but limited role that CAS triggers can play in keeping support aligned to performance. Triggers are most useful in dealing with possible future developments and responses that are clear at the time of CAS preparation. They are less useful in cases where future developments and appropriate Bank responses are highly uncertain. The difficulty in detailing meaningful triggers in such situations may account for the finding in the 2003 CAS retrospective that, while improving in their identification of risks, about 30 percent of the CASs reviewed did an unsatisfactory job of mapping out alternative Bank responses to possible developments and outcomes during CAS implementation, and that roughly 40 percent of the macroeconomic triggers and 45 percent of the structural triggers reviewed were not sufficiently specific (World Bank 2003c). Pre-specified automatic program adjustments may be best suited to only a few marginal adjustments that the Bank is certain it would want to make in all events. Changes not foreseen by the CAS or new information that suggests that the Bank's response should be different from that envisaged in the CAS should normally call for a reconsideration of the Bank's strategy. Where uncertainty is high at the time of CAS preparation, a short CAS horizon is an appropriate response.

Conditionality is effective in linking Bank support to reform only in certain circumstances. Conditionality, in principle, "automatically" links Bank action (disbursement under adjustment instruments or, in the case of covenants in investment loans, continuation of implementation of the loan) to a borrower satisfying specified conditions. Policy research evidence is very strong in its conclusion that, in practice, conditionality *per se* has been ineffective in linking aid with reform (Collier 1997). Countries that do not want to reform don't and can still avoid any serious loss of funding (Thomas 2003). Conditionality is often ineffective in modulating aid flows because the incentive structure makes it difficult for donors to disengage when conditions are not met (Kanbur 2000), as the case of Ghana demonstrates (box 2.3). Other factors cited are the difficulty of specifying clear and appropriate conditions with regard to reform given the uncertainties of meaningful policy reform processes and the relative ease with which borrowers often can comply with the letter, but not the spirit, of conditions. When countries do want to change their policies, conditionality may be useful in the early stages of reform in bolstering the position of reform supporters.[12] Researchers and practitioners alike, however, point to a tension between donor-imposed conditionality and the development of country-led partnerships and ownership of the reform agenda, particularly in the later stages of reform.

One way that has been proposed to address some of the ownership, accountability, incentive, and ambiguity problems with conditionality as it has usually been applied is to formulate conditions in terms of variables nearer the outcome end of the results chain rather than input or intermediate steps (Koeberle 2003).[13] Properly formulated, such conditions are less ambiguous (in the sense that the Bank, the borrowing country, and the larger development community can determine more objectively whether they have or have not been met). In principle, they could also provide more flexibility to the borrowing country to meet objectives in the best way under the circumstances.[14]

Outcomes-based conditionality was pilot tested by Burkina Faso and its development partners with promising early results (box 2.4). The pilot facilitated donor coordination in the context of Burkina Faso's first Poverty Reduction Strategy Paper (PRSP), and the monitoring and evaluation framework for the PRSP derives many elements from the test framework. The European Union currently links a portion of its support to progress as reflected in these indicators.

Box 2.3 Conflicting Incentives Sometimes Make Conditionality Difficult to Enforce

...Up to 1992, Ghana had been called the "star pupil" of the Bretton Woods Institutions, with an adjustment program that was proclaimed by the IMF and the World Bank as perhaps the most successful in Africa.... But in 1992, Ghana consummated its transition to democracy and, in the process, the government gave in to pressures to grant enormous pay increases to civil servants and the military...As a result, the budgetary conditionality in the World Bank's then current Structural Adjustment Credit was violated, and the impending tranche release was suspended. Through its own tranche, and through co- financing tied to it, the World Bank found itself holding up as much as one eighth of the annual import bill of the country.

One would think that holding one eighth of the annual import bill of a poor cash strapped economy would give enormous leverage to the World Bank and the donors to dictate terms to the Ghanaians. In fact, ... the World Bank ... came under pressure from several sources, some of them quite surprising, to release the tranche with minimal attention to conditionality.

***Source:* Excerpted from Kanbur (2000), pg. 5.**

Subsequent experience with the implementation of the Burkina Faso PRSP has suggested that the approach used to link disbursements to outcomes developed in the pilot may need some refinement. The government notes in its PRSP progress reports that it is difficult to monitor and evaluate progress on the basis of outcome or impact indicators that change little on an annual basis and that are subject to factors outside the government's control, and it is refining its indicators in view of these problems. The Bank's support to the government's program is still based primarily on implementation of agreed intermediate policy measures.

Conditionality based on completion of actions prior to disbursement within a programmatic framework has been suggested both as a way to reduce the severity of some of the problems of traditional conditionality and as a way to retain some dimensions of outcome-based conditionality while attenuating some of its problems. There is evidence, reflected in rapid growth of the use of programmatic instruments and in client surveys, that borrowers like programmatic lending. There is, however, little research or evidence yet on the effectiveness of programmatic approaches, and some concern that conditions may not be as clearly linked to outcomes as they should be. OED's evaluation

Box 2.4 Outcomes-Based Conditionality Shows Promise in a Pilot in Burkina Faso

A pilot exercise in Burkina Faso initiated by the European Commission and the Burkina Faso government demonstrated that outcomes-based conditionality could attenuate many of the problems of traditional conditionality. In the pilot program, donors—including Belgium, Denmark, France, Germany, the IMF, Japan, The Netherlands, Switzerland, and the World Bank, along with the European Commission –"simulated" the linkage their aid to achievement of development outcome objectives identified jointly with the government. The exercise reached the following conclusions:

- **Shift the focus to results:** Outcome indicators shift the focus of reforms to results and change the nature of the government/donor dialogue from negotiating specific reform measures to examining options to improve results. They also highlight areas where policies are not delivering. For example, in the pilot, despite 10 years of increasing sectoral budget allocations and donor support as well as new cost recovery schemes in the health sector, attendance rates at health centers had steadily decreased.
- **Partnership—shared responsibilities:** The government pointed out that donors shared responsibility for poor results of policies they had imposed as conditions of past support. The pilot included few conditions on *how* the results were to be achieved. If the government is to be judged on its results, it should have freedom to determine the scope and timing of policy changes without "micromanagement" from donors. In areas where the government's policymaking capacity requires strengthening, the donors' responsibilities lie in providing advice should the government seek it.
- **Ownership—a good start:** The results-based approach enhanced ownership because there was increasing participation at the highest political levels as the pilot progressed. The exercise changed the manner of thinking within the ministries as the focus on results grew.
- **Broad-based stakeholder involvement—still a difficult issue:** The government was initially reluctant to involve the civil society and make the outcome targets public. Progress was made, and there is fairly widespread dissemination of data and participation in monitoring under the PRSP process.
- **Donor coordination—worth the logistical difficulties.** Despite some logistical difficulties, donors were able to draw on each others' sector expertise and to arrive at a common understanding on the direction and mechanisms to follow in the pilot. The government has particularly appreciated the joint approach, because it has helped to free scarce capacity and ensure coherence in relations with various donors.
- **Linking disbursements to outcomes:** The pilot identified a number of options for calibrating disbursements to results as reflected in outcome indicators.

Source: Adapted from Zongo et al. (2000).

of the Bank's assistance to Brazil—which has made heavy use of programmatic lending over the last several years—found that programmatic lending in Brazil needed strengthening through closer linkages to real economic outcomes, quantified and time-bound benchmarks, and a framework for measuring results (OED 2004e).

These considerations raise a number of questions: Why is traditional conditionality still so widely used? Have conditionality reforms such as grounding it in country-owned programs, shifting to programmatic lending approaches that disburse on completed actions, reducing the number of conditions, and providing debt reduction options as an alternative to adjustment lending in highly indebted countries made conditionality more effective (Killick 2003)?[15] These questions deserve attention as the Bank moves forward to develop new and more flexible instruments and approaches to supporting policy reform.

Are Partnership Approaches Working?

Uncertainty about ownership is reduced when the Bank's support is aligned with country priorities that were set and validated through country-led, inclusive political processes before any Bank support was provided. This does not assure success—consensus is by its nature usually shifting and evolving—but it does link Bank assistance more closely to the policy process. While a good start has been made in this direction with the promotion of aid processes based on Comprehensive Development Framework (CDF) principles, this is still a work in process, with solid progress along some dimensions and difficulty along others.

Through the PRSP process, good progress has been made in some countries in developing country-owned strategies. The CDF evaluation found that the strongest sense of ownership appears to have developed where a highly inclusive participatory process is conducted in tandem with and through the country's normal political processes and institutions (box 2.5). To foster ownership, the evaluation recommends broader participation where participation has been limited. Another factor noted by the evaluation is the need to lessen the tension between the PRSP's role as a process for building domestic consensus and ownership and the roles that its plays with regard to debt relief and access to aid resources (OED 2003j).

Progress has been slower in the other dimensions of aid processes addressed by the CDF. Efforts to develop long-term holistic frameworks and to adopt a results orientation have been slowed by capacity constraints, continuing asymmetries in donor-recipient relationships, and the difficult politics of aid in many donor countries.

To support country-owned development frameworks**,** donors should provide both long-term assistance for capacity building and predictable, transparent, and reliable financing**.** Budget support and sector program aid should be based on mutually agreed country performance criteria. Successful implementation of CDF principles will require both donors and recipient countries to make significant changes in their behaviors and processes, changes that may be in conflict with the political environments of most donors and with the incentives and development goals of both donors and recipient countries.

Box 2.5 CDF Principles Foster Country-Owned Strategies

Toward Country-Led Development, the multi-stakeholder evaluation of the Comprehensive Development Framework (CDF), found that:

- Change driven by domestic interests is usually more sustainable than change induced by external sources.
- The shift from Policy Framework Papers designed by the international financial institutions to Poverty Reduction Strategy Papers designed primarily by governments, with inputs from other domestic stakeholders, has promoted country ownership.
- Country ownership of strategy and reforms is more likely to be sustained when, consistent with the CDF country ownership principle, there is regular broad-based dialogue that addresses tradeoffs and priorities. Of the six country cases evaluated, Uganda is perhaps closest to good practice. Because of its mandate to link the planning and budgeting functions, the Ministry of Finance, Planning and Economic Development has taken the lead in the PRSP process.
- The mechanism the CDF uses to encourage country ownership is to give voice to diverse interest groups in a systematic manner. By itself, this tends to produce a lobby for increased spending rather than a process where tradeoffs are made within budget constraints because representatives of sectoral interests will understate the priority of policies that produce diffused nationwide benefits such as trade liberalization and exchange rate reforms.
- A participatory process can be captured by vested interests that use the opportunity to delay widely beneficial reforms. In such cases, the government needs to inform and guide a participatory process, not simply listen.
- While the shift from international financial institution ownership of the reform process to country ownership has been both considerable and beneficial, the attempt to broaden participation within society beyond government was perhaps insufficiently thought through.

A strong reform process is indeed more likely to be sustained if the decisions for reform are seen as legitimate.

Source: OED (2003j).

Country Fit: Adapting Bank Support to Country Conditions

Try this bracelet: if it fits you wear it; but if it hurts you, throw it away no matter how much it sparkles.

—Kenyan Proverb

Chapter 2 showed that the Bank has been reasonably effective in the aggregate in supporting countries that are improving their policy environments. This chapter examines the Bank's effectiveness in tailoring its support to meet the particular needs of individual countries—focusing on the right priorities and using the right combination of instruments, with adequate space for political processes to evolve, and understanding of specific country contexts. In this regard, the Bank's performance has been mixed, hampered in some cases by inadequate country knowledge, in others by inadequate sensitivity to country policymaking styles, and in still others by attempts to transplant policies and institutions—some of which "travel" more readily than others, as argued in box 3.1—without adequate analysis of the context.

Do Bank Country Strategies "Fit"?

OED Country Assistance Evaluations rate approximately 70 percent of the outcomes of Bank support as moderately satisfactory or better. At the broadest level of strategic focus and allocation of resources, the Bank has generally addressed the right issues. In many cases where major issues were missed, it was because the Bank lacked knowledge about new borrowers. OED's recent evaluation of support to transition countries found, for example, that the Bank largely missed the poverty and governance problems in the Europe and Central Asia region until the latter part of the 1990s (OED 2004a).

The record with regard to details of specific policy reforms is more mixed. The Brazil CAE notes, for example, that earlier and increased Bank emphasis on fiscal measures to increase the national savings rate, financial sector reform to improve the efficiency of intermediation, and regulatory reform to improve the environment for investment in infrastructure could have helped Brazil achieve higher investment rates and thus higher growth during the 1990s (OED 2004e). The evaluation of Bank support to transition economies notes that, in retrospect, it is clear that the sequencing of reforms was often wrong. The Bank, along with other donors, should have tried harder to persuade borrowers to devote greater attention to improving the institutional framework for business and investment in parallel with promoting privatization (OED 2004a).

Box 3.1 The Uncertainties of Policy Reform Depend on the Policy Area

Some reforms are grounded in well-established technical models, while others have multiple models to choose from. On the spectrum of policy reforms, macroeconomic reforms, such as devaluation or interest rate adjustments, that are guided by an established analytical framework are at one end. Such reforms can be put into effect by a handful of high economic officials (with the backing of top political authority), and they take effect rapidly. They require certain basic economic indicators, which are available in all but the least sophisticated countries. Postponing action has high costs, affecting much of the population immediately and directly.

Toward the center of the spectrum are reforms entailing organizational restructuring and legal changes, such as financial sector reforms. Broad principles of these reforms are fairly well established, but there is considerable room for debate and adjustment of design to specific country circumstances. A wider range of government and private sector actors must collaborate on the reforms, and they are likely to take some months or years to put into effect. Such reforms also require considerable detailed information, and mechanisms to collect and analyze the needed data often must be created or upgraded. Postponing reforms implies direct and clear costs for some groups, but only indirect and/or delayed and often unrecognized costs for many others.

At the other end of the spectrum are systemic reforms in education and health services and social protection. Multiple models are available, influenced by different national and regional histories. More important, there is only limited consensus among technical specialists regarding basic principles of reform. Ministries and legislatures at national, state, and local levels are usually involved. Despite widespread dissatisfaction with the status quo, there are no compelling costs to politicians of postponing action. Once launched, many social sector reforms require years to implement.

Source: Adapted from Nelson (2000).

Country fit—particularly fit with policy processes—matters.

Successful Bank strategies typically are well attuned to country policy processes, as the case of Tunisia demonstrates (box 3.2). Even when country ownership of reform is strong, a mismatch between Bank strategy and country policymaking styles creates tensions and can cause Bank assistance to have poor results. In Uruguay, for example, the Bank attempted initially to support policy reform through heavily conditioned multi-tranche adjustment loans. The authorities were genuinely committed to reform and initially shared the Bank's enthusiasm for ambitious, detailed programs. It quickly became clear, however, that the Bank's program was premised on a pace of reform more rapid than could be handled by the Uruguayan system, where a slow but steady pace of reform reflects a consensus style of

Box 3.2 Adapting Support to Policy Reform Styles in Tunisia

Tunisian authorities have followed a gradualist, cautious approach to reform to ensure as broad a political consensus as possible in sensitive areas. This has led to some delays, from the standpoint of the Bank, and it entails some risks, as the economy faces more competitive pressures. On the other hand, the gradual approach has allowed the government to build the necessary consensus and has served the overall objective of reform well. Even when the authorities were themselves convinced of the reforms, they have chosen to continue to move prudently and deliberately to ensure that all concerned were on board.

In the words of an official: "We wait until things ripen and then we move, step-by-step. This is why there has been no reversals or slippages in this phase. For example, after seven years of partial trade liberalization and five years of hesitant privatization, both have now accelerated."

Source: OED (2004k).

policymaking in a traditionally democratic society. By the time the CAS was developed in 1997, the policy dialogue had deteriorated.

Recognizing that the dialogue was bogging down, the Bank moved to single tranche adjustment operations that recognized policy achievements as and when they materialized. This strategy permitted the government to pursue agreed objectives at a pace and by the means dictated by the domestic policy process rather than as pre-specified by Bank lending operations. The CAE found this strategic switch to have been critical to the success of the Bank's program (OED 2000b).

Such flexibility led to good results because the government assumed full ownership of its program. The lesson here is that the Bank and the government should agree on broad indicators of the effectiveness of development initiatives. But the government itself should have greater scope to decide how best to achieve the agreed reform objectives.

In Costa Rica, the Bank's phasing and design of the 1993 CAS jeopardized what had been a productive relationship. The lessons of experience at that time showed that Costa Rica has always been a slow reformer—with the pace of reform dictated by the complicated politics of consensus in a pluralistic, democratic political system. An adjustment loan taken to the Board with the CAS required Costa Rica to pass legislation for the loan to become effective. This was a mistake. The Bank had to extend the effectiveness deadline six times while waiting for the required passage of legislation, and ultimately canceled the loan two years after Board approval. The policy dialogue deteriorated, negatively affecting the overall lending and non-lending program of the 1993-99 period (OED 2000a).

Good policy reform results can be achieved with a variety of instrument mixes.

Good results have been obtained with a variety of Bank instruments, themes, and sectors, with the mix tailored to the country situation and preferences, and usually evolving over time. In China, officials prefer gradual and pragmatic reform and reject approaches based on conditionality. This preference led to Bank strategies for supporting reform based on "dialogue" and "example," with a heavy focus on infrastructure. In fact, the Bank has made only one adjustment loan to China, a single tranche loan in the mid-1980s to support rural development (box 3.3).

In Chile, the Bank played a key supportive role, with lending and advice, in helping the country out of the mid-1980s crisis and in facilitating the economic transformation that followed. The Bank's assistance evolved from a program based on heavy use of adjustment lending to help Chile re-establish access to international capital markets to a program that included infrastructure and agriculture investment loans to reduce bottlenecks hindering economic and export growth. Once stability and economic growth were secured, and at Chile's behest, the Bank emphasized social welfare and human resources development, with loans for education and health increasing their share in Bank lending (OED 2002c).

As at the country level, successful cases of Bank support for sector reform typically also involve combinations of instruments. Ownership, Bank flexibility, and responsive adaptation to country circumstances are important factors contributing to sectoral success, as education reform efforts in Ghana and Uganda illustrate (box 3.4).

Adjustment lending provides effective support to reform in the right environment, but is not always associated with overall improved policy performance.

Since the mid-1990s, adjustment lending has accounted for a steadily increasing share of Bank lending. This increasing share is attributable to steady increases in adjustment lending volumes accompanied by simultaneous sharp declines in investment lending. Both the increase in adjustment lending and the decline in investment lending were concentrated in IBRD countries relative to IDA countries—adjustment lending accounted for 51 percent of IBRD commitments during FY99-03, almost double the share (27 percent) of such commitments in FY94-98. In contrast, the share of

Box 3.3 Bank Support for Policy Reform in China Relies Primarily on Dialogue and Demonstration

The China CAE identifies four factors underlying the Bank's effectiveness in supporting China's policy reforms:

Finding common ground through ESW, workshops, and other AAA activities was a key method. The target audience was mainly senior officials and their policy advisers, and the objective was to persuade them to implement top-down reforms.

Dual-track approach of building trust through lending while carrying the policy dialogue through sector work. Each project was intended to push the frontier of policy or institutional change, but the approach was gradualist and depended less on conditionality than persuasion.

Working with willing partners. The Bank worked with the power sector, which wanted access to the technology Bank lending could provide and which was receptive to policy suggestions. In contrast, the Bank withdrew from working in the coal sector because the ministry responsible was not interested in policy dialogue. In housing reform, the Bank worked with municipalities that were willing to introduce cost recovery pricing and excluded areas such as Shanghai that were not. The Bank continued to work with Shanghai in other sectors, however, and Shanghai later introduced housing reforms on its own.

Experimentation and demonstration. The Bank relied on the demonstration effect of successful project experience in introducing new technologies, management methods, or policy reforms to leverage the impact of project outcomes. This was largely a bottom-up process of diffusion by example, though China also uses pilot projects to test policy changes before they are rolled out nationally.

One drawback of this pragmatic engagement strategy is that important issues may be omitted if key actors on the government side are unwilling to engage. The dual track approach can also lead to overly modest project objectives, and accountability for the Bank's performance can be difficult to assess when policy issues are left to the uncertain timing and outcome of the policy dialogue track.

Source: OED (2004f).

adjustment commitments for IDA countries remained relatively flat at about the 25 percent upper limit set by the IDA replenishment agreements in both the FY94-98 and the FY99-03 periods.

Is this shift toward adjustment lending associated with the observed improvement in policy performance as reflected in recent policy indicator evidence? The answer is "No."[1] The increase in adjustment lending shares was driven primarily by macroeconomic crises in several large countries, in conjunction with a decline in investment lending. Some large crisis countries improved their policies during the period under review, but some did not. Several countries made fairly heavy use of adjustment lending—e.g., many of the poorer CIS countries during the mid-1990s—with mixed results with regard to policy reform but with substantial effects on indebtedness.

Adjustment lending can be an effective means, in conjunction with other Bank instruments, of supporting policy reform in the right environment. In Armenia, for example, adjustment lending accounted for almost half of Bank lending over the period FY99-03. However, it was complemented by Bank investment lending and was based on a country-owned agenda previously mapped out with Bank analytical support (OED 2004c).

Strong reform performance can also be achieved without adjustment lending, as illustrated by Chile and China. These cases underscore the point that it is the match of the instrument mix to the country context, not the choice of instrument per se, that is paramount.

New "learning-friendly" lending instruments yield promising early returns.

The Bank introduced several new instruments in the late 1990s that were intended to increase flexibility in implementation and to improve country fit. The most important of these new instruments are Adaptable Program Loans

Box 3.4 Fostering Ownership of Education Reforms

The Bank has supported successful reforms in the education sectors of Ghana and Uganda by working closely—and often compromising—with government officials on specific reform measures.

In 1986, Ghana started to implement reforms first proposed in 1971 but shelved because of political opposition. The Bank supported the reforms through a combination of investment and adjustment financing; it compromised on a number of issues. For example, the government proposed an increase in the vocational element of the curriculum at all levels, and Bank staff advised against this. In the end, the government's proposal was somewhat reduced, but remained substantially intact. While subsidies to tertiary education were reduced, as recommended by the Bank, this happened with some delay and they were replaced with a subsidized student loan scheme. Bank staff, aware of the political sensitivities manifested in frequent student unrest, did not press the government for speedier action and did not hold up loan disbursements for the technical violation of a loan condition relating to student subsidies. This accommodating position allowed the continuation of a close and productive relationship between Bank and government education staff.

In Uganda, the Bank's rapid response to the government's program to rapidly expand access to education through the Education Sector Adjustment Credit in 1998 enabled the government to double primary school enrollments while averting a crisis in the education system. The Bank fostered country ownership by involving inter-ministerial working groups in project preparation to develop a country-owned sector strategic plan. Its subsequent support to a sectorwide approach (SWAP) enabled the Ministry of Education to develop and take charge of consultative processes for ongoing policy-making, planning, and budgeting in the sector. The Bank's role in the SWAP has been to support—rather than lead—other agencies while contributing high-quality technical inputs in critical areas. This approach has supported Uganda in developing and agreeing on a national strategy for secondary education that accounts for a range of stakeholder interests and also benefits from strong technical analysis.

Source: OED (2004d, 2004l).

(APLs), Learning and Innovation Loans (LILs), Programmatic Structural Adjustment Loans (PSLs), and Poverty Reduction Support Credits (PRSCs).

Utilization of these instruments, particularly APLs, PSLs, and PRSCs, has grown relatively rapidly, accounting for 16 percent of IDA and 17 percent of IBRD commitments over the period FY99-03. Increased APL and PRSC usage accounted for most of the new instrument growth among IDA borrowers, while PSLs and APLs accounted for the largest shares of new instrument growth among IBRD and blend borrowers.

