



# IDA's Partnership for Poverty Reduction

An Independent  
Evaluation of Fiscal  
Years 1994–2000

Catherine Gwin



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## ENGLISH

## FOREWORD

**In the face of increasingly complex development**

**challenges, the past decade has witnessed a broadening of the international development agenda and remarkable efforts by governments, voluntary organizations, and external assistance agencies to learn from experience and improve the effectiveness of development assistance. Against this background, the IDA Deputies commissioned this independent review of the International Development Association (IDA)'s performance in implementing the undertakings of the last three replenishment agreements.**

The seven-year period covered by the review has been one of considerable change—both in borrower countries and in the development system. IDA's undertakings, while timely and relevant, have continuously “raised the bar” on what was expected of both IDA and its borrowers. It is therefore commendable that the review rates IDA's compliance with more than 150 replenishment undertakings as satisfactory, with qualifications.

The review establishes that IDA has significantly improved its portfolio performance, become more selective in its lending allocations, recast its mission to address poverty reduction, strengthened the Country Assistance Strategy (CAS) cycle, enhanced its responsiveness to

## ESPAÑOL

## PREFACIO

**En una coyuntura en que los desafíos para el desarrollo**

**resultan cada vez más complejos, el pasado decenio se ha caracterizado por la ampliación del programa internacional de desarrollo y la realización de esfuerzos significativos por parte de los gobiernos, las organizaciones voluntarias y los organismos de asistencia externa por aprender de la experiencia anterior y mejorar la eficacia de la asistencia para el desarrollo. En esas circunstancias, los Suplentes de la AIF encargaron este examen independiente del desempeño de la Asociación Internacional de Fomento (AIF) en el cumplimiento de los compromisos de los acuerdos correspondientes a las tres últimas reposiciones.**

En el período de siete años a que se refiere el estudio se han producido cambios considerables, tanto en los países prestatarios como en el sistema de desarrollo. Los compromisos de la AIF, si bien oportunos y pertinentes, han continuado “levantando el listón” de lo que se espera tanto de la AIF como de sus prestatarios. Por ello, es encomiable que en el estudio se califique la observancia de la AIF con respecto a más de 150 compromisos de reposición como satisfactoria, con algunas reservas.

En dicho examen se establece que la AIF ha mejorado significativamente el desempeño de su cartera, se ha mostrado más selectiva en las asignaciones crediticias, ha remodelado su

## FRANÇAIS

## AVANT-PROPOS

**Pendant la dernière décennie, marquée par**

**des défis de plus en plus difficiles à relever, le programme de travail de la communauté du développement n'a cessé de s'allonger et les gouvernements, les organisations bénévoles et les bailleurs de fonds ont déployé des efforts remarquables pour tirer les leçons de l'expérience et améliorer l'efficacité de l'aide au développement. C'est dans ce contexte que les délégués à l'IDA ont demandé que soit réalisée la présente évaluation indépendante pour examiner les résultats obtenus par l'Association internationale de développement sur la base des engagements pris dans le cadre des accords au titre des trois dernières reconstitutions des ressources.**

La période de sept ans couverte par cet examen a été une période de mutations profondes — dans les pays emprunteurs et dans le système mis en place pour le développement. Les programmes entrepris par l'IDA, pour aussi pertinents et opportuns qu'ils soient, n'ont cessé d'accroître les pressions exercées sur l'IDA et sur ses bailleurs de fonds. Il faut donc se féliciter que le respect de plus de 150 des engagements lui incombant au titre des reconstitutions de ses ressources ait été jugé satisfaisant, malgré un certain nombre de réserves.

L'examen indique que l'IDA a considérablement amélioré la performance de son portefeuille,

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borrowers and partners' needs, augmented its field presence, and diversified its lending instruments.

With IDA's help, a number of IDA borrowers are in a better position now than at the beginning of the IDA10

period to achieve broad-based growth and poverty reduction.

Yet poverty trends in most IDA countries have been disappointing. This confirms that there is still some way to go for IDA to fulfill the ambitions of its owners and borrowers. In particular, the linkages between country programs and poverty outcomes need to be better articulated. Private sector development, gender, environmental, social, and rural development strategies need to be clarified and mainstreamed into country and sector assistance strategies. More needs to be done to enhance the quality of governance and to build institutional capacity in specific country contexts.

Of course, IDA's performance is only one of the factors that affects the results observed on the ground. Exogenous factors, the pace of borrowers' reforms, and the quality of non-IDA assistance also intervene. On the whole, in relation to the ambitious objectives of IDA country and sector programs, the review rates the development outcome of IDA's programs as partially satisfactory, with a trend toward improvement. While the glass is more than half full and recent performance trends augur positively for the future, there is no room for complacency.

