WORLD BANK OPERATIONS EVALUATION DEPARTMENT

OED REACH

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Based on the *Annual Review of Development Effectiveness 2003.*

Effectiveness of Bank Support for Policy Reform

- Two-thirds of developing countries have improved their economic and social policies over the last four years. Countries that improved their policies during this period grew at about twice the rate of countries that did not. Bank lending was concentrated in countries that were improving their policies. In many cases, Bank programs (including all forms of Bank support – not just adjustment lending) contributed to policy improvements.
- Bank country assistance has had satisfactory outcomes in about 70% of the cases evaluated by OED. Satisfactory outcomes were achieved by a range of policy and institutional options and Bank program designs. In cases where outcomes were not satisfactory, contributing factors included inadequate country knowledge, programs that were poorly aligned with country policymaking styles, over-optimism in debt sustainability analysis, and/or attempts to transplant policies or institutions without adequate consideration of country-specific factors.
- Project outcomes for FY02 are 79% satisfactory and exceed the Strategic Compact target of 75%. Of the 45% of the FY03 exit cohort that has been evaluated so far, 72% are rated satisfactory.

ARDE 2003 examines the effectiveness of Bank support to borrower countries to help them put in place policies conducive to sustainable poverty reduction. The Bank's strategy treats policy reform and institutional development as instruments for creating an environment that is conducive to pro-poor growth and widespread, sustainable poverty reduction. The Review focuses primarily on the years from 1999 through 2003. This is done to facilitate the juxtaposition of recent evaluation evidence concerning the Bank's support for policy reform with trends in a number of policy indicators.

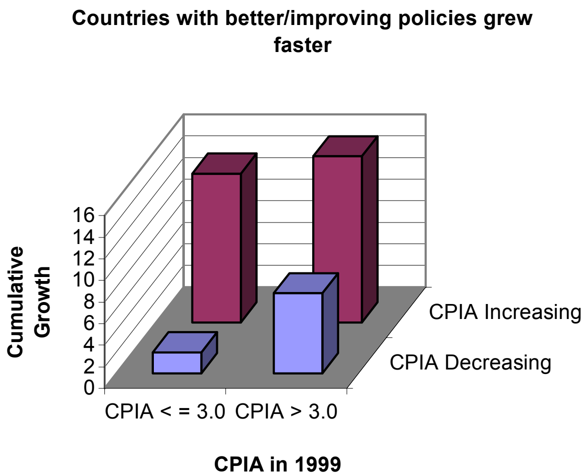
Findings

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. In such situations, large-scale lending should normally be undertaken only when there are clear signals that policy reform is under way.

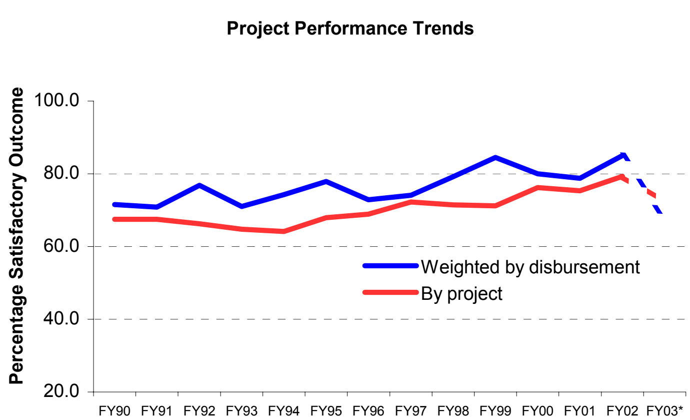


CPIA: Country Policy and Institutional Assessment

Outcomes of Bank country assistance have been moderately satisfactory or better about 70% 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.

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 through 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



Note: FY03* Partial

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 little or no 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.

Good Idea, Bad Country 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, metering facilities, and financial management, leading to the development of a competitive power pool based on the British model of unbundling. A key lesson from the project is that there is little merit in pursuing comprehensive power sector reform policies in an economy that was barter based, with salaries and pensions in arrears and where the government condoned the culture of nonpayment. In such an environment, the attempt to introduce a competitive power market was bound to fail.

Implications

The recent environment for policy reform may have been unusually favorable due to the large number of countries coming out of crisis and/or advancing with transition. To maintain these trends and support deeper reforms, the Bank will 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 complement intermediate indicators such as the CPIA, CAS triggers, and conditions with indicators of poverty reduction results or other outcome-related indicators in Bank programming decisions. There has, to date, been only limited experience with this type of approach. That experience has been promising, but has also revealed a number of practical problems, including timely availability of data. The Bank should promote further piloting and experimentation with outcomes-based and other approaches to strengthening country leadership, ownership, and results orientation in willing countries.

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