Forty-one of these operations have closed and been evaluated by OED.[2] The early ratings are very promising. Eighty-one percent of rated projects are rated as satisfactory, 65 percent are rated as having a substantial institutional development impact, and sustainability is rated as likely in 86 percent of the projects. These ratings compare favorably with those for other recent exits, but the numbers are small and none has yet been subjected to the more thorough evaluation entailed in the preparation of a Project Performance Assessment Report.

Timely, well-focused country ESW contributes to better development assistance outcomes and reduces risk.

The Bank stresses the importance of country and sector knowledge to reduce uncertainty and risks in the processes of country strategy design, policy dialogue, and design of lending operations (box 3.5). Evaluation evidence corroborates the key strategic role of ESW in shaping the Bank's country assistance strategies and its roles in the policy dialogue and project design. Although evaluations have given mixed reviews to the Bank's use of ESW, in countries where outcomes of Bank assistance were evaluated as satisfactory, high quality, relevant, timely ESW frequently made a substantial

contribution. In countries where outcomes were not satisfactory, deficiencies in ESW are frequently cited as a contributing factor. In an evaluation of 34 countries, ESW had a satisfactory impact on 15 of the 23 countries where country outcomes were rated as satisfactory. Out of 11 countries where outcomes of Bank assistance were rated as unsatisfactory, ESW was found to have had a satisfactory impact on the country dialogue in only four cases (OED 2001a, Table 4.2). Figure 3.1 shows additional examples from six CAEs in which ESW influences the outcome of Bank assistance.

ESW can also help to identify avoidable risks. The Zimbabwe CAE, for example, traces the country's debt problem in the mid-1990s in part to faulty sequencing of reforms under its Economic Structural Adjustment Program, which the Bank supported with two Structural Adjustment Credits. Tax rates were reduced and interest rates deregulated before expenditures were reduced. The effect was an immediate increase in government interest payments equivalent to 5 percent of GDP, forcing the government to borrow more, and leading to the rapid accumulation of additional debt. The evaluation found that, had the Bank's analytical work been adequate at the time these reforms were being planned, the risks in this sequencing could have been foreseen and the problem could largely have been avoided (OED 2003k).

The Zimbabwe case dramatizes the risks that inadequate information can lead to costly errors. Analyses of the relationship between ESW and performance of Bank operations confirm the importance of an adequate information base to successful project designs. Research carried out at the Bank indicates that its ESW has had a significant positive impact on various measures of the quality of World Bank projects (Deininger et al. 1998).

In 2002, Bank management issued a requirement that all active countries have a Poverty Assessment, a Country Economic Memorandum or Development Policy Review, a Public Expenditure Review, a Country Financial Accountability Assessment, and a Country Procurement Assessment Report, or their functional equivalents, that is not more than five years old. In the case of IDA countries, the Bank undertook to meet this requirement by the end of FY04. As of end FY03, of the 87 active borrowers, all five diagnostics had been completed for 19 countries, and four had been completed for an additional 28 countries.[3]

Spending on ESW has increased sharply in recent years, as have the number of ESW products produced. Spending on ESW products (on a direct cost basis) doubled between FY98 and FY03, from $40 million to about $80 million. The number of ESW outputs delivered increased by about 80 percent during that time; this

Box 3.5 Specific Country Knowledge Is Necessary for Project Success

The 2004 OED review of social development in Bank activities finds that awareness of the socio-political realities in borrowing countries is crucial to effective social development assistance and that a lack of specific country knowledge hinders project success. For instance, most projects in the Bank's water resources portfolio involved analyses of technical institutions, systems, and local government institutions, but failed to analyze social and informal private institutions—an oversight that, in the case of watersheds and river basins, can result in the dominance of some power groups in key decisions. Many task managers lack important country knowledge of the warning signs that a project is doing things that put cultural heritage at risk. Similarly, a lack of understanding of nongovernmental and community-based organizations and their relations with borrowers hindered project success. The evaluation recommends that the Bank "improve significantly" in specific country contexts and that it become more knowledgeable in country issues by conducting inventories, performing local institutional analyses, and developing good practices, among other things, in order to avoid blunders and improve performance.

***Source:* OED (2004b).**

Figure 3.1 High-Quality, Timely ESW Contributes to the Bank's Impact on Policy Reform

Satisfactory Outcomes	Unsatisfactory Outcomes
Armenia. The Bank, in collaboration with the Fund, provided advice and technical assistance in macroeconomic management—a very successful aspect of the country's performance. The Bank highlighted for the government the linkages between the large deficits in the enterprise and energy sectors and the country's fiscal and quasi-fiscal deficits. Officials recall the relevance of informal analytical and technical support provided in the areas of macroeconomics, treasury functions, aid coordination, and the energy sector (OED 2004c).	**Croatia**. Important components of the proposed ESW program could not be implemented through the 1990s because of a lack of government agreement and because the impact of the work that was completed was low. Although much of this program was of high quality, some components such as the Fiscal Sustainability Study were not useful. From 2000 on, both the overall quality and the impact of the program were satisfactory (OED 2004g).
Brazil. Government officials state that the Bank is the multilateral institution that the government most resorts to for technical advice. They say that the Bank can play an important "pedagogical" role, informing Brazilian society about long-term structural issues, their potential solutions, and the trade-offs involved. To play this role effectively, however, the Bank must make a greater effort to disseminate its work among the several potential audiences and to the population at large (OED 2004e).	**Zambia**. Overall, the Bank's analytic work in the second half of the 1990s is judged moderately satisfactory, reflecting substantial relevance but only modest efficacy. The findings of analytic work in the mid-1990s were not fully incorporated in Bank strategy, nor were they sufficiently disseminated and discussed in order to shape public and international opinion and influence the government's policies. Thereafter, no formal analytical work was finalized in the FY97-01 period (OED 2002k).
China. Macroeconomic advice in the early to mid-1990s and more recent work on pension reform were repeatedly cited in interviews as examples of highly relevant and effective work. Other areas cited as important Bank contributions to debate and policy change in the past decade included VAT reform, WTO entry, public utility reform, environmental policy, and preparation of the most recent Five-Year Plan (OED 2004f).	**Zimbabwe**. Substantive analytical work on some key issues either was not undertaken or was not timely. The public expenditure review (PER) in end-1995 came too late to highlight sequencing issues in the government's fiscal program or to inform the design of the Structural Adjustment Credits (SACs) . No substantive analytical work on poverty has been completed, and land reform was addressed only sporadically and not treated as a priority area until late in 1998 (OED 2003k).

included a doubling of Core Diagnostic reports, a 50 percent increase in Country Advisory Reports, and a ten-fold increase in Policy Notes/Other Products.[4] ESW has become increasingly participatory. Quality has improved across the board—the Quality Assurance Group (QAG) rated 94 percent of the FY02 cohort of reports as satisfactory or better. The gap between the quality of IBRD and IDA country reports and the gap between the quality of new diagnostics (e.g., of procurement and financial management) and other ESW products found in earlier QAG reviews has been eliminated. QAG also rated 90 percent of FY02 products "satisfactory" or better in terms of their likelihood of achieving their stated objectives. ESW products prepared with the participation of the client are rated particularly highly for quality and likely impact.

Evaluation evidence also shows, however, that ESW is not a panacea. Client demand is also an important factor in determining whether ESW is effective in promoting reform. An OED evaluation of private sector development in the power sector found that the Bank's ESW Analytic and Advisory Services (AAA) facilitated the reform process but that its contribution at the country level varied widely. Country case studies suggest that substantial ESW/AAA alone does not necessarily lead to better sector outcomes. Rather, it is a combination of "just-in-time" advice, leveraged by commitment from government and support from a broad spectrum of civil society, that facilitates reform. Another review of evidence in various country assistance evaluations on the role of ESW in supporting reform found that ESW was less

likely to have a satisfactory impact on the country dialogue in low-income countries and in countries with relatively low CPIA scores than in other countries. This finding raises some question about the impact of ESW in low-income countries under stress (LICUS) environments.

The potential of the Bank's investment in ESW could be better realized, according to a range of evidence, including CAEs (OED 2002j, 2004a), QAG reviews (QAG 2003), and OED's recent knowledge evaluation (OED 2003i). Clients surveyed for the knowledge evaluation said that dissemination of the Bank's knowledge at the country level needs improvement. Beyond central government personnel and a narrow circle of other well-informed persons, the reach of Bank knowledge is said to be limited. Two contributing factors frequently cited are that Bank information can be easily accessed only by computer and that it is not available in local languages. Clients indicate that there is also a "government bias" in disseminating information.

Looking ahead, according to recent CAEs, the Bank's ESW risks losing relevance for some clients. In China, for example, there is a widespread view that the Bank's AAA, which was uniformly valued in the 1980s, in some instances declined in relevance and quality during the 1990s (OED 2004f). Chinese officials and researchers felt the Bank was slow to recognize and take advantage of the growing knowledge and sophistication of Chinese counterparts in some areas. The Bank continued to provide generic advice[5]—a textbook approach—rather than discussing policy options relevant to China's needs. As one researcher put it, the Bank's glossy reports were thorough and competent, but "Where is the value added?" There was also a feeling that the Bank made too little use of Chinese collaborators.[6]

The Mexico CAE notes that it will become increasingly challenging for the Bank to have substantial developmental impact through its advice and technical assistance. This prognosis reflects several factors: the deepening human capital available to the government and the gradual strengthening of central government institutions; the decentralization of many responsibilities to state and municipal governments, with which Bank staff engage less frequently; the emergence of alternative domestic and international sources of good analysis about the Mexican economy and policy alternatives; and also perhaps the nature of remaining reforms, which often require deep and complex changes in institutional behaviors for which the Bank's expertise may be less relevant (OED 2001d).

Country debt sustainability analysis has been a problem.

A fundamental dimension of "good country fit" is a sustainable medium-term macroeconomic framework (box 3.6). OED's recent evaluation of the Heavily Indebted Poor Countries (HIPC) Initiative found systematic over-optimism in the debt sustainability analysis underpinning HIPC programs and questioned whether programs would meet debt sustainability objectives (OED 2003a). The Independent Evaluation Office (IEO) of the International Monetary Fund found that IMF programs are not adequately analyzing debt sustainability in calibrating fiscal adjustments (IEO 2003).

OED's evaluation of the HIPC Initiative found the Bank's treatment of debt sustainability analysis (DSA) lacking in a number of respects. While conceding the appropriateness of allowing for some effect of reform on growth, the evaluation found that (a) growth assumptions in HIPC DSAs were optimistic (more than twice historical averages); and (b) that the Initiative, as implemented, was not underpinned by credible country strategies consistent with these assumed levels of growth. In particular, although the strategies emphasize macroeconomic stability and human capital development, they give relatively little attention to other factors important for growth—e.g., the investment climate and infrastructure. The evaluation also flagged inadequacies in DSA risk analysis—i.e., examination of the sensitivity of projected results to deviations from baseline assumptions; DSAs give particularly inadequate treatment to export volatility. Finally, while

Box 3.6 Inadequate Debt Sustainability Analysis Can Contribute to Excessive Accumulation of Debt

As a result of a special arrangement with the Russian Federation that cancelled their debts, the low-income members of the Commonwealth of Independent States—Armenia, Azerbaijan, Georgia, Kyrgyz Republic, Moldova, Tajikistan, and Uzbekistan—started the transition from planned to market economies in 1992 with no outstanding debt. Over the balance of the 1990s, all but Azerbaijan rapidly accumulated external debt. By 2000, excluding Azerbaijan, these countries' net present value of debt to exports ranged between 100 and 250 percent of GDP, and between 500 and 700 percent of government revenues. All but Azerbaijan and Uzbekistan received substantial volumes of policy based lending support from the Bank and the Fund. In fact, debt to the Bank and the IMF accounts for a larger share of these countries' debt than it does for HIPC countries.

This rapid accumulation of debt was caused by several factors, including "bad luck" and lagging policy reform. In addition, however, research indicates that inadequate analysis of the sensitivity of the macroeconomic frameworks underpinning these countries' programs to uncertainties about initial levels of GDP growth, the rate of policy implementation, and the supply response to policy reforms played a key role in the debt buildup problem.

Source: Helbling, Mody, and Sahay (2003).

recommending increased focus on initiatives to attract foreign investment, the evaluation noted that growth will probably also require some element of additional borrowing, and that debt and debt sustainability would therefore need to be monitored closely.

A recent OED evaluation of the Bank's policy-based lending activities in Guinea since 1988 found that IDA had substantially increased its portfolio exposure, shifting from being one of the smaller external creditors to being the principal official external creditor (OED 2003e). The consequence was a major increase in IDA's exposure, a phenomenon that was not adequately assessed and communicated to IDA's management and board in a timely manner. Despite its rising exposure as an official external creditor, IDA did not give sufficient consideration to the country's likely sustainable external debt burden. It also did not discuss the implications of sending to the board relatively large lending operations that were increasing the debt burden. IDA did not identify or formulate the "trigger" for an "exit" or the orderly reduction in its risk exposure. As a result, the country required access to HIPC debt relief.

Shortcomings in DSA may also be reflected in weak policy indicators and rapidly mounting debt levels in many developing countries. The quality of countries' fiscal policies has improved much less, as reflected in an increase in the average rating of this area of the CPIA of about one fifth of the overall average increase (see figure 1.4). The average level of the fiscal policy CPIA rating is among the lowest. The quality of debt management actually deteriorated—the only CPIA component to register an absolute decrease relative to 1999 levels—although its level remains relatively high.[7] This deterioration in debt management occurred in both IDA and IBRD countries. Outcome data reflect a general deterioration in the debt positions of developing countries. The IMF's 2003 World Economic Outlook notes that public debt in emerging market economies has risen sharply since the mid-1990s to about 70 percent of GDP, more than reversing the decline that took place in the first half of the 1990s.

Is the Bank Effective in Advancing Corporate Advocacy Priorities and Harnessing Global Knowledge?

While emphasizing the importance of country priorities and country fit in the design of Bank assistance, the Bank has also identified a few areas—"corporate advocacy priorities"—where performance has been weak and which the

Bank believes to be "under-represented" in many countries' development agendas. Three of these are rated and were among the lowest rated dimensions of the CPIA in 1999—gender, environment, and governance (see figure 1.4).

Recent evaluations of the Bank's efforts to mainstream these priorities are mixed. Two OED evaluations found, for example, that the Bank had not acted as forcefully as it might in mainstreaming gender. Moreover, while Bank assistance addressed women's/gender issues in the human development sectors in some countries, particularly in countries where there is gender disparity in education enrollments, it did not address the problems of increasing the economic participation of women or of strengthening the institutional framework for gender issues. These evaluations thus concluded that Bank carry-through on both the letter and spirit of the Bank's gender policy, and also the gender results achieved, were at best mixed (OED 2001b, 2002i).

An evaluation of the Bank's efforts to mainstream environment was similarly critical of the Bank's efforts. It noted that environmental sustainability was not adequately integrated into the Bank's core objectives and country assistance strategies, that the linkages between macroeconomic policy, poverty alleviation, and environmental sustainability were not explicitly forged, and that the institution's environmental efforts had neither been consistent nor held to uniform quality standards. The evaluation traced these shortcomings to fundamental differences of views among member countries about the Bank's role and to a lack of consistent management commitment to environmental issues (OED 2002h).

The OED evaluation of anti-corruption initiatives concluded that the Bank had rapidly integrated corruption concerns into operational activities and internal processes, and that understanding of the causes and dynamics of corruption in different country settings has improved. Bank activities over the period 1997 to 2002 addressed key factors affecting corruption, including state intervention, rule of law, greater transparency in public sector operations, and capacity building aimed at good government and a competent civil service. By encouraging open debate, carrying out policy research, and disseminating good practice to member countries and international organizations, the Bank helped to raise the profile of governance issues on the development agenda. At the country program level, the evaluation found that despite Bank support for highly relevant anti-corruption activities only modest success had been achieved so far. There was a gap between relevance and efficacy because the Bank's entry into this area is relatively recent, the task is complex, and the challenge is daunting (OED 2003g).

The evaluation was cautious about the prospects for effective Bank engagement in anti-corruption activities, noting that corruption is grounded in political contexts and social fragmentation over which the Bank has limited influence. Therefore, greater reliance on development partners may be warranted in the future provided, of course, that borrowers are receptive.

Notwithstanding the Bank's mixed performance in these three priority areas, developing countries appear to have made progress on each since 1999. Gender has posted the largest average increase of the 20 CPIA component indicators and now averages 3.7, the highest among social components of the CPIA. Transparency, accountability, and corruption in the public sector registered the fourth largest increase, and environment the sixth. The contribution of the Bank's operational support to these positive developments, with the possible exception of anti-corruption, has probably been modest. The Bank's advocacy, on the other hand, may have contributed to raising the profile of these issues, and thereby contributed to the progress that has occurred.

Best practice, good fit, or fad?

The Bank's creation of networks in 1996 was intended, inter alia, to harness the development knowledge gained through the Bank's research and worldwide operations in order to incorporate global state of the art knowledge in its services. To this end, Bank networks are supposed to cull, on an ongoing basis, from the

Bank's experience concerning effective processes and designs for different contexts. These are disseminated in various ways, including Sector Strategy Papers (SSPs),[8] internal and external websites, and various knowledge management and learning activities.

The potential gains from this initiative have not yet been fully realized. There are no routine practices for validating either lessons learned or promising practices. Only a third of fifteen network and regional units surveyed for OED's knowledge evaluation reported having such practices in place (OED 2003i). Only one of the five units has a process for regularly eliminating outdated lessons or good practice cases; the other four report that their materials have no time limits. This undercuts the ability of network and regional knowledge activities, including those of thematic groups, to serve as reliable sources of community knowledge and poses a risk that the Bank will advocate, or be perceived to be advocating, practices that may not turn out to be "best" or even "good"—at least in all cases (see box 3.7 for an example from the water and sanitation sector).

The risks of promoting inappropriate policies appear to be most pronounced in policy areas where progress on reform has been difficult and where developed-country policies (perhaps driven in part by new technology, as is the case in many infrastructure sectors) are evolving rapidly. They are also present in "frontier" areas in development thinking, such as governance and empowerment.

The Bank's experience in supporting private sector development in power illustrates well some of the risks involved. The Bank's initial strategy called for a sequenced process of commercialization and corporatization of state-owned power companies, followed by privatization as a means to introduce competition and innovation. This orderly sequence of steps from public to private—which was based on experience in Chile, England, and Wales—proved unworkable in many developing-country contexts. Commercialization turned out to be incompatible with the kinds of political and social considerations to which many governments gave higher priority than commercial success.

Box 3.7 New Paradigms: Private Sector Participation in Water and Sanitation

Government-provided water and sanitation services proved a convenient means for the World Bank to lend to the sector, since the Bank's statutory requirement of sovereign guarantees was easily satisfied when service providers were government agencies. Bank lending to the water and sanitation sector began in the late 1960s and expanded rapidly in the 1970s. Lending to state providers, however, delivered poor development results and became increasingly difficult in the 1980s as a result of the debt crisis. At the same time, the private sector alternative for provision of water and sanitation gained prominence following the privatization of these services in England and Wales under the Thatcher government. What had until then been a phenomenon limited to France and Spain became a model that was suddenly thought to be worth considering everywhere.

Based on these developments, the Bank and others quickly adopted "private sector participation" (PSP) approaches as the preferred solution to water and sanitation problems in developing countries. It took a number of PSP contracts that did not live up to expectations for the Bank to correct this inappropriate use of and excessive faith in the private sector as operator.

As a consequence of this experience, governments, international lending agencies including the Bank, and the private sector have acquired a more nuanced view of PSP. It is not a panacea to deep-seated problems and cannot be expected to substitute for decisions—particularly about tariffs and service standards—that only governments have the power and obligation to make. PSP is better likened to a sharp tool. A capable government can use it to great advantage to improve the water supply and sanitation situation, but an inept government can make matters worse through an injudicious use of PSP without providing clear quality and price regulation along with strong and sustained support.

Source: OED (2003c).

The Bank's response was to rely increasingly in its operations on privatization (as well as private participation through management contracts) as a means for achieving commercialization. This model reflected rapid developments in power policy in the developed world that were reducing the role of regulation and increasing the role of competition. The Bank's privatization model—at least as it was widely perceived—began to advocate privatization strategies based on new developed-country models that unbundled production, transmission, and distribution, and introduced private sector competition where possible.

This strategy was effective in some contexts. In others, it was clearly a bad fit (box 3.8), and may in some cases have retarded the development of the sector. OEDs evaluation concludes that despite widespread adoption of the many variants of this concept in a wide range of industrial and developing countries, power sector reform remains a work in progress (OED 2003h).

The Bank has done a good job in aggregating knowledge, but has been less successful in fostering adaptation to country contexts.

The explosion of development knowledge that has resulted from the Bank's and others' efforts increases both the opportunity to accelerate development through use of this knowledge and the risk of making a mistake. It is often difficult to reach definitive judgments on what works and what doesn't work, when, where, and why. With respect to private sector development in the electric power sector, for example, the OED evaluation notes that continually evolving practices make it difficult to establish convincing theories about the optimal sequencing of reforms and that the catalogue of things to avoid continues to expand.

As noted above, the Bank's networks are expected to synthesize and communicate "best practice" in development. But there may be an inherent conflict between the achievement of this objective and the Bank's efforts to improve the country-fit of its services. In a survey conducted for the knowledge sharing evaluation, 121 knowledgeable persons in five client countries rated the technical soundness of the Bank's knowledge activities highly but were less positive about how well the Bank's knowledge is applied in individual country circumstances. The majority of respondents from all countries, professions, and sectors agreed that the information provided by the

Box 3.8 Electricity Development in Ukraine: Good Idea, Bad Fit

The Electricity Market Development Loan to Ukraine, approved in 1997, aimed at supporting critical reforms in the power sector—improved collections, access to working capital, ability to meter , and financial management—leading to the development of a competitive power pool based on the British model of unbundling. The reforms were expected to increase the quality and reduce the cost of electricity supply by developing a competitive electric power market and operating conditions that would encourage electric power companies to seek full cost recovery. But political interference prevented any improvement in payment collections; in fact, collection levels declined, preventing the generating companies from recovering their costs. The loan was suspended shortly after approval due both to the unsatisfactory financial performance of the entire power sector and to a new government prohibition on increased electricity tariffs for household consumers. The loan was cancelled at government request in 1999 due to the impact of the Russian financial crisis on the Ukrainian economy.

A key lesson from the project is that there is little merit in pursuing comprehensive power sector reform policies (legislation, regulation, unbundling, competition, privatization, regulation) in a country suffering a major economic crisis. In an economy that was barter based, with salaries and pensions in arrears, and where the government condoned the culture of nonpayment, there was no way to make consumers pay for electricity in cash. In such an environment, the attempt to introduce a competitive power market was bound to fail. Project objectives should have been more modest and targeted to improving well-delineated technical, institutional, and financial problems.

Source: OED (2003h).

World Bank is of unquestionably high quality—as long as quality is defined strictly in terms of technical soundness and sophistication.

But the majority of respondents also complained that the Bank is too narrowly focused in the analyses and "best practices" that it presents, with little or no attention to alternative perspectives or to individual country circumstances. Many respondents expressed frustration about the Bank's insistence that its models and solutions represent the only viable approach to solving economic and social problems in their country. Several said that the Bank's insistence that its approach is the only correct approach generates mistrust and suspicion of the Bank and substantially decreases receptivity to Bank information overall. Most respondents suggest that increased use of local expertise as well as more local involvement in generating knowledge would improve the alignment of Bank knowledge with country circumstances (OED 2003i).