In looking forward to IDA's next replenishment, what is

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misión para centrarse más en la reducción de la pobreza, ha reforzado el ciclo de estrategias de asistencia a los países, ha mostrado más flexibilidad ante las necesidades de los prestatarios y asociados, ha

incrementado su presencia sobre el terreno y ha diversificado sus instrumentos de financiamiento. Con ayuda de la AIF, varios prestatarios de la Asociación están ahora en mejores condiciones que al comienzo de la décima reposición para conseguir un crecimiento de amplia base y la reducción de la pobreza.

No obstante, las tendencias de la pobreza en la mayor parte de los países de la AIF han sido decepcionantes. Ello confirma que es todavía mucho lo que queda por recorrer para que la AIF responda plenamente a las ambiciones de sus titulares y prestatarios. En particular, los vínculos entre los programas de los países y los resultados en la lucha contra la pobreza deberían estar mejor articulados. El desarrollo del sector privado, las cuestiones de género y las estrategias ambientales, sociales y de desarrollo rural deben clarificarse e incorporarse a las estrategias de asistencia a los países y los sectores. Es preciso hacer todavía más por mejorar la calidad de la gestión pública y desarrollar la capacidad institucional en el contexto de los países concretos.

Naturalmente, el desempeño de la AIF es sólo uno de los factores que influyen en los resultados observados en la práctica. Intervienen también factores exógenos, el ritmo de la

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a fait preuve de plus de sélectivité dans le choix de l'appui aux pays, recentré son action sur la lutte contre la pauvreté, renforcé le cycle de la Stratégie d'aide-pays, accru sa capacité d'adaptation aux

besoins de ses emprunteurs et de ses partenaires, renforcé sa présence sur le terrain et diversifié ses instruments de prêt. Grâce à l'aide de l'IDA, plusieurs emprunteurs de l'Association sont aujourd'hui mieux à même qu'au début de la période d'IDA 10 de mettre l'accent sur la promotion d'une croissance largement répartie et d'une réduction de l'incidence de la pauvreté.

Pourtant, les progrès accomplis sur le front de la pauvreté sont décevants. L'IDA doit donc poursuivre sa transformation afin de pouvoir répondre pleinement aux attentes de ses actionnaires et de ses emprunteurs. En particulier, des liens mieux définis doivent être établis entre les programmes destinés aux pays et les résultats à obtenir sur le front de la pauvreté. Un plan plus clair de promotion du développement du secteur privé, de la parité des sexes, de l'action sur le plan environnemental et social et du développement rural doit faire partie intégrante des stratégies d'aide aux pays et aux secteurs. Par ailleurs, les efforts doivent se poursuivre pour améliorer la qualité de la gouvernance et renforcer les capacités institutionnelles en fonction de la situation propre aux différents pays.

De toute évidence, la performance de l'IDA n'est que l'un des facteurs qui déterminent

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needed most is to consolidate the IDA mandates and to focus on further improvements in the effective implementation of CASs and programs in the context of Poverty

Reduction Strategy Papers prepared by IDA borrowers. This will call for even greater country and program selectivity, far more effective donor coordination and harmonization, as well as systematic monitoring and evaluation, focusing on results and the Millennium Development Goals.

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reforma en los países prestatarios y la calidad de la asistencia no procedente de la AIF. En conjunto, en relación con los ambiciosos objetivos de los programas de la Asociación en los países y en los sectores, el

examen califica sus resultados en términos de desarrollo como parcialmente satisfactorios, con tendencia a mejorar. Si bien más de la mitad de la botella está llena y las tendencias de los resultados recientes son prometedoras para el futuro, no hay lugar para la complacencia.

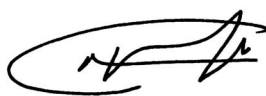
Mirando al futuro, hacia la próxima reposición de los recursos de la AIF, lo que más se necesita es consolidar los mandatos de la Asociación y concentrarse en la introducción de nuevas mejoras en la aplicación eficaz de las estrategias de asistencia los países y de los programas en el contexto de los documentos de estrategia de lucha contra la pobreza (DELP) preparados por los prestatarios del AIF. Ello requerirá una selectividad todavía mayor en cuanto a los países y programas, una coordinación y armonización mucho más eficaz de los donantes, así como un seguimiento y evaluación sistemáticos, centrados en los resultados y en los objetivos internacionales de desarrollo.