Conclusions

The Bank Has Been Reasonably Good at Aligning Its Support with Countries That Are Improving Their Policies

Recent Bank support has generally been associated with improving policy environments. Evaluation evidence suggests that in many cases the Bank's support has contributed to these reforms.

The environment for policy reform may have been unusually favorable over the last several years. The large number of countries in transition, some on the path to European Union accession, combined with a large number of countries emerging from conflict or other crisis, presented an environment that was favorable for change—particularly given the low starting points of many of these countries. The Bank recognized these opportunities and, in many cases, provided effective development assistance.

Bank support for policy reform was less successful in countries where there was no favorable trend to reinforce. Triggers and conditionality helped keep support aligned with reform performance where the environment for reform was stable—whether favorable or unfavorable. These tools have been less effective when the environment for reform, after showing some promise, had begun to deteriorate.

The overall lesson that emerges is not new: in countries with poor policy environments, limited lending is appropriate before the Bank knows that reform is under way. Country assistance programs in such countries initially could emphasize analytical work, dialogue, and technical assistance, and modulate lending very carefully. Premature lending may not only lack development impact, but it can also weaken the linkage to policies conducive to productive use of resources and access to development finance. In non-crisis/non-emergency situations, adjustment lending should be provided only after a solid track record of reform implementation has been established.

The Bank's Record in Customizing Its Support for Reform to Client Needs Is Mixed

The Bank has followed diverse approaches across countries, and over time within countries. Although the Bank's strategies have been broadly appropriate in context, there is significant room for improvement in customizing Bank support to country conditions. Where Bank programs have not been well aligned with country conditions, there has been a substantial risk of failure even when the ownership environment was otherwise favorable for Bank support.

The Bank has provided effective support for policy reform through a wide range of instruments and instrument mixes depending upon the country context. Although adjustment lending has played an important role in many

countries that have undertaken reforms over the last few years, its effectiveness is mainly attributable to underlying circumstances in the countries that favored reform. The new instruments created by the Bank to provide more flexibility to learn and modify operations in implementation are also showing positive returns in early evaluation results.

Corporate advocacy activities have been less effective in fostering change because they generally were not customized enough to generate good uptake at the country level. While early uptake has been good with regard to the Bank's efforts to mainstream anti-corruption work, earlier efforts in the areas of gender and environment were not satisfactory. Gender and environment sector strategies developed subsequent to these OED evaluation findings addressed the implementation weaknesses found in the evaluations. Given the potential tensions between Bank and country driven priorities, however, effectiveness in promoting uptake of the Bank's corporate priorities should be kept under continuing review.

"Best practice" is risky and sometimes inappropriate.

ESW is a critical element in a successful instrument mix. ESW has frequently been found to be deficient in countries where outcomes of Bank assistance are not satisfactory, and an important contributing factor in cases of successful outcome. In non-crisis/non-emergency situations, the Bank should not engage in lending before ESW has established an adequate base of country and sector knowledge. The evidence also suggests that there is considerable unexploited potential in ESW through better adaptation to specific country contexts and dissemination, especially in countries that have access to strong analytical capacity. The Bank should ensure that adequate resources and managerial attention are devoted to realizing this potential.

Looking beyond ESW to the Bank's knowledge resources more generally, the Bank has not been effective in bringing its knowledge to bear on specific country contexts. The potential embodied in this knowledge has not yet been harnessed in sector strategies that are operationally useful at the country program level. The Sector Boards have not exercised adequate oversight over the process by which promising new developments become transformed into "best practices." The risk of inappropriate dissemination is potentially serious in areas where thinking on policy is evolving very rapidly. Networks and regions should strengthen their respective procedures in the capture, validation, and application of lessons learned and good practices.

Debt sustainability analysis needs upgrading.

In some countries, the Bank has provided support in the context of macroeconomic frameworks that were not sufficiently robust with regard to risk—and thus contributed to the emergence of unsustainable debt. The debt sustainability analysis that has been routinely carried out in the context of the design of Bank programs has not always adequately considered the sensitivity of debt accumulation to key uncertain parameters. The Bank's DSA needs to be upgraded to require better ex ante analysis involving more critical examination of the realism of assumptions and examination of the sensitivity of the analysis to key assumptions. In addition, the Bank's monitoring indicators and CAS triggers should call for reconsideration and recalibration of the Bank's assistance as necessary to ensure progress toward and/or maintenance of debt sustainability. Caution is indicated in expanding lending volumes until the Bank's debt sustainability analysis has been strengthened.

Implications for the Future

Maintaining the positive trends of the last few years will require deepening of reforms. Development research indicates that while many countries have been able to achieve some degree of reform and periodic modest growth, only a few—those able to sustain and deepen the development of supporting policies and institutions—have been able to achieve the long periods of sustained growth needed to reduce poverty substantially and sustainably (Rodrik 2003b).

Tension can occur between support of policy reform and CDF principles.

The instruments and processes that the Bank currently uses to link its support to policy reform are in some tension with its efforts to promote country-led partnership approaches to development. OED's Comprehensive Development Framework evaluation identifies tensions created by the PRSP's multiple roles—as a process for promoting country leadership of the reform agenda, as a condition of debt reduction under HIPC, and as a basis for access to Bank and Fund finance (OED 2003j). Policy research on conditionality shows that there are also tensions between CAS triggers and adjustment lending conditionality on the one hand, to the extent that these derive from objectives that are not country-owned, and the development of country ownership of the development agenda on the other. Finally, there are potential tensions between the use of policy indicators like the CPIA—which are based implicitly on the premise that their underlying criteria reflect good policies at all times and in all places—and the findings of evaluation and policy research that good policies have context specific elements (White 2001; Rodrik 2002).

The Bank is endeavoring to address these tensions and tradeoffs through better alignment of Bank CASs and operational conditionality with PRSPs (e.g., through medium-term programmatic lending support of PRSP measures). The Bank is working to strengthen the country focus of its support by differentiating its strategies by country characteristics (e.g., between LICUS countries and strongly performing middle-income countries), decentralizing its operations, and increasing its reliance on borrowing-country participation in conducting analytical work. It applies the CPIA flexibly in decision-making. It is too early to tell, however, whether these efforts are paying off in terms of improved development effectiveness.

The Bank should explore approaches to strengthen the link between Bank support for reform and development results.

The Bank has a number of mechanisms designed to link its support to the achievement of results. These include new lending instruments such as APLs and PRSCs as well as ongoing refinements in the use of triggers and conditionality in traditional instruments. In these mechanisms, support is usually linked to completion of intermediate steps such as legal and regulatory changes, organizational improvements, and expenditure or other input targets. This linkage to intermediate steps—while relatively practical to monitor—has one main weakness: it does not address the "qualitative" dimensions—"due diligence" or "best effort" in implementing objectives of the development program.[1] Although strong county ownership would mitigate this problem, it might not eliminate it.

The Bank could begin to experiment with additional mechanisms to introduce a more direct linkage between its support and results in terms of poverty reduction or of other MDGs that would capture, at least in part, some of the qualitative dimensions of implementation. Such a link would be added onto or blended with existing mechanisms. Countries that are delivering good results in terms of poverty reduction would receive more support, other things being equal, than countries that are not delivering results. This approach could, in principle, sharpen the results focus, provide countries latitude during implementation in pursuing their objectives, and provide flexibility during implementation to accommodate the uncertainties associated with policy reform. It would also provide additional incentives for due diligence in pursuit of results.

The Bank should promote pilots in willing countries using hybrid approaches with the potential to increase aid effectiveness. The challenge facing the Bank going forward is to continually re-examine its approaches for delivering development support to find modifications and/or new approaches that yield the best possible bottom line results in terms of sustainable poverty reduction.

APPENDIX

APPENDIX: PROJECT PERFORMANCE RESULTS

This Appendix presents long-term trends in project performance based on evaluations conducted by OED. Consistent with past ARDEs, the Appendix uses the year 1990 as a starting point in analyzing long-term trends in project performance. Data for the statistical tables and charts are taken from the Business Warehouse. The data in this report were "frozen" on December 31, 2003.

Composition of the ARDE 2003 Exiting Cohort

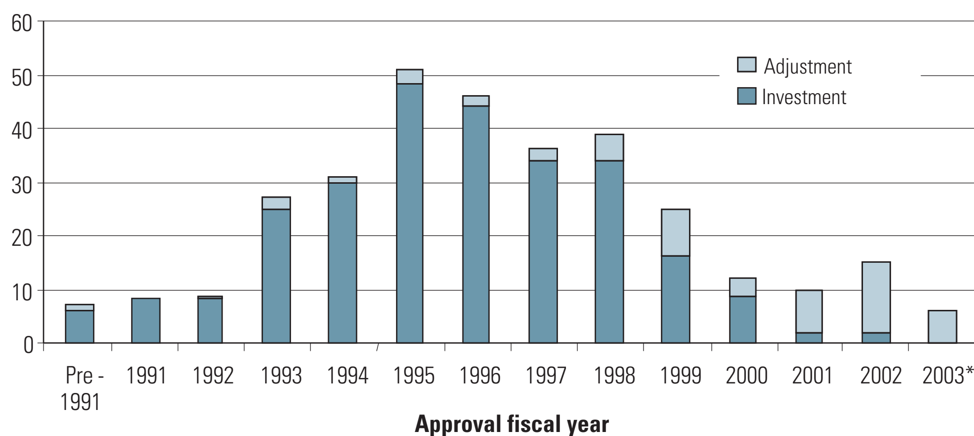
OED has evaluated 322 closed projects since ARDE 2002, 80 percent of which exited the Bank's portfolio during FY02 and FY03.[1] These evaluations cover US$30.4 billion in disbursements and consist of 266 Implementation Completion Report (ICR) Reviews, previously called "Evaluation Summaries" (ES), and 63 Project Performance Assessment Reports (PPARs).[2, 3] This newly evaluated cohort consists of 56 *adjustment* operations and 266 *investment* operations; figure A.1 shows the evaluated projects by when they were approved.

Performance Trends

Outcome

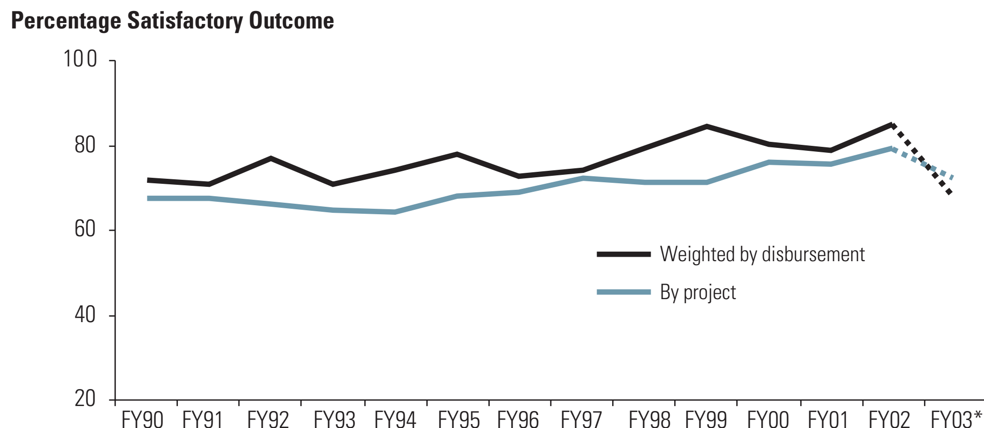
Exit year FY02 marks the third year in which project performance exceeded the Strategic Compact target of 75 percent satisfactory outcomes.[4] As figure A.2 illustrates, 79 percent of projects in the FY02 exit cohort had satisfactory outcomes.

Figure A.1 Evaluated Projects by Approval Years



* Partial.
Source: Business Warehouse, World Bank 2003.

Figure A.2 Long-Term Trends in Project Performance



* Partial (dashed line).
Source: Business Warehouse, World Bank 2003.

As of December 31, 2003, OED has evaluated 44 percent of the 293 FY03 exits. For this partial FY03 cohort,[5] outcomes are lower than in the recent past (figure A.2). Outcome is rated satisfactory for 72 percent of projects (for 68 percent weighted by disbursements). This represents a decline with respect to outcomes in recent previous years, although it is unclear whether the decline will be borne out when the evaluation results for the full 2003 cohort are available and, if so, whether this reflects a systematic departure from recent trends toward improved results.

Sustainability and Institutional Development Impact

Eighty-four percent (weighted by disbursements) of the FY02 exiting cohort are rated “likely” or “highly likely” to be resilient to future risks,[6] and 51 percent (weighted by disbursements) were determined to have a “substantial” or “high” institutional development impact.[7] Both these findings represent modest increases over the FY01 exit cohort.

For the FY03 (partial) cohort, sustainability ratings weighted by disbursements decreased to 70 percent “likely” or “highly likely” to be sustainable. Institutional development impact, however, increased to 54 percent rated (disbursement weighted) “substantial” or better. As with outcome ratings for the FY03 (partial) cohort, it is too soon to tell whether these apparent departures from recent trends will be borne out and, if so, whether they represent significant changes in Bank project effectiveness (figure A.3).

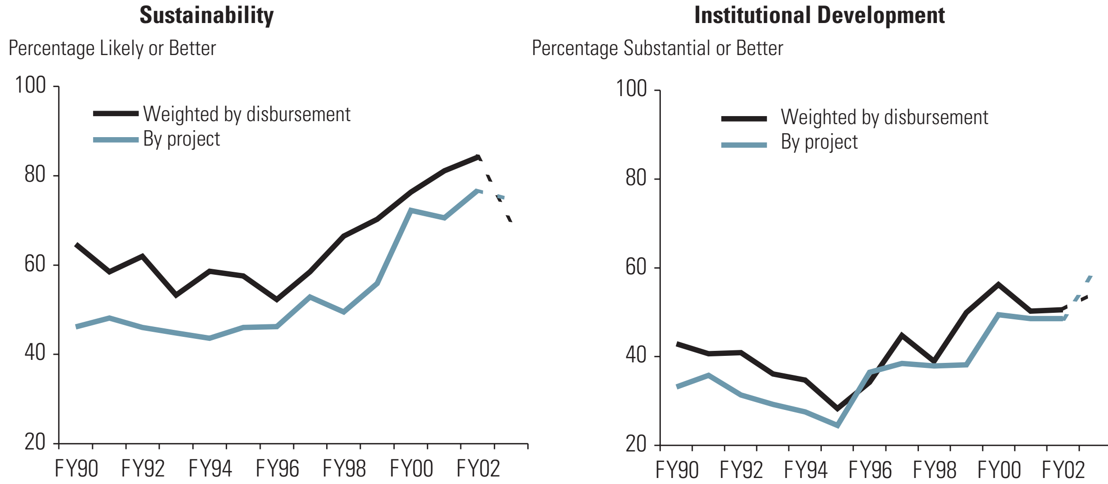
Regional Performance

Figure A.4 reports the percentage of satisfactory project outcomes, weighted by disbursement, for the FY99-03 (partial) cohort compared with the FY94-98 cohort for each region. The Latin American and Caribbean Region (LCR) and East Asia and Pacific (EAP) Region are the top performers for both cohorts. The percentages of satisfactory outcomes for both LCR and EAP Regions exceed the Bank-wide satisfactory outcomes of 76 percent for the FY94-98 cohort and of 80 percent for the FY99-03 (partial) cohort.

Sectoral Performance

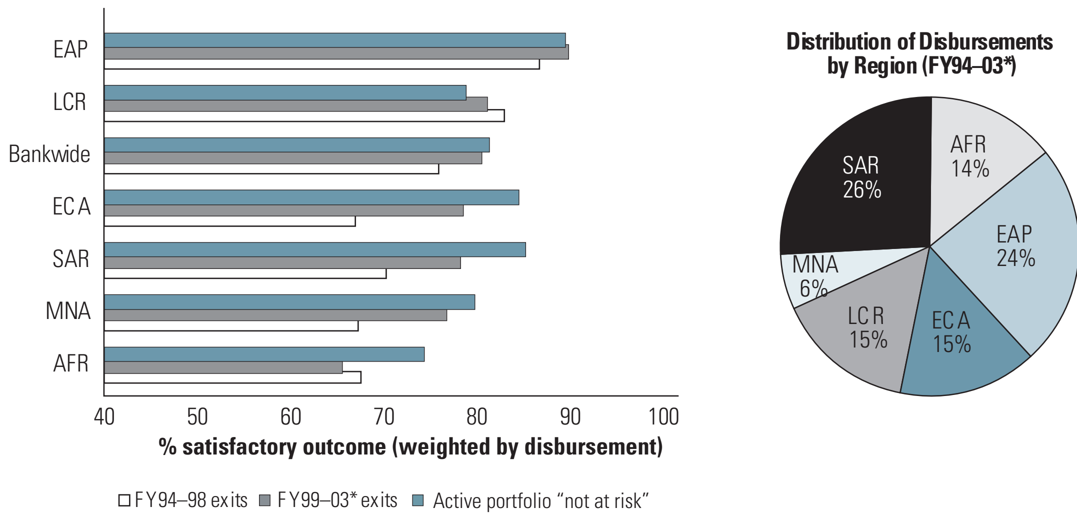
Compared with FY94-98 exits, the outcome performance weighted by disbursement for the FY99-03 (partial) exits improved in 9 of the 15 Sector Boards—education, energy and mining, financial, global information and communications technology, public sector governance, rural development, transport, urban development, and water supply and sanitation (table

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



Note: FY03 is partial (dashed line).
Source: Business Warehouse, World Bank 2003.

Figure A.4 Project Outcomes by Region



* Partial.
Source: Business Warehouse, World Bank 2003.

A.3 and figure A.5). The largest increases in outcome ratings were in the financial, education, and public sector and governance sectors. The largest declines in performance were in the social protection; health, nutrition, and population (HNP); and economic policy sectors. The HNP, energy and resource management, environment, economic policy, and water supply and sanitation sectors remain below the Bank-wide average for FY99-03.

The reasons for improvement and deterioration differ from sector to sector, and performance during any period is frequently highly sensitive to the outcomes of a few large loans.

In the economic policy sector, for example, the decline in outcome ratings reflects the results of a few large risky loans undertaken in macroeconomic crises in Argentina (a structural adjustment loan, or SAL, and the Special Repurchase Loan) and Russia (SAL III). In the social protection sector, most unsatisfactory projects in the period FY99-03 were identified as having weaknesses in design such as underestimation of the capacity and political support to the implementing agency; too much complexity; lack of clarity or consensus on the main design aspects; and weak monitoring and evaluation systems.

Lending Instrument Performance

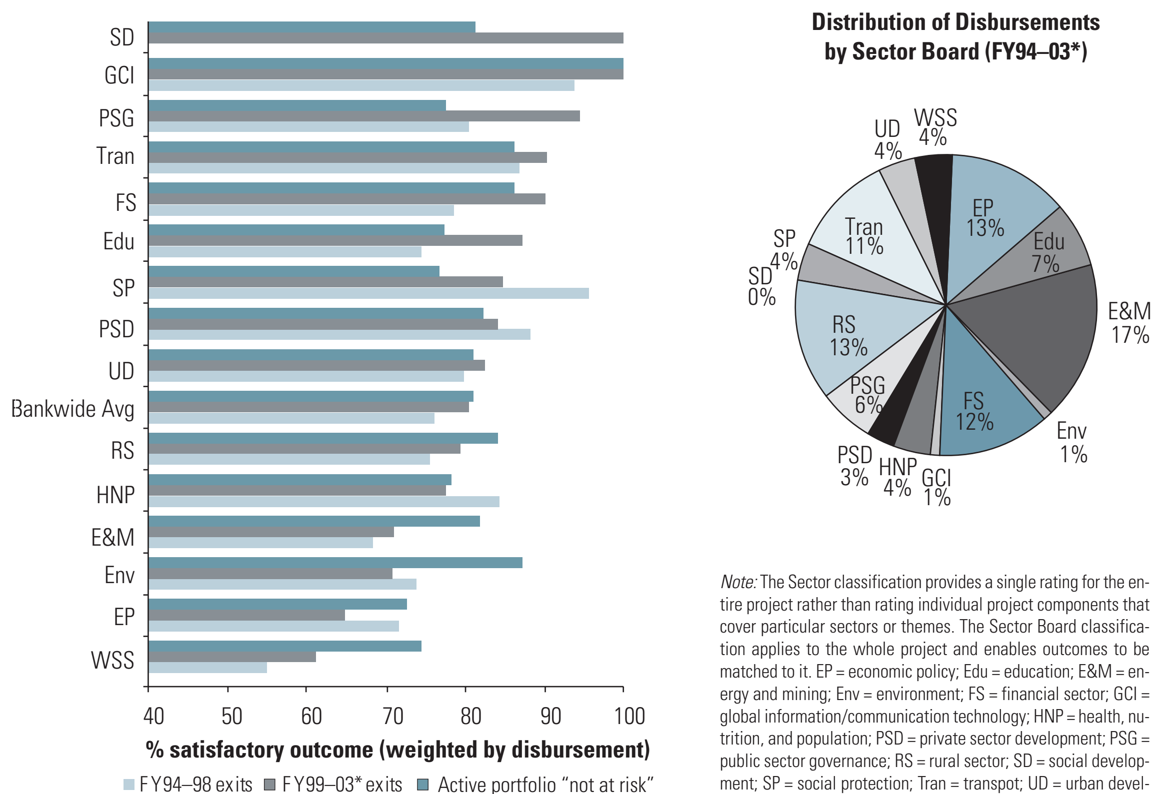
Outcomes of *adjustment* lending operations have been volatile in recent years. Having reached a record high of 96 percent satisfactory in FY00 exits, then dipping to 78 percent satisfactory for FY01 exits, outcome ratings rebounded again to 88 percent satisfactory for FY02 exits (figure A.6). The low disbursement-weighted performance at 53 percent for FY03 (partial) exits is largely accounted for by an unsatisfactory large adjustment loan of $2.5 billion to Argentina.

The percentage of satisfactory outcomes by disbursement for *investment* lending operations has improved consistently since exit FY00, reaching 84 percent for the FY02 cohort. FY03 (partial) exits, however, show a slight decline to 82 percent (disbursement weighted).

New Lending Instruments

Forty-one operations employing four new lending instruments (see box A.1 for descriptions of the new lending instruments) were

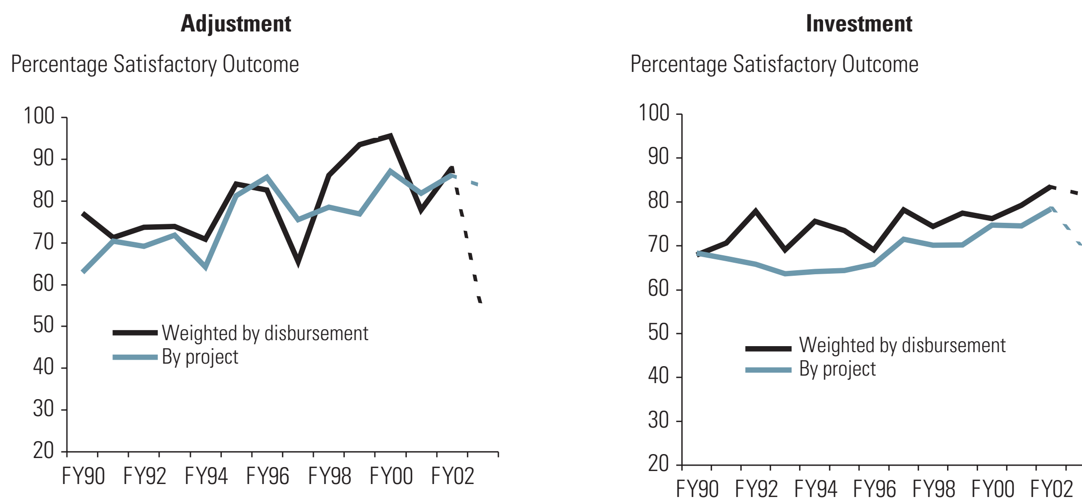
Figure A.5 Project Outcomes by Sector Board



Note: The Sector classification provides a single rating for the entire project rather than rating 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. EP = economic policy; Edu = education; E&M = energy and mining; Env = environment; FS = financial sector; GCI = global information/communication technology; HNP = health, nutrition, and population; PSD = private sector development; PSG = public sector governance; RS = rural sector; SD = social development; SP = social protection; Tran = transpot; UD = urban development; WSS = water supply and sanitation. SD Sector Board did not exist before FY98.

* Partial.
Source: Business Warehouse, World Bank 2003.

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



Note: FY03 is partial (dashed line).
Source: Business Warehouse, World Bank 2003.

evaluated by OED as of December 2003.[8] Of these, 81 percent had satisfactory outcomes (figure A.7). Weighted by disbursements, the new lending instruments achieved a very high level of 98 percent satisfactory outcomes. Eighty-six percent of the new instrument projects were rated to have likely or highly likely resilience to future risks. Sixty-five percent of the projects were assigned substantial or better institutional development impact ratings.

Bank Managed Special Programs

OED has evaluated 70 operations financed under four Bank-managed special programs that have exited the Bank's portfolio since FY95 (box A.2). Eighty-seven percent of the special operations had satisfactory outcomes. One of every two projects had substantial or better institutional development impact. About 70 percent were rated as having likely or highly likely resilience to future risks.

Conclusions

Project performance continued to meet corporate targets through FY02. The picture for FY03 is as yet uncertain. The performance of Sector Boards is varied. The evaluations of operations funded by new lending instruments so far indicate a strong performance but do not constitute a large enough sample to make any reliable analysis of performance of the new lending instruments as a whole.

Box A.1 The Bank's New Lending Instruments

The Bank has five new lending instruments: Adaptable Program Loans and Learning and Innovation Loans are *investment* lending instruments. Programmatic Structural Adjustment Loans, Poverty Reduction Support Credits, and Special Structural Adjustment Lending are *adjustment* lending instruments.

Adaptable Program Loans (APLs) provide phased support for long-term development programs. They involve a series of loans that build on the lessons learned from the previous loan(s) in the series.

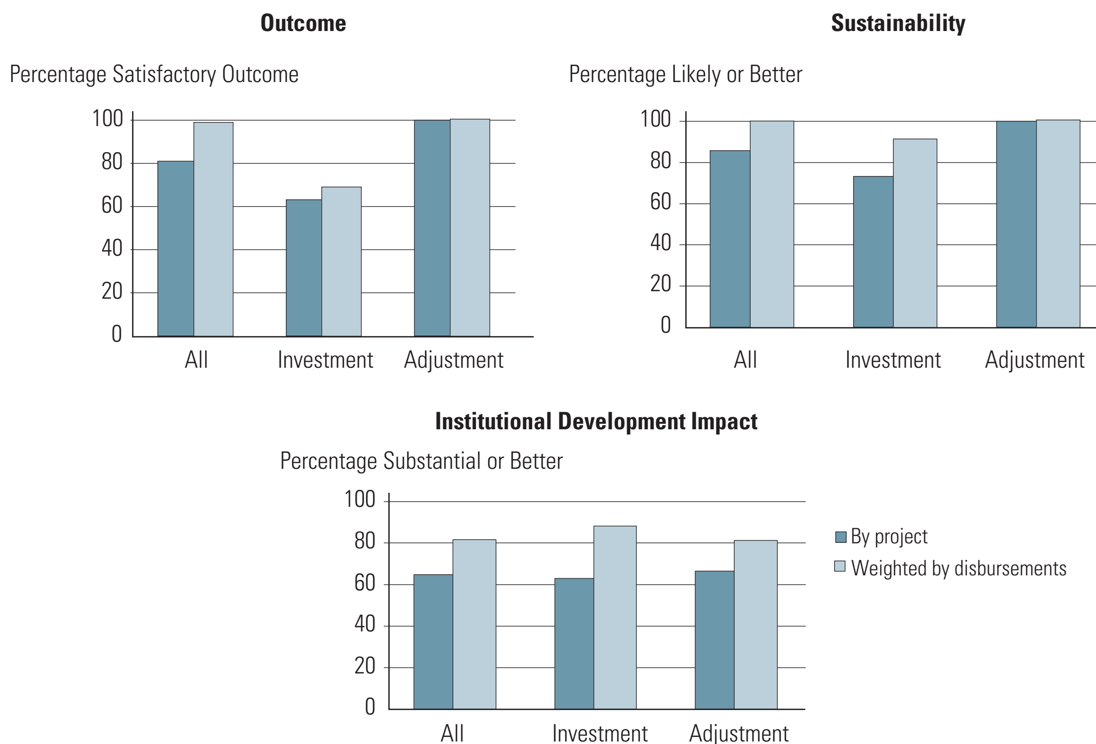
Learning and Innovation Loans (LILs) support small pilot-type investment and capacity-building projects that, if successful, could lead to larger projects that would mainstream the learning and results of the LIL.

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

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

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

Figure A.7 Outcome, Sustainability, and Institutional Development Impact of New Lending Instruments



Source: Business Warehouse, December 31, 2003.

Box A.2 Bank-Managed Special Programs

This year ARDE begins to report on the evaluation of operations financed under special programs. Seventy such operations exited the Bank's portfolio during the FY95-03 period.

Global Environment Facility (GEF). The GEF was established in 1991 as a pilot program to assist in the protection of the global environment and to promote environmentally sound and sustainable economic development. Overall, 325 projects have been approved, for a total commitment of US$4.6 billion.

Montreal Protocol Fund (MONT). The World Bank is one of four implementing agencies (along with UNDP, UNIDO, and UNEP) for the Multilateral Fund for the Implementation of the Montreal Protocol to reduce ozone-deleting substances. Overall, 38 projects have been approved under this fund, for a total commitment of US$895 million.

Rainforest Initiative (RAIN). The RAIN was established in 1992 out of concern about the deforestation of Brazil's humid rain forests in the Amazon and on the Atlantic coast. Its purpose is to demonstrate ways towards conservation and sustainable use of the natural resources of the rain forests. Overall, 12 projects have been approved for a total commitment of US$54.5 million.

Special Financing Grants (SPF). The SPF grants cover special emergency assistance provided to recent post-conflict countries such as Bosnia-Herzegovina, East Timor, Kosovo, and West Bank and Gaza. Overall, 80 special financing operations have been approved for a total commitment of US$1.7 billion.

Performance of Bank-Managed Special Programs

Special Program Type	No. of Evaluated Programs	Outcome % Satisfactory	Sustainability % Likely or Better	ID Impact % Substantial or Better
GEF	42	83	63	60
MONT	6	100	100	50
RAIN	1	100	100	0
SPF	21	90	71	52
Overall Result	49	87	69	55

Table A.1 Outcome, Sustainability, and Institutional Development (ID) Impact by Various Dimensions, by Project, FY94–03[a] Exits

	Exit FY94–98						
	Number of projects	Share %	Outcome % satisfactory	Sustainability % likely or better	ID impact % substantial or better	Number of projects	Share %
Sector Board							
Economic Policy	116	9.2	73.9	53.1	29.5	59	4.8
Education	100	7.9	72.4	43.3	28.6	122	10.0
Energy and Mining	190	15.1	61.7	51.3	34.0	128	10.5
Environment	17	1.3	70.6	58.8	23.5	74	6.1
Financial Sector	72	5.7	62.3	46.4	36.8	65	5.3
Global Information/ Communications Technology	26	2.1	84.6	76.9	46.2	12	1.0
Health, Nutrition, and Population	60	4.8	66.7	55.0	25.0	99	8.1
Private Sector Development	33	2.6	81.8	63.6	34.4	69	5.6
Public Sector Governance	65	5.2	63.1	46.9	30.8	95	7.8
Rural Sector	301	23.9	68.1	42.5	37.8	182	14.9
Social Development	N/A	N/A	N/A	N/A	N/A	2	0.2
Social Protection	35	2.8	82.9	25.7	42.9	78	6.4
Transport	129	10.2	78.9	54.7	35.9	126	10.3
Urban Development	63	5.0	66.1	38.7	21.0	59	4.8
Water Supply and Sanitation	55	4.4	53.7	33.3	22.2	52	4.3
Overall Result	**1,262**	**100.0**	**68.9**	**47.6**	**33.0**	**1,222**	**100.0**
Lending Instrument Type							
Adjustment	199	15.8	77.8	59.4	36.8	150	12.3
Investment	1,062	84.2	67.2	45.3	32.3	1,071	87.6
Not Assigned	1	0.1	100.0	100.0	0.0	1	0.1
Overall Result	**1,262**	**100.0**	**68.9**	**47.6**	**33.0**	**1,222**	**100.0**
Network							
ESSD	318	25.2	68.3	43.4	37.0	258	21.1
FSE	72	5.7	62.3	46.4	36.8	65	5.3
HDN	195	15.5	72.5	43.8	30.1	299	24.5
INF	115	9.1	72.3	56.3	41.1	377	30.9
PREM	181	14.3	70.0	50.8	29.9	154	12.6
PSDN	29	2.3	79.3	62.1	35.7	69	5.6
PSI	352	27.9	66.3	48.1	29.1	0	0.0
Overall Result	**1,262**	**100.0**	**68.9**	**47.6**	**33.0**	**1,222**	**100.0**

Exit FY99–03[a]			Exit FY94–03[a]				
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
72.9	74.1	33.9	175	7.0	73.6	59.9	31.0
83.6	74.1	45.1	222	8.9	78.6	59.8	37.7
70.9	66.9	48.8	318	12.8	65.4	57.4	40.0
74.3	75.0	56.8	91	3.7	73.6	71.9	50.5
75.4	79.7	55.4	137	5.5	68.7	61.7	45.9
100.0	100.0	58.3	38	1.5	89.5	83.8	50.0
67.7	65.9	43.8	159	6.4	67.3	61.6	36.5
61.2	66.7	36.9	102	4.1	68.0	65.6	36.1
87.1	84.7	61.3	160	6.4	77.2	68.5	48.7
66.5	56.0	40.2	483	19.4	67.5	47.4	38.7
100.0	100.0	100.0	2	0.1	100.0	100.0	100.0
83.3	70.3	44.9	113	4.5	83.2	54.5	44.2
86.9	74.8	67.2	255	10.3	82.8	64.2	51.2
71.2	57.1	30.5	122	4.9	68.6	47.5	25.6
65.4	49.0	34.6	107	4.3	59.4	40.8	28.3
75.1	**68.9**	**47.5**	**2,484**	**100.0**	**71.9**	**57.7**	**40.1**
82.7	80.9	49.3	349	14.0	79.9	68.2	42.3
74.0	67.2	47.2	2,133	85.9	70.6	55.9	39.8
100.0	100.0	0.0	2	0.1	100.0	100.0	0.0
75.1	**68.9**	**47.5**	**2,484**	**100.0**	**71.9**	**57.7**	**40.1**
69.0	62.1	45.5	576	23.2	68.6	51.5	40.8
75.4	79.7	55.4	137	5.5	68.7	61.7	45.9
78.4	70.4	44.6	494	19.9	76.1	59.3	38.9
76.3	66.5	50.3	492	19.8	75.4	64.0	48.1
81.6	80.6	50.7	335	13.5	75.3	63.9	39.5
61.2	66.7	36.9	98	3.9	66.7	65.1	36.6
N/A	N/A	N/A	352	14.2	66.3	48.1	29.1
75.1	**68.9**	**47.5**	**2,484**	**100.0**	**71.9**	**57.7**	**40.1**

(*Table continues on the following page.*)

Table A.1 (continued)

	Exit FY94–98						
	Number of projects	Share %	Outcome % satisfactory	Sustainability % likely or better	ID impact % substantial or better	Number of projects	Share %
Region							
Africa	410	32.5	57.0	30.5	25.5	314	25.7
East Asia and Pacific	199	15.8	82.2	66.0	42.1	189	15.5
Europe and Central Asia	132	10.5	72.9	61.7	42.2	259	21.2
Latin America and Caribbean	236	18.7	79.1	56.1	40.8	248	20.3
Middle East and North Africa	113	9.0	65.5	45.5	25.0	95	7.8
South Asia	172	13.6	67.3	46.5	28.2	117	9.6
Overall Result	**1,262**	**100.0**	**68.9**	**47.6**	**33.0**	**1,222**	**100.0**
Income Group							
High income: non-OECD	12	1.0	81.8	72.7	27.3	6	0.5
High income: OECD	19	1.5	84.2	73.7	44.4	10	0.8
Low income	654	51.8	61.7	35.8	29.1	561	45.9
Lower middle income	420	33.3	73.1	54.9	34.5	458	37.5
Upper middle income	153	12.1	83.9	73.8	45.0	179	14.6
Not assigned	4	0.3	50.0	25.0	25.0	8	0.7
Overall Result	**1,262**	**100.0**	**68.9**	**47.6**	**33.0**	**1,222**	**100.0**

Notes: Exit FY 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 exits between FY00 and FY02. To monitor the effects of this change, OED continued using the old 3-point scale in parallel with the new until May 2003.

a. The data for FY03 exits represent a partial lending sample (130 out of 293) and reflects all OED project evaluations posted to the Business Warehouse as of December 31, 2003. The processing of the remainder of the FY03 exits is ongoing and is expected to be completed by the end of FY04.

Source: Business Warehouse, World Bank 2003. Income group designations are taken from *World Development Indicators 2002.*

Exit FY99–03[a]			Exit FY94–03[a]				
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
60.8	50.9	37.3	724	29.1	58.7	39.0	30.6
80.9	70.5	48.9	388	15.6	81.6	68.1	45.5
82.4	79.8	54.3	391	15.7	79.2	73.4	50.3
79.9	77.1	55.2	484	19.5	79.5	66.4	48.2
74.2	69.0	41.9	208	8.4	69.4	55.6	32.7
78.6	74.8	46.2	289	11.6	71.9	57.4	35.5
75.1	**68.9**	**47.5**	**2,484**	**100.0**	**71.9**	**57.7**	**40.1**
66.7	83.3	66.7	18	0.7	76.5	76.5	41.2
90.0	90.0	60.0	29	1.2	86.2	79.3	50.0
66.7	56.0	37.3	1,215	48.9	64.0	44.7	32.9
84.1	80.6	55.7	878	35.3	79.3	67.8	45.5
78.5	77.0	57.0	332	13.4	81.0	75.5	51.4
62.5	71.4	62.5	12	0.5	58.3	54.5	50.0
75.1	**68.9**	**47.5**	**2,484**	**100.0**	**71.9**	**57.7**	**40.1**

Table A.2 Outcome, Sustainability, Institutional Development (ID) Impact by Various Dimensions, Weighted by Disbursement, FY94–03[a] Exits

	Exit FY94–98						
	Disbursement $ millions	Share %	Outcome % satisfactory	Sustainability % likely or better	ID impact % substantial or better	Disbursement $ millions	Share %
Sector Board							
Economic Policy	13,249	13.4	71.7	63.7	26.6	12,172	13.1
Education	5,166	5.2	74.6	46.5	32.6	7,345	7.9
Energy and Mining	18,953	19.1	68.2	61.1	37.1	13,259	14.3
Environment	349	0.4	73.8	59.5	28.7	2,005	2.2
Financial Sector	14,755	14.9	78.4	70.7	43.2	7,485	8.1
Global Information/ Communications Technology	1,369	1.4	93.6	95.2	69.6	1,067	1.2
Health, Nutrition and Population	2,745	2.8	84.3	71.5	29.7	5,470	5.9
Private Sector Development	2,373	2.4	88.1	66.2	40.5	3,543	3.8
Public Sector Governance	2,907	2.9	80.5	64.1	44.2	7,643	8.2
Rural Sector	15,575	15.7	75.3	52.5	44.3	9,596	10.3
Social Development	N/A	N/A	N/A	N/A	N/A	30	0.0
Social Protection	2,098	2.1	95.6	60.1	56.6	5,943	6.4
Transport	10,791	10.9	87.0	57.0	37.8	10,986	11.8
Urban Development	4,615	4.7	79.7	51.1	17.3	3,092	3.3
Water Supply and Sanitation	4,059	4.1	54.8	22.5	15.0	3,127	3.4
Overall Result	**99,004**	**100.0**	**75.9**	**59.2**	**36.5**	**92,764**	**100.0**
Lending Instrument Type							
Adjustment	33,968	34.3	79.2	70.6	39.0	33,438	36.0
Investment	64,979	65.6	74.2	53.2	35.4	59,326	64.0
Not Assigned	57	0.1	100.0	100.0	0.0	0	0.0
Overall Result	**99,004**	**100.0**	**75.9**	**59.2**	**36.5**	**92,764**	**100.0**
Network							
ESSD	15,924	16.1	75.3	52.7	44.0	11,631	12.5
FSE	14,755	14.9	78.4	70.7	43.2	7,485	8.1
HDN	10,010	10.1	81.6	56.2	36.8	18,758	20.2
INF	9,858	10.0	77.1	62.0	38.8	31,532	34.0
PREM	16,156	16.3	73.3	63.8	29.9	19,815	21.4
PSDN	2,188	2.2	87.1	68.4	41.8	3,543	3.8
PSI	30,113	30.4	73.4	54.0	32.2	0	0.0
Overall Result	**99,004**	**100.0**	**75.9**	**59.2**	**36.5**	**92,764**	**100.0**

Exit FY99–03[a]			Exit FY94–03[a]				
Outcome % satisfactory	Sustainability %likely or better	ID impact % substantial or better	Disbursement $ millions	Share %	Outcome % satisfactory	Sustainability % likely or better	ID impact % substantial or better
65.0	58.5	35.0	25,421	13.3	68.5	61.3	30.7
87.2	86.1	48.0	12,511	6.5	82.0	69.2	41.7
71.1	67.7	53.6	32,212	16.8	69.4	63.8	43.9
70.7	80.6	45.7	2,355	1.2	71.2	77.4	43.2
90.1	94.6	74.8	22,240	11.6	82.3	77.2	55.5
100.0	100.0	53.2	2,437	1.3	96.4	97.3	62.4
77.5	79.2	59.7	8,216	4.3	79.8	76.5	49.7
84.1	84.0	59.6	5,916	3.1	85.7	76.4	51.5
94.5	95.4	56.3	10,550	5.5	90.6	85.9	53.0
79.6	69.1	50.7	25,171	13.1	77.0	58.7	46.8
100.0	100.0	100.0	30	0.0	100.0	100.0	100.0
84.7	81.7	38.1	8,041	4.2	87.6	75.7	42.9
90.4	85.6	67.4	21,777	11.4	88.7	70.6	52.7
82.7	73.7	32.7	7,707	4.0	80.9	59.9	23.5
61.2	49.5	31.7	7,186	3.7	57.6	34.0	22.3
80.3	**76.5**	**51.9**	**191,768**	**100.0**	**78.0**	**67.3**	**44.1**
82.1	78.1	51.5	67,406	35.1	80.6	74.1	45.5
79.3	75.6	52.2	124,305	64.8	76.6	63.6	43.4
N/A	N/A	N/A	57	0.0	100.0	100.0	0.0
80.3	**76.5**	**51.9**	**191,768**	**100.0**	**78.0**	**67.3**	**44.1**
78.1	71.2	49.9	27,556	14.4	76.5	60.4	46.5
90.1	94.6	74.8	22,240	11.6	82.3	77.2	55.5
83.6	82.7	48.3	28,768	15.0	82.9	73.1	44.3
78.9	73.5	54.1	41,390	21.6	78.5	70.6	50.5
76.4	71.9	43.2	35,971	18.8	75.0	68.1	37.3
84.1	84.0	59.6	5,731	3.0	85.3	77.6	52.4
N/A	N/A	N/A	30,113	15.7	73.4	54.0	32.2
80.3	**76.5**	**51.9**	**191,768**	**100.0**	**78.0**	**67.3**	**44.1**

(*Table continues on the following page.*)

Table A.2 (continued)

	Exit FY94–98						
	Disbursement $ millions	**Share %**	**Outcome % satisfactory**	**Sustainability % likely or better**	**ID impact % substantial or better**	**Disbursement $ millions**	**Share %**
Region							
Africa	15,770	15.9	67.6	35.8	29.5	10,206	11.0
East Asia and Pacific	23,714	24.0	86.7	76.5	40.9	22,817	24.6
Europe and Central Asia	13,444	13.6	66.9	72.8	40.8	16,149	17.4
Latin America and Caribbean	22,099	22.3	82.9	61.1	49.1	26,420	28.5
Middle East and North Africa	7,271	7.3	67.3	37.0	19.9	4,672	5.0
South Asia	16,706	16.9	70.2	53.6	24.7	12,500	13.5
Overall Result	**99,004**	**100.0**	**75.9**	**59.2**	**36.5**	**92,764**	**100.0**
Income Group							
High income: non-OECD	201	0.2	95.0	91.4	54.2	104	0.1
High income: OECD	5,995	6.1	96.4	95.2	12.5	2,760	3.0
Low income	39,051	39.4	70.5	46.4	29.8	31,223	33.7
Lower middle income	36,951	37.3	74.5	60.5	37.8	41,242	44.5
Upper middle income	16,710	16.9	84.3	73.4	53.4	17,406	18.8
Not assigned	98	0.1	50.8	0.0	0.0	28	0.0
Overall Result	**99,004**	**100.0**	**75.9**	**59.2**	**36.5**	**92,764**	**100.0**

Notes: Exit FY 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 exited between 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 FY03 exits represent a partial lending sample (130 out of 293) and reflects all OED project evaluations posted to the Business Warehouse as of December 31, 2003. The processing of the remainder of the FY03 exits is ongoing, and is expected to be completed by the end of FY04.

Source: Business Warehouse, World Bank 2003. Income group designations are taken from *World Development Indicators 2002*.