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les résultats sur le terrain, ceux-ci tenant aussi à des facteurs exogènes ainsi qu'au rythme des réformes menées par les emprunteurs et à la qualité de l'aide des partenaires de l'institution. De manière

générale, l'impact des programmes de l'IDA au plan du développement est jugé partiellement satisfaisant, et en progrès par rapport aux résultats antérieurs. Bien que le verre soit plus qu'à moitié rempli et que l'évolution récente de la situation laisse bien augurer de l'avenir, il ne faudrait pas pêcher par excès d'optimisme.

Dans la perspective de la prochaine reconstitution des ressources de l'IDA, il faudra surtout renforcer les missions de l'Association et s'attacher à encore améliorer l'exécution des stratégies et des programmes d'aide aux pays dans le contexte des Documents de stratégie de réduction de la pauvreté préparés par les pays emprunteurs. Ce dernier point passe notamment par une plus grande sélectivité au niveau des pays et des programmes, des mesures résolues en faveur d'une coordination et d'une harmonisation de l'aide, et un travail systématique de suivi et d'évaluation, axé sur les résultats et sur les objectifs internationaux de développement.



Robert Picciotto  
Director-General, Operations Evaluation



## ENGLISH

EXECUTIVE  
SUMMARY

**Over the seven-year period covered by this review, IDA**

**significantly enhanced its relevance and improved its portfolio performance. It recast its mission, repositioned its country assistance programs, increased its responsiveness to borrowers, strengthened its field presence, and diversified its lending instruments. Recently, it has intensified its aid coordination efforts in the context of the CDF and PRSP initiatives.**

Hence, IDA in FY00 is very different from IDA in FY94. Still, disappointing progress in poverty reduction, especially in Africa, points to the need to sustain the transformation of IDA in order to respond fully to new views of country ownership, conditionality, and country-based programming of development assistance. Focus on governance, capacity building, and development results; a move from ad hoc to structured donor coordination; and an explicit role for IDA at the global level remain critical to maintaining the positive momentum of IDA's development effectiveness.

With IDA's help, a number of its borrowers are in a better position now than at the beginning of the IDA10 period to focus on broad-based growth and poverty reduction goals. Still, the linkages between country programs and poverty outcomes need to be better articulated; clearer private sector development, gender, and environmental/social sustainability strategies need to be

## ESPAÑOL

## RESUMEN

**Durante ese período de siete años, la AIF aumentó**

**significativamente su relevancia y mejoró los resultados de su cartera. Remodeló su misión, revisó sus programas de asistencia a los países, aumentó su capacidad de respuesta a los prestatarios, reforzó su presencia sobre el terreno y diversificó sus instrumentos de financiamiento. Recientemente, ha intensificado sus esfuerzos de coordinación de la ayuda en el contexto de las iniciativas del Marco Integral de Desarrollo (MID) y de los documentos de estrategia de lucha contra la pobreza (DELP).**

Por ello, en el ejercicio de 2000 la AIF es muy diferente de la AIF de 1994. No obstante, los decepcionantes progresos en la reducción de la pobreza, sobre todo en África, revelan la necesidad de continuar la transformación de la AIF con el fin de responder plenamente a las nuevas ideas sobre la titularidad de los países, la condicionalidad y la programación de la asistencia al desarrollo basada en los países. La atención al sistema de gobierno, el desarrollo de la capacidad y los resultados del desarrollo; el paso de coordinación improvisada de los donantes hacia una coordinación más estructurada, y una intervención explícita de la AIF en el plano mundial continúan siendo elementos críticos para mantener el impulso positivo de la eficacia de la AIF en términos de desarrollo.

Con ayuda de la AIF, varios de sus prestatarios se encuentran en

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RÉSUMÉ  
ANALYTIQUE

**Au cours des sept années couvertes par cette période,**

**l'IDA a considérablement renforcé la pertinence de ses interventions et a amélioré la performance de son portefeuille. Elle a recentré son action, réorienté ses programmes d'aide aux pays, accru sa capacité d'adaptation aux besoins des demandeurs, renforcé sa présence sur le terrain et diversifié ses instruments de prêt. Dans le cadre du CDI et des DSRP récemment lancés, elle a également redoublé d'efforts pour permettre une meilleure coordination de l'aide.**

Aussi l'IDA s'est-elle profondément transformée entre les exercices 94 et 00. Et pourtant, le manque de progrès sur le front de la pauvreté, surtout en Afrique, montre qu'il faut poursuivre cette transformation afin que l'aide fournie réponde pleinement aux nouveaux critères d'adhésion, de conditionnalité et de pilotage par les pays. L'importance à accorder à la bonne gestion des affaires publiques, au renforcement des capacités et aux résultats en termes de développement, l'abandon des mesures ponctuelles au profit d'un mécanisme structuré de coordination de l'aide et le rôle bien établi que l'IDA doit jouer au niveau mondial restent en outre de puissants moteurs de l'amélioration de l'efficacité du développement.