Exit FY99–03[a]			Exit FY94–03[a]				
Outcome % satisfactory	Sustainability %likely or better	ID impact % substantial or better	Disbursement $ millions	Share %	Outcome % satisfactory	Sustainability % likely or better	ID impact % substantial or better
65.4	53.1	34.6	25,977	13.5	66.7	42.4	31.5
89.7	80.9	64.7	46,531	24.3	88.2	78.6	53.4
78.4	80.6	53.5	29,593	15.4	73.2	76.7	47.7
80.9	78.2	51.7	48,519	25.3	81.8	70.2	50.5
76.6	73.3	47.7	11,943	6.2	70.9	50.6	30.8
78.1	80.5	42.9	29,206	15.2	73.6	64.4	32.5
80.3	**76.5**	**51.9**	**191,768**	**100.0**	**78.0**	**67.3**	**44.1**
77.1	84.3	77.1	305	0.2	88.9	89.0	62.1
95.9	96.7	87.7	8,755	4.6	96.3	95.6	48.6
75.1	63.1	40.2	70,274	36.6	72.6	53.4	34.5
85.8	88.3	60.1	78,193	40.8	80.4	74.6	49.6
74.4	69.2	48.0	34,116	17.8	79.3	71.3	50.7
0.0	20.5	0.0	126	0.1	39.5	4.6	0.0
80.3	**76.5**	**51.9**	**191,768**	**100.0**	**78.0**	**67.3**	**44.1**

Table A.3 Active Portfolio: Projects Not at RisK

	Number of Projects			Net Commitment		
	No.	Share, %	% Not at Risk	$ millions	Share, %	% Not at Risk
Sector Board						
Economic Policy	22	2	73	1,678	2	79
Education	149	11	77	8,553	10	80
Energy and Mining	94	7	82	7,846	9	83
Environment	47	4	87	2,053	2	93
Financial Sector	51	4	86	3,632	4	96
Gender and Development	1	0	100	3	0	100
Global Information/ Communications Technology	12	1	100	214	0	100
Health, Nutrition and Population	146	11	78	8,968	10	77
Poverty Reduction	4	0	100	328	0	100
Private Sector Development	68	5	82	2,408	3	74
Public Sector Governance	102	8	77	4,312	5	76
Rural Sector	226	17	84	15,068	17	83
Social Development	27	2	81	1,071	1	95
Social Protection	64	5	77	4,255	5	72
Transport	153	12	86	18,960	21	88
Urban Development	68	5	81	5,015	6	87
Water Supply and Sanitation	86	7	74	5,268	6	74
Overall Result	**1,320**	**100**	**81**	**89,635**	**100**	**83**
Lending Instrument Type						
Adjustment	47	4	77	7,968	9	80
Investment	1,273	96	81	81,668	91	83
Overall Result	**1,320**	**100**	**81**	**89,635**	**100**	**83**
Network						
ESSD	300	23	84	18,192	20	85
FSE	51	4	86	3,632	4	96
HDN	359	27	77	21,777	24	77
INF	413	31	82	37,304	42	85
PREM	129	10	78	6,322	7	78
PSDN	68	5	82	2,408	3	74
Overall Result	**1,320**	**100**	**81**	**89,635**	**100**	**83**
Region						
Africa	337	26	74	16,097	18	73
East Asia and Pacific	215	16	89	20,568	23	92
Europe and Central Asia	268	20	85	13,295	15	87
Latin America and Caribbean	267	20	84	18,100	20	86

Table A.3 (continued)

	Number of Projects			Net Commitment		
	No.	**Share, %**	**% Not at Risk**	**$ millions**	**Share, %**	**% Not at Risk**
Middle East and North Africa	93	7	80	3,959	4	84
South Asia	140	11	79	17,616	20	74
Overall Result	**1,320**	**100**	**81**	**89,635**	**100**	**83**
Income Group						
High income: non-OECD	3	0	100	40	0	100
Low income	652	49	78	41,699	47	81
Lower middle income	513	39	87	35,212	39	91
Upper middle income	144	11	74	12,454	14	67
Not Assigned	8	1	100	231	0	100
Overall Result	**1,320**	**100**	**81**	**89,635**	**100**	**83**

Note: Data as of February 15, 2004.
Source: Business Warehouse, World Bank 2003. Income group designations are taken from *World Development Indicators 2002.*

ANNEXES

ANNEX A: INDICATORS OF ECONOMIC POLICIES

Country Policy and Institutional Assessment[1]

The Country Policy and Institutional Assessment (CPIA) is intended to assesses the quality of a country's current policy and institutional framework. "Quality," according to the instructions for preparing the rating, means "how conducive that framework is to fostering poverty reduction, sustainable growth and the effective use of development assistance."

There are 20 broad areas assessed, each with a 5 percent weight in the overall CPIA rating. Each of the 20 areas is further defined by a number of criteria that are defined in the instructions for preparing the rating. The 20 areas are grouped into four categories, Economic Management, Structural Policies, Policies for Social Inclusion/Equity, and Public Sector Management and Institutions.

Countries are rated on the current status of their policies in relation to the guidelines and to benchmark countries rated first and provided to staff rating other countries. The guidelines direct staff to assess the countries on the basis of their currently observable policies, and not on the amount of improvement since the previous rating nor on intentions for future change, unless the latter are virtually in place.

Countries are rated on a scale of "2" (Unsatisfactory) to "5" (Satisfactory), in one-half-point steps, in each of the 20 areas.[2] If a "5" has been sustained for three or more years in an area, the rating in that area is increased to a "6," signifying a sustained commitment to and support for the policy. If a "2" rating has been sustained for three or more years in an area, a rating of "1" is assigned, reflecting an entrenched and intractable policy environment.

	POLICY AREA	COVERAGE
A	***Economic Management***	
1	Management of Inflation and Macroeconomic Balances	Macroeconomic policies (exchange rate, monetary and fiscal policy) that addresses inflation and internal and external imbalances.
2	Fiscal Policy	Size of the fiscal balance and the composition of government revenue and spending to assess their compatibility with adequate provision of public services for economic growth, favorable macroeconomic outcomes, and a sustainable path of public debt.
3	Management of Public Debt (External and Domestic)	Capacity to manage public debt, external and domestic, and service it now and sustainably into the future. Two separate but linked dimensions for assessment are: (a) debt service capacity and (b) debt management capacity.
4	Management and Sustainability of the Development Program	Degree to which the management of the economy and the development program reflect three elements: technical competence, sustained political commitment and public support, and participatory processes.
B	***Structural Policies***	
5	Trade Policy and Foreign Exchange Regime	Degree to which policy framework fosters trade and capital movements.
6	Financial Stability	Degree to which the structure of the financial sector, and the policies and regulations that affect it, are conducive to diversified financial services to be provided in a context of integrity and with a minimal risk of systemic failure.
7	Financial Sector Depth, Efficiency, and Resource Mobilization	Degree to which policies and regulations affecting financial institutions foster the mobilization of savings and efficient financial intermediation.

8	Competitive Environment for the Private Sector	Degree to which firms face competitive pressure to behave efficiently or be forced to exit.
9	Goods and Factor Markets	Policies that affect the efficiency of (a) goods markets and (b) factor markets for labor and land.
10	Policies and Institutions for Environmental Sustainability	Extent to which economic and environmental policies contribute to the incomes and health status of the poor, by fostering the protection and sustainable use of natural resources and the management of pollution
C	***Policies for Social Inclusion/Equity***	
11	Gender	Extent to which the country has created laws and policies, and institutions to enforce them, that promote equal access of males and females to productive and economic resources, human capital development opportunities, and equal status and protection under the law.
12	Equity of Public Resource Use	Extent to which the pattern of public expenditures and revenues favors the poor.
13	Building Human Resources	Extent to which the programs and policies (a) affect access to and quality of health care and nutrition services, (b) access to and quality of education, training, and literacy, and (c) prevention of HIV/AIDS and other communicable diseases.
14	Social Protection and Labor	Government policies in the area of social protection and labor market regulation reduce the risk of becoming poor and assist those who are poor to mitigate and cope with further risk to their well-being.
15	Monitoring and Analysis of Poverty Outcomes and Impacts	Quality of systems to monitor poverty outcome/impact indicators and their use in formulating policies.
D	***Public Sector Management and Institutions***	
16	Property Rights and Rule-Based Governance	Extent to which private economic activity is facilitated by an effective legal system and rule-based governance structure in which property and contract rights are reliably respected and enforced.
17	Quality of Budgetary and Financial Management	Extent to which there are (a) a comprehensive and credible budget, linked to policy priorities, which in turn are linked to a poverty reduction strategy; (b) effective financial management systems to ensure that incurred expenditures are consistent with the approved budget, that budgeted revenues are achieved, and that aggregate fiscal control is maintained; (c) timely and accurate fiscal reporting, including timely and audited public accounts and effective arrangements for follow up; and (d) clear and balanced assignment of expenditures and revenues to each level of government.
18	Efficiency of Revenue Mobilization	Overall pattern of revenue mobilization–not only the tax structure as it exists on paper, but revenues from all sources as they are actually collected.
19	Quality of Public Administration	Extent to which civilian central government staffs (including teachers, health workers, and police) are structured to design and implement government policy and deliver services effectively.
20	Transparency, Accountability, and Corruption in the Public Sector	Extent to which (a) the executive can be held accountable for its use of funds and the results of its actions by the electorate and by the legislature and judiciary, and (b) public employees within the executive are required to account for the use of resources, administrative decisions, and results obtained.

Economist Intelligence Unit—Country Risk Service[3]

The Economist Intelligence Unit—Country Risk Service (EIU) provides internationally comparable and regularly updated country risk analysis for 100 developing and highly indebted countries to its subscribers.

EIU country experts evaluate four categories of risk—political, economic policy, economic structure, and liquidity factors—in accordance with a set of criteria. Ratings on these factors are then used to compile an overall score and rating for the country. EIU states that this overall country risk assessment can be used for making a general assessment of the risk of a crisis in the country's financial markets, where foreign investors may have exposure, and that it is also useful for investors wishing to get a snapshot of the generalized risk of investing in the country.

RISK CATEGORY	COVERAGE
Political Risk	Political risk pertains to the risk of exposure stemming from the political environment. The factors in this category relate to the threat of war, social unrest, disorderly transfers of power, political violence, international disputes, regime changes, and institutional ineffectiveness, but also include the quality of the bureaucracy, the transparency and fairness of the political system, and levels of corruption and crime in the country in question.
Economic Policy Risk	Economic policy risk relates to the quality and consistency of economic management. Open economies with low inflation and low fiscal deficits are rewarded in the ratings. Among the subcategories considered are monetary policy (inflation performance and interest rates), fiscal policy (magnitude of public-sector deficits and public debt/GDP), exchange-rate policy (type of exchange-rate regime), trade (barriers to an open trading system), and regulatory policies (capital controls and regulations/attitudes towards foreign investment).
Economic Structure Risk	Economic structure risk examines economic variables central to solvency. Among the subcategories of variables considered are growth and savings (growth performance, including volatility), the current account (deficit/GDP, magnitude and degree of sustainability), and debt structure (debt/exports, interest due/exports).
Liquidity Risk	Liquidity risk considers potential imbalances between resources and obligations which could result in disruption of the financial markets. Among the factors examined are the direction of movement of reserves, import cover, the ratio of money (M2) to reserves, the degree of a country's dependence on portfolio inflows, and the size of direct investment inflows.

RISK SCORE	EIU INTERPRETATION
0-20 points	Contains countries which have no foreign-exchange constraints on their debt-service ability and no problems financing their trade activities. Their economic policies are deemed to be effective and correct in relation to the conditions they face (whether in a boom or a recession) and they have a working government (not always a multiparty democracy in the European mould) capable of effective policy implementation. These countries have no significant constraints on any international financial transactions.
21-40 points	Contains countries which also have no significant foreign-exchange constraint, but whose economic policies or political structure may be a cause for concern. B-rated countries have access to commercial capital markets. There are no major risks with respect to international financial transactions, but political risk and economic policy risk often need to be watched carefully.
41-60 points	Contains countries which have a record of periodic foreign-exchange crises and political problems. Many of these countries will have negotiated external debt-rescheduling agreements and could be in the process of successfully carrying out an economic reform program. These economies will usually be in a state of flux with persistent, but controllable, internal and external imbalances. However, some will have access to commercial capital markets. With caution, this set of countries will often offer exciting opportunities for foreign investors.
61-80 points	Contains countries which are currently suffering from serious economic and political problems. Arrears, debt rescheduling, and restricted access to official lending are common characteristics. Many have a narrow, commodity-dependent export base, resulting in potentially large and frequent fluctuations in export earnings and lengthening remittance delays. Many of these economies will be heavily regulated in the initial phases of restructuring or will have failed to implement such reforms.
81-100 points	Contains countries which are likely to have a high and rising level of arrears. They will be characterized by severe fiscal imbalances and hyperinflation. Foreign exchange will be scarce, and their relations with multilateral lenders severely strained. Often they are in or on the verge of civil war or undergoing violent political change. Political risk is usually extremely high.

Heritage Foundation/Wall Street Journal Index of Economic Freedom[4]

The Heritage Foundation/Wall Street Journal Index of Economic Freedom (referred to as Heritage here) measures the degree of government involvement in production, distribution, or consumption of goods and services. To rate each country, raters consider 50 different variables grouped into 10 broad areas.

Each country's overall score is based on an average of the 10 individual factor scores. Each factor is scored against factor-specific criteria on a scale of "1" (signifying a set of policies and institutions that are judged to be most conducive to economic freedom) to "5" (for policies and institutions that are least conducive).[5]

FACTOR	VARIABLES CONSIDERED
Trade Policy	• Weighted average tariff rate • Non-tariff barriers • Corruption in the customs service
Fiscal Burden of Government	• Top income tax rate • Marginal rate for average taxpayer • Corporate tax rate • Government expenditures/GDP
Government Intervention in the Economy	• Government consumption/GDP • Government ownership of businesses and industries • Share of government revenues from state- owned enterprises and government ownership of property • Economic output produced by the government
Monetary Policy	• Weighted average inflation rate from 1992 to 2001
Capital Flows and Foreign Investment	• Foreign investment code • Restrictions on foreign ownership of business • Restrictions on the industries and companies open to foreign companies • Restrictions and performance requirements on foreign companies • Foreign ownership of land • Equal treatment under the law for both foreign and domestic companies • Restrictions on repatriation of earnings • Availability of local financing for foreign companies
Banking and Finance	• Government ownership of banks • Restrictions on the availability of foreign banks to open branches and subsidiaries • Government influence over the allocation of credit • Government regulations • Freedom to offer all types of financial services, securities, and insurance policies
Wages and Prices	• Minimum wage laws • Freedom to set prices privately without government influence • Government price controls and the extent to which government price controls are used • Government subsidies to businesses that affect prices • Government role in setting wages
Property Rights	• Freedom from government influence over the judicial system • Commercial code defining contracts • Sanctioning of foreign arbitration of contract disputes • Government expropriation of property • Corruption within the judiciary • Delays in receiving judicial decisions • Legally granted and protected private property

Regulation	• Licensing requirements to operate a business • Ease of obtaining a business license • Corruption within the bureaucracy • Labor regulations, such as established work weeks, paid vacations, and parental leave, a well as selected labor regulations • Environmental, consumer safety, and worker health regulations • Regulations that impose a burden on business
Black Market	• Transparency International Corruption Perceptions Index, OR the following factors: – Smuggling – Piracy of intellectual property in the black market – Agricultural production supplied on the black market – Service supplied on the black market – Transportation supplied on the black market – Labor supplied on the black market

International Country Risk Guide [6]

The International Country Risk Guide (ICRG) is based on a set of 22 components grouped into three major categories of risk: political, financial, and economic, with political risk comprising 12 components (and 15 subcomponents), and financial and economic risk each comprising five components. The political risk assessments are made on the basis of subjective analysis of the available information, while the financial and economic risk assessments are made solely on the basis of objective data. Each component is assigned a maximum numerical value (risk points), with the highest number of points indicating the lowest potential risk for that component and the lowest number (0) indicating the highest potential risk. The maximum points able to be awarded to any particular risk component is pre-set within the system and depends on the importance (weighting) of that component to the overall risk of a country. The three categories are made up of the following components:

- Political risk: government stability, socioeconomic conditions, investment profile, internal conflict, external conflict, corruption, military in politics, religion in politics, law and order, ethnic tensions, democratic accountability, and bureaucracy quality.
- Economic risk: GDP per capita, GDP growth, inflation, fiscal balance, and current account.
- Financial risk: external debt, external debt service, current account deficit, reserves, and exchange rate stability.

ANNEX B: TECHNICAL NOTES

The notes in this Annex provide some backup detail on points made in the text. Note 1.1 shows the rank correlations between changes in the four policy indicators examined in this study. Note 1.2 explains a statistical test for shifts in the distribution of policy indicator values. Note 1.3 explains the results of an analysis of variance of the factors affecting changes in the CPIA indicator over the period 1999-2003. Note 1.4 explains a statistical analysis of the relationship between policy reform—as reflected in policy indicators—and growth during the period 1999-2003. Note 2.1 explains the mapping of thematic codes of evaluated projects to CPIA components that underlies the analysis of the linkage between improved project results and changes in CPIA components.

Note 1.1: Rank Correlations of Changes in CPIA, Heritage, EIU, and ICRG Indicators

The change in each indicator's value, scaled from 0 ("worst" value) to 100 ("best" value) between 1999 and 2003 were computed and ranked. Correlations, t-statistics, and one-tail significance levels for these correlations of rank are reported here. Correlations between ranks are all positive, and three of the six correlations are significant at the 5 percent level or better.

		RANK CORRELATION		
	CPIA	Heritage	EIU	ICRG
CPIA				
Heritage	0.208959			
EIU	0.524123	0.252181		
ICRG	0.142924	0.010811	0.141985	
		T STATISTICS		
	CPIA	Heritage	EIU	ICRG
CPIA				
Heritage	1.722709			
EIU	4.961722	2.101057		
ICRG	1.164241	0.087168	1.156434	
		SIGNIFICANCE LEVEL (1-TAIL)		
	CPIA	Heritage	EIU	ICRG
CPIA				
Heritage	0.044812			
EIU	2.59E-06	0.019729		
ICRG	0.124259	0.465401	0.125836	

Note 1.2: Sign Test for Shifts in the Distribution of Policy Indicators

The sign test for shift in the distribution of policy indicators toward better values strongly suggest that the majority (i.e., more than half) of countries improved their policies over the period 1999-2003.

The result that so many more CPIA ratings have increased than have decreased provides fairly strong statistical evidence that the distribution of ratings has shifted slightly toward higher ratings. It could, of course, be the case that some systematic bias toward higher ratings has crept in—perhaps induced by the role that the CPIA plays in the Bank's IDA allocation, administrative budgeting, and portfolio risk management. The fact, however, that other indictors show the same general pattern of improvement suggests that the observed improvement in the CPIA is not due to any such systemic bias.

The sign test is computed as follows: Let "A" and "B" represent respectively 1999 and 2003 indicator ratings on a specific rated criterion and let "X" and "Y" represent the value taken on by the indicator in 1999 and 2003 respectively. For example, in the case of the CPIA, for each rating variable we have 134 paired observations—one value in 1999 and one value in 2003. The 134 pairs of observations and their differences may be represented by (X_1,Y_1), (X_2,Y_2) ….(X_{134},Y_{134}) and $(Y_1–X_1)$, $(Y_2–X_2)$…. $(Y_{134}–X_{134})$, respectively.

The sign test is based on the signs of these differences. Let "r" represent the number of times the less frequent sign occurs. Observations for which the difference is exactly "0" are excluded from the sample. The null hypothesis is that each difference has a probability distribution (which need not be the same for all differences) with median equal to "0." The null hypothesis is rejected if the number of positive and negative signs differ significantly from equality. When the null hypothesis is true, differences are distributed as binomial with the probability of a plus sign equal to 0.5.

We apply a variant here in which the null hypothesis is a "compound hypothesis" that the median of the distribution of differences is less than or equal to 0, i.e., that the parameter of the binomial distribution of differences of a plus sign is <0.5, compared with the alternative that it is >= 0.5. For example, in the case of the overall CPIA, of 134 countries rated, 85 registered increased ratings, 45 decreased ratings, and 4 did not change. The probability of getting 85 or more positive differences if the probability of a positive difference were 0.5 is 0.0001. If the probability of a positive difference were less than 0.5, the probability of getting 85 or more positives out of 130 values would be less than 0.0001. Hence, 0.0001 is an upper bound on the probability of getting 85 positives in 130 trials if the true probability were less than 0.5.

Shown here are sign test results for each of the four indicators examined in this study. All show a statistically significant, although modest, tendency for the country ratings to increase.

Indicator	No. of Developing Countries Rated in Both 1999 and 2003	No. of Countries with Increased Ratings (I)	No. of Countries with Decreased Ratings (D)	Maximum probability of Observing I or more increases if probability of an increase is <= 0.5
CPIA	134	85	45	0.0001
Heritage	108	59	39	0.0167
ICRG	88	55	33	0.0069
EIU	78	50	28	0.0044

Note 1.3: Analysis of Variance of Changes in CPIA Ratings

The variance of changes in CPIA ratings on each of 20 questions can be decomposed in variation explained by country factors and variation explained by policy areas via an application of analysis of variance. This decomposition shows that country factors and policy area factors together explain about one third of the variation in changes in CPIA ratings. Of this one third, country factors account for over 90 percent, and policy area factors account for less than 10 percent.

The results of this analysis are the following:

Observations = 2680 | **R-squared = 0.3626**
Root MSE =0.5834 | **Adj R-squared = 0.3243**

Source	Partial SS	Df	MS	F	Prob > F
Model	489.2	152	3.2187	9.46	0.0000
Country	456.3	133	3.4305	10.08	0.0000
Policy area	33.0	19	1.7355	5.10	0.0000
Residual	860.0	2527	0.3403		
Total	1349.3	2679	0.5036		

Note 1.4: Linkage Between Economic Policy Indices and Growth

Policy indices combine different measures of policy into a single number. Such indices thus provide a useful summary for comparing countries or, providing the measure is consistently applied across time, how policies are improving, or not, as the case may be. Indices may also be used in statistical analysis to determine the impact of policies on economic performance.

Comparing the Indices

As noted, there appears to be considerable overlap between what the different indices are trying to measure. Table 1 is a matrix of the correlations among the indices in both 1999 and 2003, and the change in each of them between these two years. Recall that for Heritage and EIU a high score implies a worse policy, so that these indices will be negatively correlated with the CPIA and ICRG. The strength of the relationship is thus indicated by the absolute size of the coefficient.

The pairings of the CPIA with EIU and ICRG, and of the latter two measures, show a high correlation, particularly in 2003. At these levels of correlation (0.7 and above), each indicator may be expected to give similar results when used as an explanatory variable in a regression equation. The exception is Heritage, which is reasonably correlated but does appear to be measuring something different from the other indices.[1]

However, the changes in the indices are less correlated than are the levels. The CPIA and ICRG move together reasonably closely. Changes in EIU are not too far adrift but, as with levels, Heritage appears to be measuring something else.

Policy Changes Over Time

Table 2 presents the means of the different measures in 1999 and 2003. These are shown first for all countries for which the indicator is available for the two years. The bottom part of the table shows the comparison only for those countries for which data are available for all four indicators for both years.

Table 1 Correlation Matrix for Indices

	1999					2003			
	CPIA	Heritage	EIU	ICRG		CPIA	Heritage	EIU	ICRG
CPIA	1.00				CPIA	1.00			
Heritage	–0.59	1.00			Heritage	–0.70	1.00		
EIU	–0.77	0.52	1.00		EIU	–0.83	0.55	1.00	
ICRG	0.69	–0.53	–0.75	1.00	ICRG	0.79	–0.56	–0.84	1.00

	Changes in the index, 1999-2003			
	CPIA	Heritage	EIU	ICRG
CPIA	1.00			
Heritage	–0.15	1.00		
EIU	–0.57	0.18	1.00	
ICRG	0.71	–0.28	–0.63	1.00

In both sets of samples all four measures show an improvement in policies, since a fall in Heritage and EIU indicates that policies have improved. However, these changes are small. It is questionable whether the "full sample" should be treated as a sample, since it is the population of available data. The common sample is a sample, though not a random one. The interpretation of the t-statistics is thus questionable, though t-statistics are one way of normalizing the value of the change to show that the change is of a significant size (although only in the case of the CPIA and EIU, as measured by the test-t).

Policy and Growth

This section presents regression estimates of the determinants of growth defined as cumulative growth over the period 1999-2003. Regressions are reported using each of the policy indices in turn. Previous research has suggested that there is a "growth boost" from policy improvement over and above that delivered by the impact of good policies.

Table 2 Mean Value of Policy Indices in 1999 and 2003

	CPIA	Heritage	EIU	ICRG
Full sample				
1999	3.36	3.26	55.99	64.18
2003	3.52	3.19	52.21	64.78
Change	0.16	–0.07	–3.78	0.59
No. of obs.	134	108	76	88
t-statistic	1.95	–1.02	–1.65	0.44
Common sample				
1999	3.63	3.08	55.12	65.96
2003	3.82	3.07	51.87	66.37
Change	0.19	–0.01	–3.25	0.41
No. of obs.	67	67	67	67
t-statistic	1.92	–0.06	–1.46	0.28

Hence the model includes both the level of the index at the start of the period and its change between 1999 and 2003.