Grâce à l'aide fournie par l'IDA pendant cette période, plusieurs emprunteurs de l'Association sont aujourd'hui mieux à même de mettre l'accent sur la promotion

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well integrated into Country Assistance Strategies (CASs); and more needs to be done to integrate broad-based poverty reduction strategies, governance, and institutional development issues into macroeconomic

and sector strategies and interventions within specific country contexts.

With management's attention to accelerating organizational changes over this period, IDA's country focus and responsiveness are stronger, with some 24 country directors now in the field. Innovations in lending instruments have increased flexibility and institutional development impact. Still, the translation of key IDA objectives into monitorable programs and verifiable results is largely an unfinished business. In particular, corporate issues of accountability for policy compliance, investment in analytical work and capacity building, tracking progress, evaluating results, and aligning resources with program priorities all need closer attention and further action, as recent management reviews and proposals indicate.

**IDA in Context**

IDA is only one among many external assistance agencies, accounting for 14–18 percent of official development assistance in the 1990s. The performance of borrowers and other development partners, as well as changes in the global economic environment, all play a role. IDA can and should be held accountable, however, for how well it makes hard choices and necessary tradeoffs in

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mejor situación ahora que al comienzo del período de la décima reposición para concentrarse en las metas de reducción de la pobreza y de un crecimiento de amplia base. No obstante, deben articularse mejor los

vínculos entre los programas de los países y los resultados en la lucha contra la pobreza. Se necesitan estrategias sobre el desarrollo del sector privado, el género y la sostenibilidad ambiental/social que sean más claras y estén mejor integradas en las estrategias de asistencia a los países. Hay que hacer todavía más para integrar las estrategias de amplia base para la reducción de la pobreza y las cuestiones relacionadas con el sistema de gobierno y el desarrollo institucional en las estrategias macroeconómicas y sectoriales y en las intervenciones en países concretos.

Gracias a los cambios introducidos por la administración durante ese período, la atención de la AIF a los países y su capacidad de respuesta a los mismos son más sólidas, y ahora se encuentran sobre el terreno unos 24 directores a cargo de países. Las innovaciones de los instrumentos crediticios han aumentado la flexibilidad y los efectos del desarrollo institucional. No obstante, la traducción de los objetivos clave de la AIF en programas que se puedan supervisar y en resultados comprobables es todavía una tarea pendiente. En particular, las cuestiones institucionales de la rendición de cuentas sobre la observancia de las políticas, la inversión en estudios analíticos y desarrollo de la capacidad, el

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d'une croissance largement répartie et d'une réduction de l'incidence de la pauvreté. Il n'en reste pas moins que des liens mieux définis doivent être établis entre les programmes destinés aux pays et les

résultats à obtenir sur le front de la pauvreté ; qu'un régime plus clair de promotion du développement du secteur privé, de la parité des sexes et de la viabilité sur le plan social et environnemental doit faire partie intégrante des stratégies d'aide aux pays ; et que les efforts doivent se poursuivre pour que les stratégies de lutte contre la pauvreté et les questions liées à la gouvernance et au développement institutionnel soient prises en compte dans les stratégies et les actions macroéconomiques et sectorielles menées en fonction de la situation propre aux différents pays.

La direction s'étant attachée à accélérer la réorganisation interne pendant la période étudiée, l'intervention de l'IDA est aujourd'hui mieux adaptée à chaque emprunteur et sa capacité d'ajustement est plus grande, grâce notamment à l'affectation sur le terrain de 24 des directeurs d'opérations pour les pays. Le lancement de nouveaux instruments de prêt a donné une plus grande souplesse d'intervention et a accru l'impact sur le développement institutionnel. La mise en place de programmes aux indicateurs mesurables et aux résultats vérifiables demeure toutefois un objectif clé qui est loin d'être atteint. Les responsabilités

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deploying its concessional resources in fulfillment of corporate commitments, including both its lending and nonlending advisory services, and how effectively it shapes its assistance to the priorities

and circumstances of borrowers. It is largely in these terms—of IDA’s relevance (that is, whether IDA “did the right things,” taking into account the actions of others) and its efficacy and efficiency (that is, did it “do things right”)—that this review evaluates IDA.

### A Strengthened Poverty

**Orientation.** IDA has sharpened the poverty focus of its analytical work, policy dialogue, and lending. Broad-based growth, human resource development, and protection of vulnerable groups have become common objectives of IDA CASs. IDA has made a major contribution to poverty analysis and data. It has established a strong presence in the social sectors, introducing new lending instruments and approaches to better deal with complex institutional development issues. It has also implemented its commitment to improve the poverty and social dimensions of structural adjustment operations. Still, the linkages between country assistance programs and poverty outcomes need to be better articulated.