Model Specification

Many variables have been used in growth regressions. It is important to incorporate the most important of these in any model of growth. Previous studies have shown the importance of investment, which can be broken down into sources of investable resources (i.e., domestic and foreign savings). External debt also matters, partly because it detracts from the use of savings for investment purposes. Convergence theory suggests that lower-income countries grow more rapidly, so that the start-of-period income per capita should be included. The stock of physical and human capital also matters; the former can be captured by social indicators such as life expectancy and literacy and the latter by infrastructure variables (e.g., roads). Since the level of output depends on the capital stock, the regressions use the change in social indicators. Few physical infrastructure variables are available for a large number of countries, and these were dropped from the final regressions as they unduly restricted sample size. Population growth, also included, is typically found to exert a negative impact on growth. In accordance with recent World Bank research findings, an interactive aid-policy variable is included.

Results

Table 3 presents the regression results. As with the means, two sets of results are reported. The first set covers all available observations for the policy measure being used. The sample for the second set of regressions is restricted to those countries for which data on all four policy indices are available, meaning that differences in results stem only from the different measure being used not sample selection.

All policy variables are significant, with the exception of the level of Heritage and CPIA in the full sample regressions (though barely insignificant). The change as well as the level of the policy index is significant, suggesting there is indeed a "growth boost" from changing policies.

All other variables have the expected sign. Convergence is confirmed and high population growth dampens economic performance. Inevitable resources promote growth but debt reduces it. In the full sample regressions aid is always significantly negative and the interactive aid policy term significantly positive. Care must be taken in interpreting this result in two respects. First, the results do not mean that aid actually damages growth in any country since the total effect of aid is positive over the range of observed values of the independent variables. Take, for example, the full sample CPIA results in which the coefficient on aid is -0.007 and that on the interactive term –is 0.005. Aid will increase growth provided the value of the policy index is above 1.2. The actual minimum value of the CPIA in 1999 was 2.3. Second, the interactive term can be interpreted as meaning either that aid works better in the presence of good policies or that policy reform has a bigger impact on growth when supported by aid. There is no way econometrically to tell these two possible interpretations apart, and the latter is at least as plausible as the first.

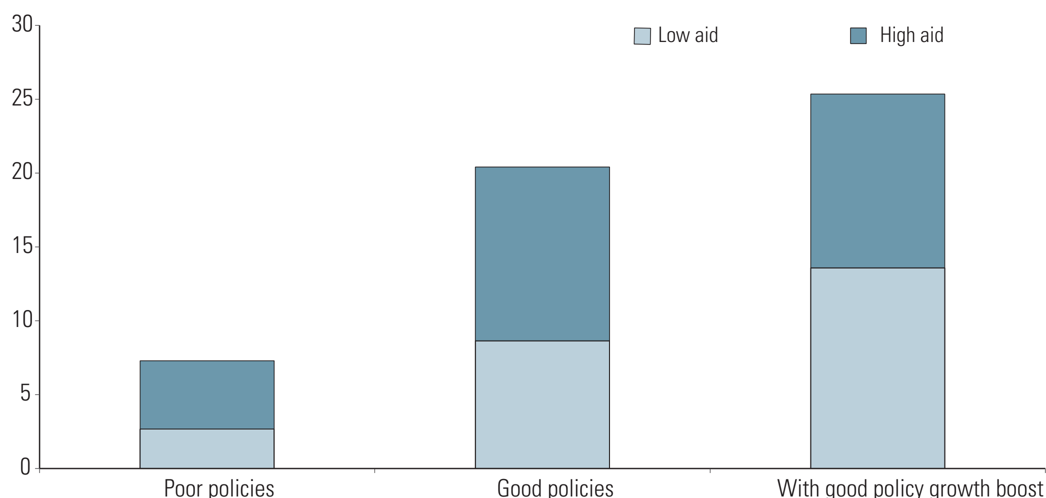
Figure 1 shows the large impact that policy can have on growth.[2] A country with poor policy with a low aid inflow would be expected to grow by only three percent over the whole period from 1999-2003. A country that changed to good policies during the period, supported by aid inflows, would be expected to grow over ten times as fast. The figure also shows how the impact of aid plus better policies would be expected to be greater than that of just aid or policy alone, shown here as the larger estimated incremental impact of aid in a good policy regime.

Table 3 Determinants of Growth Regression Results

	CPIA			Heritage			EIU			ICRG		
Full sample												
Policy index 1999	0.040	1.47		0.012	0.39		–0.004	–3.51	***	0.009	3.96	***
Change in policy	0.073	2.03	**	–0.099	–2.36	**	–0.006	–4.10	***	0.011	4.10	***
Income per capita 1998	0.000	–2.92	***	0.000	–1.54		0.000	–3.26	***	0.000	–1.95	*
Population growth	–0.698	–1.40		–0.568	–1.14		–1.138	–2.13	**	–1.394	–2.56	**
Change in life expectancy	0.011	2.70	***	0.010	2.35	**	0.005	1.44		0.003	0.60	
Change in illiteracy	–0.020	–2.66	***	–0.021	–2.69	***	–0.008	–0.88		–0.020	–2.20	**
Savings rate	0.004	3.62	***	0.006	4.43	***	0.002	1.23		0.000	–0.22	
FDI	0.017	6.80	***	0.016	6.62	***	0.003	0.54		0.001	0.21	
Aid	–0.007	–0.83		–0.012	–1.46		–0.051	–1.81	*	–0.018	–1.94	*
Aid x policy	0.005	1.80	*	0.006	2.54	**	0.017	2.17	**	0.008	2.80	***
External debt	–0.108	–4.19	***	–0.111	–3.80		–0.159	–2.97	***	–0.061	–1.80	*
ECA dummy	0.133	2.55	**	0.155	3.03	***	0.011	0.23		0.039	0.74	
Intercept	0.566	1.02		0.498	0.93		1.546	2.75	***	0.937	1.53	
R squared		0.58		0.61			0.68			0.65		
n		104		62			65			78		
Common sample												
Policy index 1999	0.075	2.22	**	0.013	0.34		–0.005	–3.56	***	0.010	4.63	***
Change in policy	0.097	2.47	**	–0.109	–2.26	**	–0.006	–3.95	***	0.009	3.56	***
Income per capita 1998	0.000	–3.16	***	0.000	–1.78	*	0.000	–2.94	***	0.000	–2.58	**
Population growth	–1.929	–3.12	***	–1.763	–2.85		–1.335	–2.3	***	–1.506	–2.69	***
Change in life expectancy	0.008	1.67		0.007	1.47		0.007	1.61		0.003	0.56	
Change in illiteracy	–0.025	–2.3	**	–0.023	–2.15	**	–0.014	–1.38		–0.022	–2.32	**
Savings rate	0.002	1.03		0.004	2.24	**	0.001	0.87		0.001	0.57	
FDI	0.010	1.31		0.010	1.36		0.006	1		0.005	0.73	
Aid	–0.033	–0.58		–0.073	–1.32		–0.008	–0.17		–0.024	–0.53	
Aid x policy	0.012	0.77		0.024	1.57		0.005	0.41		0.010	0.77	
External debt	–0.169	–2.48	**	–0.190	–2.87	***	–0.165	–2.75	***	–0.135	–2.21	**
ECA dummy	–0.009	–0.16		0.025	0.43		0.004	0.07		0.008	0.16	
Intercept	1.832	2.72	***	1.853	2.74	***	1.765	2.87	***	1.017	1.61	
R squared	0.60			0.61			0.68			0.69		
n	60			60			60			60		

* = significant at 10% level ** = significant at 5% level *** = significant at 1% level

Figure 1 Better Policies Are Linked with Higher Growth



Note 2.1: Mapping of Bank Themes to CPIA Categories

Shown here are Bank themes mapped to CPIA categories and the percentage of projects rated satisfactory or higher. The same theme has been assigned to more than one CPIA category where the theme definition overlaps CPIA categories.

CPIA Question/Theme	Percentage of Projects Highly Satisfactory/Satisfactory FY94–98	FY99–03
1. Macroeconomic Management	50.5	45.7
– Macroeconomic management		
2. Fiscal Policy	58.1	53.9
– Debt Management and fiscal sustainability		
3. Debt Management	58.1	53.9
– Debt management and fiscal sustainability		
4. Sustainability of Reform Program	v	
– Analysis of economic growth		
– Conflict prevention and post-conflict reconstruction		
– Economic statistics, modeling and forecasting		
– Indigenous peoples		
– Other social development		
– Participation and civic engagement		
– Social analysis and monitoring		
5. Trade and Foreign Exchange	51.9	49.9
– Export development and competitiveness		
– Other trade and integration		

– Regional integration		
– Technology diffusion		
– Trade facilitation and market access		
6. Financial Stability	53.0	53.6
– International financial architecture		
– Regulation and competition policy		
– Standards and financial reporting		
7. Financial Sector Depth and Efficiency	51.6	50.6
– Other financial and private sector development		
– Small and medium enterprise support		
– State enterprise restructuring and privatization		
8. Competitive Environment	51.2	54.0
– Corporate governance		
– Infrastructure services for private sector development		
– Other financial and private sector development		
– Other rural development		
– Other urban development		
– Regulation and competition policy		
– Rural markets		
– Rural non-farm income generation		
– Rural policies and institutions		
– Rural services and infrastructure		
– Small and medium enterprise support		
– State enterprise restructuring and privatization		
9. Factor and Product Markets	57.6	59.0
– Land management		
– Other economic management		
– Social risk reduction		
10. Environmental Sustainability	55.8	56.2
– Biodiversity		
– Climate change		
– Environmental policies and institutions		
– Land management		
– Other environment and natural resource management		
– Pollution management and environmental health		
– Water resource management		
11. Gender	21.5	45.0
– Gender		
12. Equity of Public Resource Use	50.0	56.9
– Public expenditure, financial management and procurement		
– Tax policy and administration		
13. Building Human Resources	45.5	54.8
– Child health		
– Education for all		
– Education for the knowledge economy		
– Health system performance		
– HIV/AIDs		
– Injuries and non-communicable diseases		

– Nutrition and food security		
– Other communicable diseases		
– Other human development		
– Population and reproductive health		
14. Social Protection and Labor	56.4	64.2
– Access to urban services for the poor		
– Natural disaster management		
– Other social protection and risk management		
– Social risk coping		
– Social risk mitigation		
– Social risk reduction		
– Vulnerability assessment and monitoring		
15. Monitoring Poverty Outcomes	44.9	55.2
– Poverty strategy, analysis and monitoring		
– Vulnerability assessment and monitoring		
16. Property Rights and Rules Based Governance	49.0	50.7
– Access to law and justice		
– Judicial and other dispute resolution mechanisms		
– Land management		
– Law reform		
– Legal institutions for a market economy		
– Legal services		
– Other rule of law		
– Personal and property rights		
17. Quality of Budget and Financial Management	39.9	51.2
– Municipal finance		
– Public expenditure, financial management, and procurement		
18. Efficiency of Revenue Mobilization	61.0	64.3
– Tax policy and administration		
19. Quality of Public Administration	50.0	48.0
– Administrative and civil service reform		
– Decentralization		
– Municipal governance and institution building		
– Other economic management		
20. Transparency and Accountability	55.3	56.8
– Other accountability/anti-corruption		
– Other public sector governance		

ANNEX C: WORLD BANK OPERATIONAL INSTRUMENTS

This annex describes the various types of lending and non-lending instruments used by the World Bank.

LENDING INSTRUMENTS

There are two types of lending instruments facilitated by the World Bank: *Investment Loans* and *Adjustment Loans*. Investment loans have a long-term focus (5-10 years) and finance goods, works, and services in support of economic and social development projects in a broad range of sectors. Adjustment loans have a shorter-term focus (1-3 years) and provide quick-disbursing external financing to support policy and institutional reforms. Both investment and adjustment loans are used flexibly to suit a range of purposes; they are occasionally used together in hybrid operations.

Investment Lending

Adaptable Program Loans

Adaptable program loans (APLs) provide phased support for long-term development programs. They involve a series of loans that build on the lessons learned from the previous loan(s) in the series.

Emergency Recovery Loans

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

Financial Intermediary Loans

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

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

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

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

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

Technical Assistance Loans
Technical assistance loans (TALs) are used to build institutional capacity in the borrower country. They may focus on organizational arrangements, staffing methods, and technical, physical, or financial resources in key agencies.

Adjustment Lending

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

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

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

Programmatic Structural Adjustment Loans
The programmatic structural adjustment loan (PSAL or PSL) is provided in the context of a multiyear framework of phased support for a medium-term government program of policy reforms and institution building.

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

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

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

Special Structural Adjustment Loans

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

Sub-National Adjustment Loans

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

NON-LENDING INSTRUMENTS

Analytic and Advisory (AAA) services include standard economic and sector work (ESW) as well as less formal just-in-time policy advice such as Policy Notes and non-ESW activities including workshops, seminars, conferences, etc. Described below are the core diagnostic ESW tools for examining social and structural policies and fiduciary issues in client countries.

Country Economic Memorandum and Development Policy Review

The Country Economic Memorandum (CEM) and the Development Policy Review (DPR) analyze key aspects of a country's economic development, such as growth, fiscal reform, public administration, foreign trade, financial sector development, and labor markets. They are flexible analytic instruments whose structure and content are largely dependent on country circumstances. Their aim is to provide an integrated view of a country's development priorities and a framework for designing development strategies.

Country Financial Accountability Assessment

The Country Financial Accountability Assessment (CFAA) evaluates the overall quality of a country's public financial management system, covering budgeting, accounting, reporting and auditing, and external scrutiny of public finances. The CFAA has twin objectives: (a) improve a country's public financial management by developing and following up action plans agreed with the government and (b) enable the World Bank to judge the level of fiduciary risk to its funds that may be provided to a country, particularly in the context of adjustment lending.

Country Procurement Assessment Report

The Country Procurement Assessment Report (CPAR) diagnoses the health of a country's procurement system and practices and aims to generate a dialogue with governments on needed reforms.

Poverty Assessment

The Poverty Assessment (PA) provides information on the causes and consequences of poverty in a country and examines how public policies, expenditures, and institutions affect poor people. The Assessment describes the poor, details their living conditions, describes their changing situation over time, and clarifies the main challenges facing poor people when they try to emerge from poverty. The Assessment also considers how labor-intensive growth, human resource development, and social protection programs can alleviate poverty.

Public Expenditure Review

The Public Expenditure Review (PER) examines government resource allocations within and among sectors and assesses the equity, efficiency, and effectiveness of those allocations in the context of the macroeconomic framework and sector priorities. In addition, it identifies the reforms needed in budget processes and administration to improve the efficiency of public spending. PER plays a central role in shaping World Bank lending decisions that have an impact on the public resource envelope.

Integrative Fiduciary Assessment

The Integrative Fiduciary Assessment (IFA) provides integrated analysis of a country's public expenditure, procurement, and financial management systems. IFAs integrate the work normally carried out through PERs, CPARs, and CRAAs.

ANNEX D: OUTCOMES AND BANK CONTRIBUTIONS TO COUNTRY CASES LISTED IN FIGURE 2.2

Country/ Economic and Social Indicators	1998	1999	2000	2001	2002
Armenia					
GDP growth (annual %)	7	3	6	10	13
GNI per capita, Atlas method (current US$)	560	590	650	700	790
Exports of goods and services (annual % growth)	5	7	17	23	27
Total debt service (% of exports of goods and services)	13	12	8	8	
Inflation, GDP deflator (annual %)	11	0	–1	4	2
Poverty headcount, national (% of population)	55			47	
Births attended by health staff (% of total)		97	97		
Mortality rate, infant (per 1,000 live births)			35	31	
Life expectancy at birth, total (years)	74	73	74	74	75
Illiteracy rate, adult total (% of people ages 15 and above)	2	2	2	2	1
School enrollment, primary (% net)			69		
Brazil					
GDP growth (annual %)	0	1	4	1	2
GNI per capita, Atlas method (current US$)	4,610	3,860	3,610	3,060	2,850
Exports of goods and services (annual % growth)	4	9	11	12	
Total debt service (% of exports of goods and services)	79	118	94	75	
Inflation, GDP deflator (annual %)	5	6	8	7	8
Poverty headcount, national (% of population)					
Births attended by health staff (% of total)					
Mortality rate, infant (per 1,000 live births)			32	31	
Life expectancy at birth, total (years)			68	68	69
Illiteracy rate, adult total (% of people ages 15 and above)	14	14	13	13	12
School enrollment, primary (% net)		97	97		
Bulgaria					
GDP growth (annual %)	4	2	5	4	4
GNI per capita, Atlas method (current US$)	1,270	1,450	1,590	1,670	1,790
Exports of goods and services (annual % growth)	–5	–5	17	8	4
Total debt service (% of exports of goods and services)	21	19	16	17	
Inflation, GDP deflator (annual %)	24	4	7	6	5
Poverty headcount, national (% of population)					
Births attended by health staff (% of total)					
Mortality rate, infant (per 1,000 live births)	14	15	13	14	
Life expectancy at birth, total (years)	71	71	72	72	72
Illiteracy rate, adult total (% of people ages 15 and above)	2	2	2	2	1
School enrollment, primary (% net)	97	95	94		
China					
GDP growth (annual %)	8	7	8	7	8
GNI per capita, Atlas method (current US$)	740	780	840	890	940
Exports of goods and services (annual % growth)	7	15	31	10	7
Total debt service (% of exports of goods and services)	9	12	9	8	
Inflation, GDP deflator (annual %)	–2	–2	1	0	–1

The Bank's financial and analytic assistance has contributed to the maintenance of macroeconomic stability, with significant progress in structural reform programs, especially in large-scale privatization and energy reform, leading to strong economic growth, averaging over 10% annually since 2001. However, high growth rates may be difficult to sustain beacuse growth is focused in a few capital-intesive sectors.

The Bank maintained a significant poverty focus through analytic work and conditionality under adjustment projects. Poverty and income inequality were high throughout the decade, but with a lag have begun to respond to growth. Extreme poverty has fallen from 27% to 20%. Income inequality also declined, with an estimated Gini coefficient of income of 0.52 in 2001, down from 0.57 in 1998/99.

The Bank's assistance program designed to improve efficiency and growth and to stimulate private investment produced mixed results. The actions and reforms supported by the program were all necessary and underpinned by sound analytical work; however, it did not succeed in removing some critical structural bottlenecks that continue affecting economic performance.

Stabilization had a strong impact on poverty reduction because high inflation affected disproportionately the poor. The share of the population below the poverty and extreme poverty lines declined by 7 and 5 percentage points over the last decade. Brazil is likely to meet all the MDG targets at the national level by 2015. The Bank contributed to many of these outcomes, primarily through its assistance to education, health, and the environment.

Two financial crises in the early 1990s were followed by financial discipline, economic stability, and credible reform program during 1997-2000. However, the period of reforms is too short to enable regaining ground lost in the initial transition years. Foundations for sustained growth are not yet fully in place, and the business climate continues to suffer from significant shortcomings.

Poverty rates jumped dramatically with the extreme economic instability of the early 1990s, but the poverty rate declined to 11% in 2001, compared to 36% during the crisis. Poverty has a strong regional, ethnic, and rural dimension. Social indicators show mixed result: infant mortality has fallen slightly, but remains high relative to countries in the region, and while enrollment in basic education has increased slightly, it has fallen ten percentage points for poor children.

China's achievements in growth and stabilization over the past decade have been outstanding. The Bank helped identify the critical nexus of enterprise/financial sector/fiscal reforms needed to underpin high growth with stability, but intermittent and incomplete reform of the inter-government fiscal system, SOEs, and the financial sector pose risks for continued growth and stability.

Country/ Economic and Social Indicators	1998	1999	2000	2001	2002
China (continued)					
Poverty headcount, national (% of population)	5				
Births attended by health staff (% of total)	67	70			
Mortality rate, infant (per 1,000 live births)			32	31	
Life expectancy at birth, total (years)			70	70	71
Illiteracy rate, adult total (% of people ages 15 and above)	16	15	15	14	14
School enrollment, primary (% net)	95	93			
Croatia					
GDP growth (annual %)	3	–1	3	4	5
GNI per capita, Atlas method (current US$)	4,730	4,560	4,500	4,410	4,640
Exports of goods and services (annual % growth)	4	1	9	9	
Total debt service (% of exports of goods and services)	19	20	23	28	
Inflation, GDP deflator (annual %)	8	4	5	3	3
Poverty headcount, national (% of population)					
Births attended by health staff (% of total)	100				
Mortality rate, infant (per 1,000 live births)	8	8	8	7	
Life expectancy at birth, total (years)			73	74	74
Illiteracy rate, adult total (% of people ages 15 and above)	2	2	2	2	2
School enrollment, primary (% net)					
Lithuania					
GDP growth (annual %)	7	-2	4	7	7
GNI per capita, Atlas method (current US$)	2,700	2,850	3,110	3,340	3,660
Exports of goods and services (annual % growth)	1	–15	11	21	3
Total debt service (% of exports of goods and services)	17	20	22	31	
Inflation, GDP deflator (annual %)	5	0	1	0	0
Poverty headcount, national (% of population)					
Births attended by health staff (% of total)					
Mortality rate, infant (per 1,000 live births)	9	9	9	8	
Life expectancy at birth, total (years)	72	72	73	73	73
Life expectancy at birth, total (years)	72	72	73	73	73
Illiteracy rate, adult total (% of people ages 15 and above)	0	0	0	0	0
School enrollment, primary (% net)	92	94	95		
Mongolia					
GDP growth (annual %)	3	3	1	1	4
GNI per capita, Atlas method (current US$)	410	390	390	410	440
Exports of goods and services (annual % growth)		5	13	2	
Total debt service (% of exports of goods and services)	6	4	6	8	
Inflation, GDP deflator (annual %)	12	10	12	6	21
Poverty headcount, national (% of population)					
Births attended by health staff (% of total)	93				
Mortality rate, infant (per 1,000 live births)			62	61	
Life expectancy at birth, total (years)			65	65	65
Illiteracy rate, adult total (% of people ages 15 and above)	2	2	2	2	1
School enrollment, primary (% net)	88	90	89		

China has made significant gains in poverty reduction, but progress has slowed since the mid-1990s despite high growth rates. Income inequality and access to social services has grown, and vulnerability has increased with rise in unemployment and slow development of social protection. The Bank made significant contributions to poverty reduction through its AAA and poverty monitoring, and many projects in agriculture, health, and transport have contributed to poverty reduction.

Croatia launched a remarkably successful stabilization program in 1993 with support from the IMF and the Bank. Annual inflation fell below 4%, the currency was successfully pegged to the DM, there were large inflows of capital, and fiscal accounts were put under control. The challenge now is to build on the stabilization program and implement an adjustment program to transform the economy.

In line with the government's lack of interest, a proposed Bank poverty reduction program was never implemented, and a Poverty Assessment (PA) was also not pursued. With hindsight, and given the experience of other transition economies, the Bank could have pushed for the preparation of a PA even without much government ownership. A recent Client Survey concluded that the Bank is not strongly perceived as assigning a central role to poverty reduction.

Bank supported structural reforms have contributed to prudent macroeconomic and fiscal management, leading to strong GDP and export growth. Enterprise privatization is almost complete, all banks are privately owned and have foreign participation, the energy sector operates on a largely commercial basis, and infrastructure bottlenecks are being addressed.

Extreme poverty is not substantial, but pockets of poverty, especially in rural areas, must be addressed by improving markets and factor mobility. Health, education, and agriculture reforms have lagged, and human capital and labor mobility need enhancement. Spending on social security and welfare was 10.5% of GDP, below the accession country average of 13.5%. Overall, it's been more difficult to implement social sector projects in line with agreed schedules than projects in other sectors.