**The Challenge of Broad-Based Growth.** IDA has helped many borrowers move into position to direct greater efforts toward poverty reduction goals than at the beginning of the review

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progreso del seguimiento, la evaluación de los resultados y la acomodación de los recursos a las prioridades programáticas son aspectos que deben ser objeto de atención más estrecha y de

nuevas medidas, como indican los recientes exámenes y propuestas de la administración.

### La AIF en contexto

La AIF es sólo una de las muchas organizaciones de asistencia externa. En el decenio de 1990, representó entre el 14% y el 18% de la asistencia oficial para el desarrollo. El desempeño de los prestatarios y otros asociados en el desarrollo, así como los cambios en el entorno económico mundial, son factores influyentes. La AIF puede y debe dar cuentas de cómo toma decisiones difíciles y llega a las necesarias soluciones de compromiso cuando despliega sus recursos concesionarios para cumplir los compromisos institucionales, incluidos los créditos y los servicios de asesoría, y de cómo adapta eficazmente su asistencia a las prioridades y circunstancias de los prestatarios. Es fundamentalmente desde esta perspectiva —relevancia de la AIF para los objetivos básicos de desarrollo, y su eficiencia o eficacia en función de los costos para conseguir los objetivos declarados— como se evalúa a la AIF en el presente examen.

**Una orientación más firme contra la pobreza.** La AIF ha orientado de forma más específica la lucha contra la pobreza en sus estudios analíticos, el diálogo sobre políticas y los créditos. El

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internes pour le respect des politiques, les investissements dans le travail d’analyse et le renforcement des capacités, le suivi des progrès, l’évaluation des résultats et le couplage des ressources

aux actions prioritaires sont tous des aspects qui demandent une attention plus soutenue et des mesures supplémentaires, comme la direction le reconnaît elle-même dans des propositions et examens récents.

### L’aide de l’IDA dans son contexte

L’IDA, qui a contribué pour 14 à 18 % au total de l’aide publique au développement dans les années 90, n’est aussi qu’un organisme d’aide extérieure parmi de nombreux autres. La performance des emprunteurs et des autres partenaires pour le développement ainsi que l’évolution de la conjoncture économique mondiale jouent un rôle important dans l’obtention des résultats. L’IDA peut et doit être tenue responsable, toutefois, du degré d’efficacité avec lequel, au prix de choix difficiles et d’arbitrages indispensables, elle déploie ses ressources concessionnelles pour remplir ses engagements institutionnels (tant dans le cadre de ses services de prêt que de ses services de conseil hors-prêt), comme de l’efficacité avec laquelle elle adapte son assistance aux priorités et à la situation de ses emprunteurs. C’est essentiellement en ces termes — à savoir en termes de pertinence de l’IDA, face aux grands objectifs du développement, et de l’efficacité et l’efficience dont elle a fait



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period. In countries committed to reform, IDA's support has contributed to increased economic stability, fewer distortions, and improved infrastructure development. But acceleration of broad-

based, job-creating growth remains a major challenge.

### The Critical Factor of

**Governance.** Good governance affects all other areas of program emphasis. IDA was slow to comply with its IDA10 governance undertakings, but over the past four years it has given priority to public sector reform in country assistance programs. Lending for public sector reforms has increased, and institutional development issues are addressed in analytical work and lending. Public sector capacity building and accountability remain major tasks, and greater coordination among external agencies is needed to consistently cover the broad governance agenda.

**Gender and Environmental Mainstreaming.** IDA has made limited progress in integrating gender and environment, in part because of a lack of country interest. But IDA has also lacked clear accountability for gender and environmental mainstreaming. Where IDA's assistance has contributed to strong results—notably in girls' education—there has been significant country ownership, effective partnerships, and rigorous analytic work underpinning lending. In similar circumstances, environmental assistance has helped to increase

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crecimiento de amplia base, el desarrollo de los recursos humanos y la protección de los grupos vulnerables se han convertido en objetivos comunes de las estrategias de asistencia a los países de la AIF. La Asociación ha

realizado una importante contribución en forma de análisis y presentación de datos sobre la pobreza. Ha establecido una firme presencia en los sectores sociales, mediante la introducción de nuevos instrumentos y conceptos de financiamiento para hacer mejor frente a las complejas cuestiones del desarrollo institucional. Ha hecho también realidad su compromiso de mejorar las dimensiones del ajuste estructural relacionadas con la pobreza y los aspectos sociales. No obstante, es preciso articular todavía mejor los vínculos entre los programas de asistencia a los países y los resultados frente a la pobreza.

**El desafío del crecimiento de amplia base.** La AIF ha ayudado a muchos prestatarios a colocarse en situación de orientar más sus esfuerzos a la reducción de la pobreza que al comienzo del período del examen. En los países comprometidos con la reforma, el apoyo de la AIF ha contribuido a aumentar la estabilidad económica, reducir las distorsiones y mejorar el desarrollo de la infraestructura. Pero la aceleración de un crecimiento de amplia base y generador de empleo continúa siendo todavía un gran desafío.

**El factor crítico de la gestión pública.** Un buen sistema de gobierno es un factor crítico que

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preuve à cet égard — que le présent examen évalue l'IDA.

**Une focalisation accrue sur la pauvreté.** L'IDA a recentré son travail d'analyse, son dialogue sur

l'action à mener et ses opérations de financement sur le combat de la pauvreté. Croissance largement répartie, valorisation des ressources humaines et protection des plus démunis font désormais partie des objectifs traditionnels de ses SAP. L'IDA a réalisé un important travail de collecte et de diffusion de données et d'analyses sur la pauvreté. Elle est désormais très présente dans les secteurs sociaux et a mis au point de nouveaux instruments de prêt et de nouvelles démarches pour mieux faire face à des problèmes complexes de développement institutionnel. L'IDA a également pris en compte la nécessité d'améliorer la dimension sociale et les aspects liés à la pauvreté dans les opérations d'ajustement structurel. Il n'en reste pas moins que des liens mieux définis doivent être établis entre les programmes d'aide aux pays et les résultats à obtenir sur le front de la pauvreté.

**La difficulté de promouvoir une croissance largement répartie.** Grâce à l'appui de l'IDA, nombre de ses emprunteurs sont en mesure de déployer des efforts plus importants pour atteindre les objectifs de réduction de la pauvreté qu'au début de la période couverte par le présent examen. Dans les pays déterminés à entreprendre des réformes, les opérations d'ajustement de l'IDA



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public and government interest, reversed land degradation, improved incomes from arid lands, and strengthened environmental capacity.

**More Effective**

**Partnerships.** To further increase IDA's development effectiveness, IDA10–12 strengthened the link between building more effective partnerships through participation and aid coordination. Progress was moderate during IDA10–11, but the CDF and PRSP initiatives introduced after the IDA12 negotiations have given significant impetus to this aid reform agenda. Greater aid coordination at the country level and increased policy and procedural harmonization at the agency level are necessary.

**Conclusions**

In looking forward to IDA's next replenishment, what is needed most is to consolidate the IDA mandates, within the context of CDF and PRSP implementation, and to focus on further improvements in the implementation of Country Assistance Strategies and programs. Improved implementation needs to give particular attention to country and program selectivity; a determined move to donor coordination and harmonization to reduce the burden of high aid transaction costs on borrowers; as well as systematic monitoring and evaluation, focusing on results and the Millennium Development Goals. Full, multi-year funding of CAS lending and nonlending services as well as new commitments (including new IDA

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influye en todas las demás esferas contempladas en los programas. La AIF tardó en cumplir sus compromisos en materia de gestión pública formulados en la décima reposición de recursos, pero en los cuatro

últimos años ha dado prioridad a la reforma del sector público en los programas de asistencia a los países. Los créditos para la reforma de este sector han aumentado, y las cuestiones del desarrollo institucional se consideran en los estudios analíticos y en las actividades de financiamiento. El desarrollo de la capacidad y la rendición de cuentas del sector público continúan siendo tareas importantes, y se necesita una mayor coordinación entre los organismos externos para abarcar el amplio programa pendiente en este terreno.

**Integración de las cuestiones relacionadas con el género y el medio ambiente.**

La AIF ha realizado pocos progresos en la integración de las cuestiones relacionadas con el género y el medio ambiente, en parte por falta de interés de los países. Cuando la asistencia de la AIF ha contribuido a tener resultados favorables —sobre todo en la educación de las niñas—, ha habido una importante identificación de los países con los programas, asociaciones eficaces y rigurosos estudios analíticos como base del financiamiento. En circunstancias semejantes, la asistencia ambiental ha ayudado a aumentar el interés público y gubernamental, ha invertido la tendencia a la degradación de la tierra, ha

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ont contribué à promouvoir la stabilité macroéconomique, à réduire les distorsions économiques et à améliorer l'infrastructure du développement. L'accélération d'une

croissance largement répartie et créatrice d'emplois reste néanmoins une tâche redoutable.