The Bank made positive contributions to progress in the 1990s, but its influence in several areas was limited. Mongolia stabilized its economy despite external shocks and pursued reforms including removal of price controls, privatization of SMEs, and changes in laws to enable private sector activity. However, efforts to remove some key policy and institutional impediments to growth have met with less success.

Following a decline in the early 1990s, delivery of basic health and education services stabilized, although there have been signs of strain. Health and education services expenditure remain relatively high at 4.3% and 5.7% of GDP respectively in 1999. However, primary education enrollment rates dropped by 8% during 1989-1998, partly attributed to increased demand for boys' labor in livestock herding. The declining quality and access to rural health services is of increasing concern.

Country/ Economic and Social Indicators	1998	1999	2000	2001	2002
Russia					
GDP growth (annual %)	–5	5	9	5	4
GNI per capita, Atlas method (current US$)	2,270	1,750	1,690	1,750	2,140
Exports of goods and services (annual % growth)	–2	–2	9	1	3
Total debt service (% of exports of goods and services)	12	14	10	14	
Inflation, GDP deflator (annual %)	16	65	41	18	15
Poverty headcount, national (% of population)					
Births attended by health staff (% of total)	99	99			
Mortality rate, infant (per 1,000 live births)	16	17	16	18	
Life expectancy at birth, total (years)	67	66	65	66	66
Illiteracy rate, adult total (% of people ages 15 and above)	1	0	0	0	0
School enrollment, primary (% net)					
Rwanda					
GDP growth (annual %)	9	8	6	7	9
GNI per capita, Atlas method (current US$)	250	270	260	240	230
Exports of goods and services (annual % growth)	2	19	9	40	–7
Total debt service (% of exports of goods and services)	17	26	27	11	
Inflation, GDP deflator (annual %)	2	–4	3	0	0
Poverty headcount, national (% of population)					
Births attended by health staff (% of total)			31		
Mortality rate, infant (per 1,000 live births)			100	96	
Life expectancy at birth, total (years)		40	40	40	40
Illiteracy rate, adult total (% of people ages 15 and above)	36	34	33	32	31
School enrollment, primary (% net)	96	97			
Tunisia					
GDP growth (annual %)	5	6	5	5	2
GNI per capita, Atlas method (current US$)	2,050	2,090	2,100	2,070	2,000
Exports of goods and services (annual % growth)	4	5	7	14	–2
Total debt service (% of exports of goods and services)	15	16	20	13	
Inflation, GDP deflator (annual %)	3	4	2	3	3
Poverty headcount, national (% of population)					
Births attended by health staff (% of total)			90		
Mortality rate, infant (per 1,000 live births)	27	26	26	21	
Life expectancy at birth, total (years)	72	72	72	72	73
Illiteracy rate, adult total (% of people ages 15 and above)	32	30	29	28	27
School enrollment, primary (% net)	97	98	99		
Vietnam					
GDP growth (annual %)	6	5	7	7	7
GNI per capita, Atlas method (current US$)	350	360	390	410	430
Exports of goods and services (annual % growth)					
Total debt service (% of exports of goods and services)	9	10	7	7	
Inflation, GDP deflator (annual %)	9	6	3	3	3

The government has made significant progress in fiscal adjustment, the incentive regime, legislation approvals for structural reforms, the strengthening of public institutions, and the restoration of public trust in its ability to conduct policies. Aided by a positive terms of trade shock and the effects of the devaluation, growth has recovered and inflation has been reduced.

Country performance on poverty, equity, and human and social development has been disappointing, both in absolute terms and relative to other transition economies. Human development indicators show sharp deterioration between the mid-1980s and the first half of the 1990s, and then either stagnation or only modest recovery. While recovering from their worst levels, infant and maternal mortality remain high, life expectancy low, and access to health services inadequate.

It is difficult to have much "development" impact in circumstances as those prevailing in Rwanda over the past decade. The Bank's greatest contribution in the post-genocide period has been its assistance to macroeconomic stabilization and greater fiscal transparency, removal of labor market controls, adoption of a legal framework conducive to private sector growth, and access to the enhanced HIPC initiative.

Rwanda's social indicators show a rebound from the immediate post-genocide period, but remain of significant concern. Social service delivery is weak, with shortages of health personnel and equipment, and lack of adequately trained teachers and teaching materials. The poverty headcount stands at 60%, life expectancy has stagnated, and the HIV/AIDS crisis has worsened. The country remains at the beginning of a long, ardous socio-economic transformation process.

With effective support from the Bank, Tunisia averted a balance of payments crisis in the 1980s and has since maintained a solid record of macroeconomic stability and socioeconomic progress. Tunisia has successfully shifted from resource-based exports to manufactures and services. Attributes of Tunisia's success include ownership and broad political consensus, and a well-developed human resource base.

The Bank's human resource development strategy has emphasized achieving universal primary education, expanding post-primary enrollment, reducing infant mortality and fertility, increasing health coverage, and enhancing the quality and efficiency of education and health services. The Bank's focus on the social sectors is in line with the country's emphasis on social achievements and the MDGs, which Tunisia is expected to meet by 2015.

Vietnam's economic growth since 1990 has been strong, underpinned by prudent monetary and fiscal management. Structural reforms initiated in the 1980s without Bank assistance has continued into the 1990s, with the Bank contributing to continued growth, poverty reduction, and institutional developments through sectoral lending, technical assistance, and facilitation of grant facilities.

Country/ Economic and Social Indicators	1998	1999	2000	2001	2002
Vietnam (continued)					
Poverty headcount, national (% of population)					
Births attended by health staff (% of total)			70		
Mortality rate, infant (per 1,000 live births)			28	30	
Life expectancy at birth, total (years)			69	69	70
Illiteracy rate, adult total (% of people ages 15 and above)	8	8	7	7	7
School enrollment, primary (% net)	97	96	95		
Haiti					
GDP growth (annual %)	3	2	1	–2	–1
GNI per capita, Atlas method (current US$)	400	440	500	480	440
Exports of goods and services (annual % growth)	22	5	2	–3	
Total debt service (% of exports of goods and services)	9	9	8	5	
Inflation, GDP deflator (annual %)	13	8	11	17	10
Poverty headcount, national (% of population)					
Births attended by health staff (% of total)			27		
Mortality rate, infant (per 1,000 live births)			81	79	
Life expectancy at birth, total (years)			53	52	52
Illiteracy rate, adult total (% of people ages 15 and above)	52	51	50	49	48
School enrollment, primary (% net)					
Zambia					
GDP growth (annual %)	–2	2	4	5	3
GNI per capita, Atlas method (current US$)	330	320	310	320	330
Exports of goods and services (annual % growth)	5	5	-14	29	11
Total debt service (% of exports of goods and services)	21	16	20	12	
Inflation, GDP deflator (annual %)	19	21	30	24	20
Poverty headcount, national (% of population)	73				
Births attended by health staff (% of total)					
Mortality rate, infant (per 1,000 live births)			112	112	
Life expectancy at birth, total (years)		38	38	37	37
Illiteracy rate, adult total (% of people ages 15 and above)	24	23	22	21	20
School enrollment, primary (% net)	69	66	66		
Zimbabwe					
GDP growth (annual %)	3	–1	–5	–8	–6
GNI per capita, Atlas method (current US$)	570	470			
Exports of goods and services (annual % growth)	20	5	–17	–4	–1
Total debt service (% of exports of goods and services)	38	27	22	7	
Inflation, GDP deflator (annual %)	29	56	60	70	108
Poverty headcount, national (% of population)					
Births attended by health staff (% of total)		73			
Mortality rate, infant (per 1,000 live births)			73	76	
Life expectancy at birth, total (years)		40	40	39	39
Illiteracy rate, adult total (% of people ages 15 and above)	13	12	11	11	10
School enrollment, primary (% net)		80	80		

Poverty decreased dramatically from 58% to 37% between 1993 and 1998. Most social indicators (infant, child, and maternal mortality; life expectancy; literacy) continue to improve from already high levels, and gender gaps have narrowed further. In health, there has been a sharp drop in the proportion of deaths from communicable diseases due to successful public health programs. However, many households still remain close to the poverty line and child malnutrition remains stubbornly high.

The Bank's assistance over the last 15 years has had negligible impact on Haiti's development challenges. Governance has not improved, and, in fact, remains in a state of crisis. The capacity of the public sector and public accountability remain very low; budget transparency has actually deteriorated, and there has been little improvement in infrastructure, social services, or the well-being of Haiti's poor.

Roughly two-thirds of the population live in poverty, half of adults are illiterate, and health services are inadequate to address high infant and maternal mortality and major public health crises, including TB, HIV/AIDS, and, most recently, polio epidemics. The Bank's most recent (1998) poverty report has been of good quality, but its impact has been limited by the unresolved political situation.

Zambia's growth record has been dismal, with a twenty-five year decline in per capita income ($300 in 2000). Investment and economic growth in the 1990s were at or below levels of the 1980s, below Bank projections, which were overly optimistic, and below what was necessary to increase per capita income and reduce poverty.

Zambia's incidence of poverty, above 70%, is higher than most countries in the world. The combined impact of widespread poverty, declining per capita incomes and high HIV/AIDS prevalence has led to deterioration in most social welfare indicators. Life expectancy has dropped by more than a decade, malnutrition is rising, and public health efforts such as immunizations are faltering, even in a context of rising literacy and primary school enrollment rates that are relatively high.

Progress was made in the 1990s in increasing growth and liberalizing trade and foreign exchange regimes. But, financial liberalization and tax reduction were wrongly sequenced relative to expenditure reductions, proving fiscally costly and leading to a domestic debt trap. Since 2000, the country has been in serious economic crisis fueled by mounting fiscal imbalances, farm invasions and economic policy uncertainties.

Extreme poverty rose during the 1990s and remains more widespread, deeper and severe in rural areas, although urban poverty has risen dramatically since the mid-1990s. Gains in health in the 1980s were largely eroded in the 1990s by the economic crisis, the AIDS epidemic, which now affects a third of the adult population, and recourse to user fees with ineffective exemption systems. Life expectancy has been reduced by more than a decade, and infant mortality has risen sharply.

ANNEX E: EFFECTIVENESS OF BANK SUPPORT FOR POLICY REFORM: AN OVERVIEW FROM THE CODE CHAIRPERSON

The Committee on Development Effectiveness met on April 28, 2004, to discuss the *2003 Annual Review of Development Effectiveness* (ARDE 2003) of the Operations Evaluation Department (OED). The very rich discussion at the committee carried over to the full board discussion (box). The 2003 ARDE examines the effectiveness of Bank support to borrower countries to help them put in place policies conducive to policy reform and sustainable poverty reduction. Outcomes of Bank country assistance, as measured by Country Assistance Evaluations, have been moderately satisfactory or better about 70 percent of the time, and policy reform paid off in terms of higher growth and higher Millennium Development Goals indicators. The report suggests that the effectiveness of Bank support for policy reform could be improved by linking lending more closely to country and sector knowledge and to performance, through better adaptation of the knowledge content of Bank products to country circumstances, and through further piloting and experimentation with outcomes-based lending and other approaches to strengthening country leadership, ownership, and results orientation.

The committee discussions highlighted six issues: (a) analytical and methodological issues; (b) track record and turnaround countries; (c) debt sustainability analysis; (d) triggers and conditionality; (e) Poverty Reduction Strategy Papers (PRSPs) and country ownership; and (f) analytical and advisory (AAA) services and economic and sector work (ESW).

Analytical and Methodological Issues

Several members asked about the choice of policy indicators examined and their usefulness in making cross-country comparisons. OED responded that the four indicators were selected on the basis of their fairly widespread use and recent updating for a large number of developing countries, and also that they encompassed a fairly broad range of the development policy agenda. OED also noted that all indicators indicate recent modest improvement in the majority of developing countries' policies. Management informed the committee that a report of an expert panel on the Bank's policy indicator—the Country Policy and Institutional Assessment (CPIA)—will soon be available.

Track Record and Turnaround Countries

The Committee agreed that adopting a cautious stance on lending and relying primarily on AAA is prudent in non-emergency non-crisis-situation countries with either no track record or poor track records. Several members, however, also agreed with management's view that opportunities to support turnaround countries (i.e., those that are improving their policies and fiduciary capacity) should not be missed and suggested that lessons learned from "turnaround" countries would be helpful in shaping Bank future assistance to such borrowers. Management said that there are cases where the Bank has been ahead of the curve, notably in Africa, where they managed to "catch" and provide timely support to several turnaround countries. Management indicated that programs such as "Low-Income Countries Under Stress" (LICUS), with its emphasis on ESW, help position the Bank to be ready to support countries in turnaround situations.

Debt Sustainability Analysis

The Committee agreed with OED's finding that the Bank's debt sustainability analysis needs to be improved. Several members commented on the unrealistic optimism of many Bank analyses, particularly concerning prospects for growth of gross domestic product and exports. The committee welcomed management's statement that an initiative to strengthen the Bank's debt sustainability analysis is being developed.

Triggers and Conditionality

The finding of the report that Bank instruments which are used to link lending to policy performance—Country Assistance Strategy triggers and conditionality—have not resulted in satisfactory outcomes in highly uncertain situations or when conflicting incentives made conditionality difficult to enforce resonated with several members. OED indicated that the range of uncertainty that surrounds policy reform makes it very difficult in some situations to specify meaningful triggers or conditions. Management informed the Committee that a report on recent experience with Country Assistance Strategies (notably covering the pilot results-based country strategies) will be made available early next fiscal year.

PRSPs and Country Ownership

Some members asked for clarification of the report's finding that the PRSP's potential as a vehicle for fostering country ownership is undermined by its role as a condition for access to concessional finance from the Bank and Fund. OED responded that this was a finding of the multi-partner evaluation "Toward Country Led Development" and that a full PRSP evaluation would be sent to the board by the end of FY 2004. Management stated that this particular finding differs from the views of the Bank's country directors, who see the PRSP as a new and useful tool which promotes country ownership and serves a beneficial role in the alignment and harmonization process.

Analytical and Advisory Work and Economic and Sector Work

Committee members recognized the importance of and broadly commended the Bank's analytic work. Most speakers agreed with OED's finding and recommendations, especially the need for ESW to be timely and relevant in low-income, low-Country Policy and Institutional Assessment, and LICUS countries, and further underscored the need for the knowledge content of and advice contained in Bank products to reflect the specificities of client countries. OED remarked that in certain countries, it is best in the long run to moderate lending and focus on analytical work until an adequate policy framework for development effectiveness is in place. Management stated further with regard to ESW that there are many issues pertaining to value added and customization, and that the Bank is increasingly improving its understanding about how to do ESW in a participatory manner.

Pietro Veglio, Acting Chairperson CODE

VIEWS OF THE BOARD OF EXECUTIVE DIRECTORS

The Executive Directors of the Bank and IDA discussed the *2003 Annual Review of Development Effectiveness* on May 20, 2004. A large number of speakers welcomed the report for its valuable insights into the Bank's performance in the area of policy reform and for assembling a wealth of interesting observations based on actual country cases that should be considered in future Bank support for policy reform. They noted that a central message of the report was that policy reform paid off, with countries with improved policies growing at more than twice the rate as those without. The challenge for the board and management was to ensure that these insights were adopted and incorporated into future operations.

Linking Bank Support to Countries' Policy Reform Track Records. Several speakers did not subscribe to OED's conclusion that the Bank should wait to lend to a country until it had demonstrated a solid record with policy performance. They agreed with management that opportunities to support turnaround cases should not be missed and that the Bank should therefore remain engaged in LICUS countries. Several other speakers pointed to faster growth in reforming countries and empirical evidence that the Bank was lending more to better performers with relatively good policy environments and agreed with the report's argument for a cautious approach to lending in countries with weak reform track records while maintaining an active policy dialogue. Exercises like the LICUS were therefore useful to position the Bank to support countries in turnaround situations.

A number of speakers pointed to the finding that conditionality had in general been ineffective in linking aid with reform, and that Country Assistance Strategy triggers were less useful in cases where future developments and appropriate Bank responses were uncertain. These findings raised a number of questions which need to be carefully examined as the Bank moves forward in developing its policies and methods to support policy reform. Some speakers said that this result supports calls for mainstreaming outcomes-based conditionality and adding flexibility in Country Assistance Strategies. Some speakers commented that measurement indicators were open to interpretation. If used mechanically, they could create perverse incentives and do more harm than good. They said that judgmental and judicious use of indicators has to be stressed at all times and that sometimes the Bank needs to content itself with qualitative indicators rather than quantitative ones that would lead the Bank in the wrong direction.

Debt Sustainability. A number of speakers stated that the report made some useful observations regarding debt sustainability, especially problems created by systemic over-optimism with the debt sustainability analyses underpinning Highly Indebted Poor Country (HIPC) programs. Given that work was ongoing to develop guidelines within the Bank on debt sustainability analysis, other speakers underscored the need for caution with lending decisions until resulting guidelines were in place and highlighted the need for clear and transparent debt sustainability analyses to be included in all documentation to the board on loans to HIPC Initiative countries.

Generic Best Practices and Choice of Instruments. Several speakers discussed the theme in the report that the Bank tended to be too narrowly focused on generic best practices. They agreed that the Bank should intensify efforts to customize and adapt knowledge to specific local problems, noting that use of local experts could be cost effective. They said the Bank needs to change the unfavorable perception that it is too narrowly focused on best practices and tends to provide textbook advice. Some speakers believed that the Bank should support and reward piloting of new approaches to facilitate country ownership and avoid "one-size fits all" frameworks.

Knowledge Management and ESW. Several speakers continued to advocate improvement in the Bank's interregional and inter-temporal sharing of knowledge. Lessons from certain regions did not appear to be taken into account by other regions, and one speaker was surprised that only a third of networks and regional units reported having routine practices for validating lessons learned. Some speakers were concerned that insufficient knowledge sometimes was transferred to new staff and recommended that staff consider alternative means to improve the dissemination of the Bank's knowledge and to address "government bias" at the country level.

Some speakers discussed the conclusion concerning the importance of ESW to the effectiveness of the Bank's operations, and they encouraged the Bank to continue promoting this work, including increasing the strategic focus, operational relevance, and developmental impact of this tool. Some other speakers observed that ESW appeared to have had less of an impact in low- income countries and in countries with low Country Policy and Institutional Assessment scores, and they urged management to make increasing the effectiveness of ESW in these counties a top priority. One speaker agreed that timely, relevant, country-specific information was needed, even in the most problematic country situations, to allow the Bank to be ready when opportunities to move ahead emerged. Another speaker agreed with OED that the Bank should not normally engage in lending before ESW was available providing necessary country and sector knowledge.

Note: This summary by OED is based on the Corporate Secretariat's record of the ARDE board discussion.

ENDNOTES

Chapter 1

1. ARDE 2003 does not examine Bank initiatives with regard to developed-country policy reform, which includes the Bank's efforts to promote more access to developed-country markets and increases in development finance, because of the lack of evaluation evidence. One exception relates to reform efforts evaluated in connection with the Operations Evaluation Department's (OED's) recent evaluation of the implementation of Comprehensive Development Framework principles (OED 2003j).

2. In his analysis of a set of the Bank's early investment projects in infrastructure and industry, Hirschman (1967) argued that even simple investment projects frequently have both unexpected problems and—in successful projects—unexpected solutions to those problems.

3. The Bank has issued guidelines to assist Bank staff in identifying appropriate tools for analyzing the poverty and social impacts of development interventions (World Bank 2003a).

4. OED, in the context of its evaluation of the Bank's implementation of IDA, evaluated the CPIA and the role it plays in IDA's Performance Based Allocation system (OED 2001e). Although the number of criteria (20) and the general coverage of most criteria have remained the same since the 1999 CPIA ratings, there have been changes in the details of some criteria that could affect the inter-temporal comparability of CPIA ratings. These changes are not considered significant enough to affect the validity of the conclusions presented here for two reasons. First, examination of detailed year-to-year changes for each of the 20 CPIA criteria does not show any systematic patterns that might be reflective of these changes in criteria. Second, at the aggregate level, the other three indicators examined, which were compiled according to unchanging sets of criteria over the period examined, show similar patterns of improvement and reasonable agreement with the CPIA.

5. Rank correlations of changes in ratings (i.e., correlations of the ranks of changes) vary depending upon the particular pair of indicators, but 6 of the 6 possible rank correlations are positive, and 3 of the 6 are statistically significant at the 5 percent level or better. See Annex B, Technical Note 1.1.

6. Annex B, Technical Note 1.2.

7. Countries shown as improving their policies in Figure 1.3 are those in the top quintile of increases on (a) at least 3 of the 4 indicators, with at most 1 bottom quintile ranking, or (b) 2 of the 4 indicators with no bottom quintile rankings. Countries shown as having deteriorating policies are in the bottom quintile of increases on (a) at least 3 of the 4 indicators, with at most 1 top quintile ranking, or (b) 2 of the 4 indicators with no top quintile ranking.

8. Twenty-one (21) of the 134 countries with CPIA ratings in both 1999 and 2003 either ended conflicts, experienced one or more serious natural disasters, and/or experienced a serious financial crisis during the period 1994-2000. Of the 21, 13 registered an increase in their CPIA ratings over the four-year period, 5 registered a decrease, and 3 did not change. For this group of 21 countries, the ratio of countries with increasing CPIAs to those with decreasing CPIAs was 2.5-to-1, which is higher (but not significantly so at the 15 percent level) than the ratio of increases to decreases in the 113 non-crisis countries.

9. Of the 26 transition countries in Europe and Central Asia (ECA), CPIA ratings increased for 22 and decreased for 4, a ratio of increases to decreases in this group of countries of over 6-to-1. This is significantly greater than the ratio for non-ECA transition countries of approximately 1.5-to-1.0.

10. Annex A provides a brief explanation of each of these policy areas.

11. Strictly speaking, the CPIA and each of its component indicators is best interpreted as reflecting relative rankings against the pertinent CPIA criteria, rather than measures of some quantity. That is, one cannot conclude meaningfully that a country rated "4.0" on some indicator has policies that are twice as good as a country rated "2.0" on the same indicator. The comparison of changes across indicators presented in Figure 1.4 is thus best interpreted as an indicator of the number of countries that have improved their policies relative to the criteria for each CPIA dimension.

12. This decrease does not show in Figure 1.4 due to the scaling of the figure.

13. Annex B, Technical Note 1.3.

14. Annex B, Technical Note 1.4.

15. The Dollar-Burnside findings on aid-policy interactions are not robust with respect to data or specification and are the subject of continuing debate in the development research literature.

16. A number of researchers have subjected empirical models of growth to formal tests of robustness, including Sala-I-Martin (1997); Hoover and Perez (2000); Ley and Steel (1999); Florax, De Groot, and Heijungs (2003). While the results obtained depend on the specific methods employed, these studies have generally found that relatively few variables are robust and that, for the most part, these variables are not affected by policies.

17. Rodrik (2003b) argues this point and provides numerous case studies.

Chapter 2

1. As a share of commitments to countries rated in the CPIA exercise in both 1999 and 2003.

2. The fact that Bank lending is also concentrated on countries that are relatively highly rated by other indicators suggests that possible feedback effects from lending decisions to ratings—i.e., that the Bank increases the ratings of countries it is lending to—is not an important factor in this association.

3. The correlation coefficient between the average CPIA over the period 1998-2000 with average Bank lending per capita during the period FY99-01 is 0.24, which is significant at the 1 percent level. The correlation coefficient between the average CPIA over the period 2000-02 and average Bank lending per capita over the period FY01-03 is 0.17, which is significant at the 2 percent level. The correlation coefficient between the *change* in the average CPIA between the period 2000-02 and 1998-00 and the *change* in average Bank lending per capita between FY01-03 and FY99-01 is 0.09. This would be significant only at the 15 percent level.