**La gouvernance, une dimension clé.**

La bonne gestion des affaires publiques est un facteur influant de façon déterminante sur tous les autres domaines prioritaires des programmes. L'Association a tardé à honorer les engagements pris pour IDA 10 sur le plan de la gouvernance mais au cours des quatre dernières années, elle a donné la priorité aux réformes du secteur public dans les programmes d'aide aux pays. Elle a accru le volume de ses crédits au titre de réformes du secteur public et elle s'attaque aux problèmes de renforcement institutionnel dans le cadre de ses études analytiques et de ses opérations de financement. Le renforcement des capacités du secteur public et la nécessité de justifier de l'emploi des fonds publics dans les pays emprunteurs continuent d'exiger des efforts considérables ; il faudra par ailleurs améliorer la coordination des interventions des organismes de financement extérieur pour s'assurer de la fourniture d'un appui systématique au vaste programme de l'amélioration de la gouvernance.

**Prise en compte de la parité des sexes et de**

**l'environnement.** Les progrès accomplis par l'IDA au plan de

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undertakings) is essential to align resources with program priorities.

Finally, the report suggests fine-tuning of the replenishment process.

Although consistent with the evolving development

paradigm, replenishment undertakings have been perceived to be both overdetermined and overloaded. Greater realism about what IDA and its borrowers could reasonably accomplish in a three-year period is desirable. Equally, the replenishment process needs stronger connections with all development partners. IDA, in consultation with its borrowers, should develop a longer-term vision focused on results. It should engage developing countries in both setting replenishment priorities and monitoring IDA performance, and it should define commitments in terms of monitorable and achievable objectives.

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aumentado los ingresos procedentes de las tierras áridas y reforzado la capacidad ambiental. Pero la AIF carece también de un sistema claro de rendición de cuentas sobre la integración de las

cuestiones relacionadas con el género y el medio ambiente.

**Asociaciones más eficaces.** Para conseguir una mayor eficacia de la AIF en términos de desarrollo, entre la décima y duodécima reposiciones se intensificó el vínculo entre el establecimiento de asociaciones más eficaces mediante la participación y la coordinación de la ayuda. Este progreso fue moderado durante la décima y undécima reposiciones, pero las iniciativas del MID y los DELP introducidas después de las negociaciones de la duodécima reposición han dado considerable impulso a este programa de reforma de la ayuda. Se necesita también una mayor coordinación de la asistencia en los países y una mayor armonización de políticas y procedimientos en el plano institucional.

### Conclusión

De cara a la próxima reposición de los recursos de la AIF, lo que más se necesita es consolidar los mandatos de la Asociación, en el contexto del MID y los DELP, y concentrarse en la introducción de nuevas mejoras en la aplicación de los programas de asistencia a los países. Las mejoras en la aplicación deben prestar especial atención a la selectividad de países y programas, a la coordinación y armonización de los donantes con el fin de reducir

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l'intégration de ces questions à ses programmes ont été limités en partie par le manque d'intérêt manifesté par les pays. L'appui de l'Association a néanmoins contribué à l'obtention de

bons résultats, notamment dans le domaine de l'éducation des filles, du fait de la large adhésion des pays à l'action menée, de l'efficacité des partenariats avec les autres intervenants, et des bases solides fournies par un travail d'analyse rigoureux. Les circonstances sont similaires pour l'environnement, dans lequel l'appui de l'IDA a aidé à sensibiliser le public et les autorités aux questions environnementales et a contribué, par exemple, à un renversement de la tendance à la dégradation des sols, à un accroissement des revenus tirés des terres arides et à un renforcement des capacités. Mais l'IDA n'est pas non plus clairement comptable de l'action qu'elle doit mener pour intégrer ces deux dimensions à ses activités.

### Bâtir des partenariats plus

**efficaces.** Pour accroître encore plus l'efficacité de l'aide de l'IDA, IDA 10-12 ont mis l'accent sur le renforcement du lien entre la constitution de partenariats plus efficaces basés sur la participation et la coordination de l'aide. Si l'amélioration a été faible pendant IDA 10-11, les initiatives du CDI et des DSRP lancées après les négociations d'IDA 12 ont donné une forte impulsion à ces efforts de réforme. Il est nécessaire de mieux coordonner l'aide au niveau des pays et de mieux

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la carga de los elevados costos de transacción de la ayuda que recae sobre los prestatarios, así como a un mayor fortalecimiento de la capacidad y un seguimiento y evaluación sistemáticos, centrados en

los resultados y en los objetivos internacionales de desarrollo. Para armonizar los recursos con las prioridades de los programas es necesario un financiamiento completo y plurianual de los servicios crediticios y no crediticios de las estrategias de asistencia los países, así como el logro de nuevos compromisos (también de la AIF).