4. The correlation coefficient between the average CPIA over the period 1998-2000 and average per capita ODA over the period 1999-2001 is 0.05. This would be significant only at about the 30 percent level.

5. CAEs examine the Bank's assistance over a specified period of time. CAEs distinguish among sub-periods when the Bank's strategy shifts and/or outcomes of Bank assistance change. Each year evaluated constitutes a "country assistance year."

6. Regressions of the rating for the latest year of assistance evaluated in a CAE—expressed on a scale of 1 (highly unsatisfactory) to 6 (highly satisfactory) on the CPIA corresponding to that year—explain about 40 percent of the variation in CAE ratings and are significant at the 1 percent level.

7. ARDE 2002, pp. 28-29.

8. Annex B, Technical Note 2.1.

9. The CAE was completed before the 2003 crisis hit the country.

10. Factors other than perceived risk—particularly reorganization and turnover within the Bank—may have contributed to the Bank's very cautious stance during this period (OED 2003b).

11. The risks and uncertainties addressed through the use of triggers are country specific, but triggers frequently address creditworthiness and/or debt sustainability risks, uncertainties concerning the direction and pace of policy reform, or uncertainties concerning the pace of progress in other dimensions (e.g., portfolio management) of implementation of the country program.

12. Deverajan, Dollar, and Holmgren (2001) note that political leaders and technocrats may welcome conditionality in the early stages of reform as an instrument for binding themselves to policy change. They also note, however, that in order for conditionality to play this role, the conditions must be ones that the borrowing country truly supports.

13. Experience with output-based aid is also relevant in this regard.

14. The Inter-American Development Bank has recently adopted an investment lending instrument—the "performance driven loan"—that links disbursements to outcomes. This product will be piloted in Costa Rica, at the request of the government (IDB 2003).

15. Data in the Bank's conditionality data base (ALCID) show the average number of legally binding conditions per adjustment operation fluctuating between 24 and 34 between FY98 and FY01, and declining to 21 and 18 in FY02 and FY03, respectively.

Chapter 3

1. There is no significant statistical difference between the shares of lending accounted for by adjustment between the countries showing policy

improvement and those showing policy deterioration.

2. As of December 31, 2003, the cutoff date for evaluations reflected in this report. Business Warehouse.

3. Active countries include those in which the Bank has an ongoing policy dialogue and a substantial lending program. Inactive countries include conflict-affected and inactive borrowers. Members of the Organization of Eastern Caribbean States countries are exempted from the requirement to have all five diagnostic reports because of their small size.

4. Most of the increase in the Policy Notes/Other Products category reflects the recent recognition of additional ESW output types (e.g., workshops/conferences and country dialogue/consultations) as product deliveries. In FY98 and previously, the outputs were generally coded as process tasks in the Bank's management information system.

5. This observation is not unique to China (OED2003h).

6. The Bank's ESW has multiple purposes, as well as other audiences than Chinese officials and researchers, of course. ESW informs the Board, other donors, and the broader development community of the Bank's assessment of developments in China, and it provides the analytical underpinning for Bank strategy and lending.

7. The fiscal policy component of the CPIA assesses the size of the fiscal balance and the composition of government revenue and spending to determine their compatibility with adequate provision of public services for economic growth, favorable macroeconomic outcomes, and a sustainable path of public debt. The debt management component assesses whether the country can manage its public debt, external and domestic, and service it now and sustainably into the future. See Annex A.

8. Although it was envisaged that SSPs would contain such operational guidance, few in fact do.

Chapter 4

1. See the discussion in chapter 2 concerning conditionality.

Appendix

1. This cohort excludes one FY04 exit project which has been evaluated during this time period.

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

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).*

The purpose of the 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. Seven projects had both an ICR Review and a PPAR completed during this time period.

4. OED evaluates *outcomes* by considering three factors. *Relevance* refers to the intervention's objectives in relation to country needs and institutional priorities. *Efficacy* refers to the extent to which the developmental objectives have been (or are expected

to be) achieved. *Efficiency* measures the extent to which the objectives have been (or are expected to be) achieved without using more resources than necessary. Combining these three factors, overall outcome is rated on a 6-point scale, ranging from highly satisfactory to highly unsatisfactory.

5. The data for FY03 exits represent a partial sample of lending exits (130 out of 293) and reflect all OED project evaluations through December 31, 2003; this partial coverage is noted with dashed lines in all the figures in this Appendix.

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. These operations exited the Bank's portfolio during the FY00-03 period, amounted to $5.2 billion in disbursements, and accounted for 4.3 percent of all the projects and 7.5 percent of all the disbursements that exited during the same time period.

Annex A

1. From World Bank 2003b.

2. The other points of the rating scale are "3" (Moderately Unsatisfactory) and "4" (Moderately Satisfactory).

3. From www.eiu.com.

4. Heritage Foundation/Wall Street Journal (2003), *2003 Index of Economic Freedom* (Washington, DC: The Heritage Foundation & The Wall Street Journal), pp 49-69;

5. The specific rating ranges in the Heritage system are 1-1.95—Free; 2.00-2.95—Mostly Free; 3.00-3.95—Mostly Unfree; and 4.00 and above—Repressed.

6. From www.prsgroup.com.

Annex B

1. The correlation coefficient is a measure of the strength of the linear relationship between two variables. It may be that Heritage has a non-linear relationship with the other indices, in which case the rank correlation coefficient would be a more appropriate indicator. Rank correlations for changes in indicators are reported in Technical Note 1.1. However, investigation shows the conclusions reported in the text are robust to the choice of correlation coefficient.

2. Using the point estimates from the full sample, CPIA regression, three policy scenarios are examined: poor policy (CPIA=2.5), good policy (CPIA=4), and the case of a country that has switched to good policy (moving from a CPIA of 2.5 to 4.0) and so also benefited from the associated growth boost of policy reform. For each scenario, the resulting growth is shown assuming zero aid and an aid flow of 10 percent of national income. The mean value of all other regressors is used for the calculation.

BIBLIOGRAPHY

Adam, Christopher S., and David L. Bevan. 2002. "Fiscal Deficits and Growth in Developing Countries." Mimeo. Department of Economics, University of Oxford.

Alesina, Alberto, and David Dollar. 2000 "Who Gives Aid to Whom and Why?" *Journal of Economic Growth* 5: 33-64.

Bird, G., and D. Rowlands. 1997. "The Catalytic Effect of Lending by the International Financial Institutions." *World Economy* 20 (7): 81-97.

Boone, Peter. 1995. "Politics and the Effectiveness of Foreign Aid." National Bureau of Economic Research, Working Paper Series (US) 5308: 1-56.

Branson, William, and Nagy Hanna. 2002. "Ownership and Conditionality." OED Working Paper Series. Washington, DC: World Bank.

Bredenkamp, Hugh, and Susan Schadler (eds.). 1998. *Economic Adjustment and Reform in Low-Income Countries.* Washington, DC: International Monetary Fund.

Burnside, Craig, and David Dollar. 2000. "Aid, Policies, and Growth." *American Economic Review* 90(4): 847-68.

———. 2004. "Aid, Policies, and Growth: Revisiting the Evidence." Working Paper 3251. Washington, DC: World Bank.

Collier, Paul, and David Dollar. 2002. "Aid Allocation and Poverty Reduction." *European Economic Review* 45(1): 1-26.

Collier, Paul. 1997. "The Failure of Conditionality." In C. Gwin and J. Nelson (eds.), *Perspectives on Aid and Development.* Washington, DC: Overseas Development Council.

Collier, Paul et. al. 1997. "Redesigning Conditionality." *World Development (UK)* 25: 1399-1407.

Cordella, Tito, and Giovanni Dell'Ariccia. 2003. "Budget Support Versus Project Aid." IMF Working Paper WP/03/88. Washington, DC: International Monetary Fund.

Dalgaard, Carl-Johan, and Henrik Hansen. 2001. "On Aid, Growth and Good Policies." *Journal of Development Studies* 37(6): 17-41.

Deininger, Klaus, Lyn Squire, and Swati Basu. 1998. "Does Economic Analysis Improve the Quality of Foreign Assistance?" *World Bank Economic Review* 12: 385-418.

Dicks-Mireaux, Louis, Mauro Mecagni, and Susan Schadler. 2000. "Evaluating the Effect of IMF Lending to Low-Income Countries." *Journal of Development Economics* 61(2): 495-526.

Devarajan, Shantayanan, David Dollar, and Torgny Holmgren. 2001. "Overview." In Devarajan, S., D. Dollar, and T. Holmgren (eds.), *Aid and Reform in Africa: Lessons from Ten Case Studies*. Washington, DC: World Bank.

Dollar, David, and Jakob Svensson. 1998. "What Explains the Success or Failure of Structural Adjustment Programs?" Policy Research Working Paper 1938. Washington, DC: World Bank.

Easterly, William. 2001. *The Elusive Quest for Growth: Economists' Adventures and Misadventures in the Tropics.* Cambridge, MA: MIT Press.

Easterly, William, Ross Levine, and David Roodman. 2003. "New Data, New Doubts: A Comment on Burnside and Dollar's 'Aid, Policies, and Growth' (2000)." National Bureau of Economic Research. Working Paper Series (US) 9846:1-18.

Easterly, William, Michael Kremer, Lant Pritchett, and Lawrence Summers. 1993. "Good Policy or Good Luck? Country Growth Performance and Temporary Shocks." *Journal of Monetary Economics* 32(3): 458-83.

Easterly, William, and Sergio T. Rebelo. 1993. "Fiscal Policy and Economic Growth: An Empirical Investigation." *Journal of Monetary Economics* 32(3): 417-58.

Feyzioglu, T., V. Swaroop, and M. Zhu. 1998. "A Panel Data Analysis of the Fungibility of Foreign Aid." *World Bank Economic Review* 12(1): 29-58.

Florax, Raymond J. G. M., Henri L. F. de Groot, and Reinout Heijungs. 2003. "The Empirical Growth Literature: Robustness, Significance and Size." Tinbergen Institute Discussion Paper 02-040/3. Amsterdam: Tinbergen Institute.

Fox, James W. 2003. "Drawing Lessons from World Bank PSD Experience." Background paper prepared for ARDE 2003. Washington, DC: World Bank.

Freeland, Chrystia. 2000. *Sale of the Century: Russia's Wild Ride from Communism to Capitalism.* New York: Crown Business.

Garuda, Gopal. 2000. "The Distributional Effects of IMF Programs: A Cross-Country Analysis." *World Development (UK)* 28(6): 1031-51.

Guillaumont, Patrick, and Lisa Chauvet. 2001. "Aid and Performance: A Reassessment." *Journal of Development Studies* 37(6): 66-92.

Hansen, Henrik, and Finn Tarp. 2000. "Aid Effectiveness Disputed." *Journal of International Development* 12(3): 375-98.

———. 2001. "Aid and Growth Regressions." *Journal of Development Economics* 64(2): 547-70.

Helbling, Thomas, Ashoka Mody, and Ratna Sahay. "Debt Accumulation in the CIS-7 Countries: Bad Luck, Bad Policies, or Bad Advice." Paper presented at the Lucerne conference of the CIS-7 Initiative, Switzerland, January 20-22, 2003.

Hirschman, Albert O. 1967. *Development Projects Observed.* Washington DC: The Brookings Institution.

Hoover, Kevin D., and Stephen J. Perez. 2000. "Truth and Robustness in Cross-Country Growth Regressions." UC Davis Economics Working Paper No. 01-01. University of California, Davis, California, US.

International Monetary Fund. 2003. *World Economic Outlook: Public Debt in Emerging Markets*. Washington, DC: International Monetary Fund.

IEO (Independent Evaluation Office). 2003. *Fiscal Adjustment In IMF Programs*. Washington, DC: International Monetary Fund.

IDB (Inter-American Development Bank). 2003. *IDB Strategy with Costa Rica.* Washington, DC: Inter-American Development Bank.

Ivanova, Anna, Wolfgang Mayer, Alex Mourmouras, and George Anayiotos. 2003. "What Determines the Implementation of IMF-Supported Programs?" IMF Working Paper WP/03/8. Washington, DC: International Monetary Fund.

Jayarajah, Carl, and William Branson. 1995. "Structural and Sectoral Adjustment: World Bank Experience, 1980-92." No. 14691. Operations Evaluation Department. Washington, DC: World Bank.

Kanbur, Ravi. 2000. "Aid, Conditionality and Debt in Africa." In Finn Tarp (ed.), *Foreign Aid and Development: Lessons Learnt and Directions for the Future.* New York: Routledge.

———. 2001. "Economics Policy, Distribution and Poverty: The Nature of Disagreements." *World Development (UK)* 29(6): 1083-94.

Killick, Tony. 1998. *Aid and the Political Economy of Policy Change*. London: Routledge.

———. 2003. Macro-level evaluations and aid effectiveness. Mimeo.

Koeberle, Stefan. 2003. "Should Policy Based Lending Still Involve Conditionality?" *World Bank Research Observer* 18(2): 249-73.

Kuczynski, Pedro-Pablo, and John Williamson (eds.). 2003. *After the Washington Consensus: Restarting Growth and Reform in Latin America*. Washington, DC: Institute for International Economics.

Lensink, Robert, and Howard White. 2000. "Assessing Aid: A Manifesto for the 21st Century." *Oxford Development Studies* 28(1): 5-17.

Ley, Eduardo, and Mark F. J. Steel. 1999. "We Just Averaged Over Two Trillion Cross-Country Growth Regressions." IMF Working Paper WP/99/101. Washington, DC: International Monetary Fund.

Mody, Ashoka, and Diego Saravia. 2003. "Catalyzing Capital Flows: Do IMF-Supported Programs Work as Commitment Devices?" IMF Working Paper WP/03/100. Washington, DC: International Monetary Fund.

Mosley, Paul, John Hudson and Sara Horrell. 2001. "Aid, the Public Sector and the Market in Less Developed Countries." *Economic Journal* 97(387): 616-41.

Mosley, F., J. Harrigan, and J. Toye. 1995. *Aid and Power: The World Bank and Policy-based Lending*. New York: Routledge.

Nelson, Joan M. 2000. "Reforming Social Sector Governance." In Joseph S. Tulchin and Allison M. Garland, *Social Development in Latin America*. Washington, DC: Woodrow Wilson Center.

OED (Operations Evaluation Department). 2000a. *Costa Rica Country Assistance Evaluation*. Washington, DC: World Bank.

———. 2000b. *Uruguay Country Assistance Evaluation*. Washington, DC: World Bank.

———. 2001a. *Annual Review of Development Effectiveness – Making Choices.* Washington, DC: World Bank.

———. 2001b. *Integrating Gender in World Bank Evaluation*. Washington, DC: World Bank.

———. 2001c. *Kyrgyz Republic Country Assistance Evaluation*. Washington, DC: World Bank.

———. 2001d. *Mexico Country Assistance Evaluation*. Washington, DC: World Bank.

———. 2001e. *Review of the Performance Based Allocation System, IDA 10-12*. Washington, DC: World Bank.

———. 2001f. *Vietnam Country Assistance Evaluation*. Washington, DC: World Bank.

———. 2001g. *Yemen Country Assistance Evaluation*. Washington, DC: World Bank.

———. 2002a. *Annual Review of Development Effectiveness - Achieving Development Outcomes: The Millennium Challenge.* Washington, DC: World Bank.

———. 2002b. *Bulgaria Country Assistance Evaluation*. Washington, DC: World Bank.

———. 2002c. *Chile Country Assistance Evaluation*. Washington, DC: World Bank.

———. 2002d. *El Salvador Country Assistance Evaluation*. Washington, DC: World Bank.

———. 2002e. *Guatemala Country Assistance Evaluation*. Washington, DC: World Bank.

———. 2002f. *Haiti Country Assistance Evaluation*. Washington, DC: World Bank.

———. 2002g. *Peru Country Assistance Evaluation*. Washington, DC: World Bank.

———. 2002h. *Promoting Environmental Sustainability in Development: An Evaluation of the World Bank's Performance.* Washington, DC: World Bank.

———. 2002i. *The Gender Dimension of Bank Assistance: An Evaluation of Results.* Washington, DC: World Bank.

———. 2002j. *Russian Federation: Country Assistance Evaluation*. Washington, DC: World Bank.

———. 2002k. *Zambia Country Assistance Evaluation*. Washington, DC: World Bank.

———. 2003a. *Debt Relief for the Poorest: An OED Review of the HIPC Initiative*. Washington, DC: World Bank.

———. 2003b. *Dominican Republic Country Assistance Evaluation*. Washington, DC: World Bank.

———. 2003c. *Efficient, Sustainable Service for All: An OED Review of the World Bank's Assistance to Water Supply and Sanitation.* Washington, DC: World Bank.

———. 2003d. *Extractive Industries and Sustainable Development: An Evaluation of World Bank Group Experience, Vol. 2*. Washington, DC: World Bank.

———. 2003e. *Guinea Project Performance Assessment Report: Second, Third, Fourth Adjustment Credit; Public Enterprise Sector Rationalization and Privatization Technical Assistance Credit; Financial Sector Adjustment Credit.* Washington, DC: World Bank.

———. 2003f. *Kenya Country Assistance Evaluation Update*. Washington, DC: World Bank.

———. 2003g. *Mainstreaming Anti-Corruption Activities in World Bank Assistance: A Review of Progress Since 1997*. Washington, DC: World Bank.

———. 2003h. *Power for Development: A Review of the World Bank's Experience With Private Participation in the Electricity Sector.* Washington, DC: World Bank.

———. 2003i. *Sharing Knowledge: Innovations and Remaining Challenges.* Washington, DC: World Bank.

———. 2003j. *Toward Country-Led Development: A Multi-Partner Evaluation of the Comprehensive Development Framework*. Washington, DC: World Bank.

———. 2003k. *Zimbabwe Country Assistance Evaluation*. Washington, DC: World Bank.

———. 2004a. *Economies in Transition: An OED Evaluation of World Bank Assistance*. Washington, DC: World Bank.

———. 2004b. *Putting Social Development to Work for the Poor: An OED Review of World Bank Activities.* Washington, DC: World Bank.

———. 2004c. *Armenia Country Assistance Evaluation*. Washington, DC: World Bank.

———. 2004d. *Books, Buildings and Learning Outcomes: An Impact Evaluation of World Bank Support to Basic Education in Ghana.* Washington, DC: World Bank.

———. 2004e. *Brazil Country Assistance Evaluation*. Washington, DC: World Bank.

———. 2004f. *China Country Assistance Evaluation*. Washington, DC: World Bank.

———. 2004g. *Croatia Country Assistance Evaluation*. Washington, DC: World Bank.

———. 2004h. *Lithuania Country Assistance Evaluation*. Washington, DC: World Bank.

———. 2004i. *Mongolia Country Assistance Evaluation*. Washington, DC: World Bank.

———. 2004j. *Rwanda Country Assistance Evaluation*. Washington, DC: World Bank.

———. 2004k. *Tunisia Country Assistance Evaluation*. Washington, DC: World Bank.

———. 2004l. *Uganda Project Performance Assessment Report: Primary Education and Teacher Development Project; Education Sector Adjustment Credit.* Washington, DC: World Bank.

Pack, Howard. 1993. "Foreign Aid and the Question of Fungibility." *Review of Economics and Statistics* 75: 258-65.

QAG (Quality Assurance Group). 2003. *Quality of ESW in FY02: A QAG Assessment.* Washington, DC: World Bank.

Rodrik, Dani. 2002. "After Neoliberalism, What?" Notes for a presentation at the BNDES seminar on "New Paths of Development," Rio de Janeiro, Brazil, September 12-13, 2002. <http://ksghome.harvard.edu/~.drodrik.academic.ksg/shortpieces.html>

Rodrik, Dani. 2003a. "Economic Reform Without Rules of Thumb." Comments made at a Festschrift conference for Joseph Stiglitz, Columbia University, New York, NY, October 24-25, 2003.

Rodrik, Dani (ed.). 2003b. *In Search of Prosperity: Analytic Narratives on Economic Growth.* New Jersey: Princeton University Press.

Schadler, Susan, Adam Bennett, Maria Carkovic, Louis Dicks-Mireaux, Mauro Mecagni, James H.J. Morsink, and Miguel A. Savastano. 1995a. "IMF Conditionality: Experience Under Stand-By and Extended Arrangements, Part I: Key Issues and Findings." IMF Occasional Paper 128. Washington, DC: International Monetary Fund.

———. 1995b. "Experience Under Stand-By and Extended Arrangements, Part II: Background Papers." IMF Occasional Paper 129. Washington, DC: International Monetary Fund.

Sala-I-Martin, Xavier. 1997. "I Just Ran Four Million Regressions." National Bureau of Economic Research, Working Paper Series (US) 6252: 1-21.

Smith, R. Jeffrey. 2003. "GOP's Pressing Question on Medicare Vote: Did Some Go Too Far To Change a No to a Yes?" *The Washington Post,* Tuesday, December 23, pg. A01.

Stiglitz, Joseph E. 2002. *Globalization and Its Discontents*. New York: W.W. Norton.

Svensson, Jakob. 2003. "Why Conditional Aid Does Not Work and What Can Be Done About It?" *Journal of Development Economics* 70(2): 381-402.

Thomas, Alun. Forthcoming. *Prior Actions - True Repentance? An Evaluation Based on IMF Programs Over the 1992-1999 Period.* IMF Working Paper. Washington, DC: International Monetary Fund.

Thomas, M.A. 2003. *Can the World Bank Enforce its Own Conditions?* Working Paper Series. Washington, DC: World Learning.

UNDP (United Nations Development Program). 2003. *Development Effectiveness Report 2003: Partnership for Results*. UNDP Evaluation Office. New York, NY.

White, Howard N. 2001. "Will the New Aid Agenda Help Promote Poverty Reduction?" *Journal of International Development (UK)* 13(7): 1057-70.

Wolfensohn, James. 2002. "PRSP Process – Creating Better Lives for Poor People." Opening Remark at the International Conference on Poverty Reduction Strategies, Washington, DC, January 14-17, 2002.

World Bank. 1991. *World Development Report 1991: The Challenge of Development.* Washington, DC: World Bank.

———. 1997. *World Development Report 1997: The State in a Changing World.* Washington, DC: World Bank.

———. 2000. *Supporting Country Development: World Bank Role and Instruments in Low-*

and Middle-Income Countries. Washington, DC: World Bank.

———. 2001. *Adjustment Lending Retrospective*. Washington, DC: World Bank.

———. 2002. *Transition – The First Ten Years: Analysis and Lessons for Eastern Europe and the Former Soviet Union.* Washington, DC: World Bank.

———. 2003a. *A User's Guide to Poverty and Social Impact Analysis*. Poverty Reduction Group and Social Development Department. Washington, DC: World Bank.

———. 2003b. *Country Policy and Institutional Assessment 2003: Assessment Questionnaire.* Washington, D.C: World Bank. <http://siteresources.worldbank.org/IDA/Resources/CPIA2003.pdf>

———. 2003c. *Progress on Economic and Sector Work. IDA/R2003-0193*. Report to IDA 13 Deputies. Washington, DC: World Bank.

———. 2003d. *Supporting Sound Policies with Adequate and Appropriate Financing.* Washington, DC: World Bank.

———. 2004. *Doing Business in 2004: Understanding Regulation.* Private Sector Development Group. Washington, DC: World Bank.

Zongo, Tersius, Siaka Coulibaly, Gilles Hervio, Javier Nino Perez, and Stefan Emblad. 2000. *Conditionality Reform: The Burkina Faso Pilot Case*. Brussels: SPA Task Team on Contractual Relationships and Selectivity.