Finalmente, en el informe se aconseja la introducción de pequeños ajustes en el proceso de reposición de recursos. Si bien en consonancia con el paradigma de desarrollo en evolución, los compromisos de reposición parecen estar excesivamente determinados y sobrecargados. Sería aconsejable un mayor realismo acerca de lo que la AIF y sus prestatarios podrían conseguir razonablemente en un período de tres años. De la misma manera, el proceso de reposición necesita vinculaciones más estrechas con los asociados en el desarrollo. La AIF, en consulta con sus prestatarios, debería establecer una visión a más largo plazo centrada en los resultados. Debería conseguir que los países en desarrollo fijaran prioridades de reposición y supervisaran el desempeño de la AIF, y debería definir los compromisos en función de objetivos que puedan ser objeto de seguimiento y asequibles.

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harmoniser les grandes orientations et les procédures au niveau des organismes bailleurs de fonds.

**Conclusion**

Dans la perspective de la prochaine reconstitution des ressources de l'IDA, il faudra surtout promouvoir les missions de l'Association, dans le cadre de la mise en oeuvre du CDI et des DSRP, et s'attacher à encore améliorer l'exécution des stratégies et des programmes d'aide aux pays. Ce dernier point passe notamment par une plus grande sélectivité au niveau des pays et des programmes, des mesures résolues en faveur d'une coordination et d'une harmonisation de l'aide afin de réduire la charge de coûts de transaction qui pèsent lourdement sur les emprunteurs, et un travail systématique de suivi et d'évaluation, axé sur les résultats et sur les objectifs internationaux de développement. Le financement intégral et sur plusieurs années des activités de prêt et des services hors prêt des SAP ainsi que des nouveaux engagements (y compris ceux pris dans le cadre de la reconstitution des ressources) est indispensable si l'on veut que des moyens adéquats soient affectés aux actions prioritaires.

Enfin, le rapport d'évaluation propose un ajustement du processus de reconstitution des ressources. En effet, on a le sentiment que les engagements pris en cette occasion sont surdéterminés et trop lourds, même s'ils vont bien dans le sens de l'évolution du modèle de

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développement. Il serait souhaitable de faire preuve d'un plus grand réalisme lorsqu'on envisage ce que l'IDA et ses emprunteurs peuvent raisonnablement accomplir en trois ans. Il faut aussi que ce processus se déroule en relation étroite avec tous les acteurs du développement. En consultation avec ses emprunteurs, l'IDA doit donc définir une vision à long terme s'articulant autour des résultats souhaités. Elle doit associer les pays en développement à la définition des priorités et au suivi de sa performance, et les engagements qu'elle prend doivent correspondre à des objectifs réalisables, accompagnés d'indicateurs de suivi.

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# ABBREVIATIONS AND ACRONYMS

AfDB	African Development Bank
AFR	Africa Region
APL	Adaptable Program Loan
ARDE	Annual Review of Development Effectiveness
CAE	Country Assistance Evaluation
CAS	Country Assistance Strategy
CDF	Comprehensive Development Framework
CEM	Country Economic Memorandum
CFAA	Country Financial Accountability Assessment
CG	Consultative Group
CGAP	Consultative Group to Assist the Poorest
CPAR	Country Procurement Assessment Review
CPFA	Country Profile of Financial Accountability
CPIA	Country Policy and Institutional Assessment
DfID	Department for International Development
EAP	East Asia and Pacific Region
ECA	Europe and Central Asia Region
ESSD	Environmentally and Socially Sustainable Development Network
ESW	Economic and sector work
GEF	Global Environment Facility
GDP	Gross domestic product
GNP	Gross national product
HIPC	Heavily Indebted Poor Country
HNP	Health, Nutrition, and Population Sector
IBRD	International Bank for Reconstruction and Development (World Bank)
IDA	International Development Association
IFC	International Finance Corporation
LAC	Latin America and Caribbean Region
LIL	Learning and Innovation Loan
M&E	Monitoring and evaluation
MIGA	Multilateral Investment Guarantee Agency
MNA	Middle East and North Africa Region
NEAP	National Environmental Action Plan
NGO	Nongovernmental Organization
OD	Operational Directive
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
OED	Operations Evaluation Department
PA	Poverty Assessment
PACT	Partnership for Capacity Building
PBA	Performance-based allocation
PER	Public Expenditure Review
PPP	Purchasing power parity
PREM	Poverty Reduction and Economic Management Network
PRSP	Poverty Reduction Strategy Paper
PSD	Private sector development

QAG	Quality Assurance Group
SA	South Asia Region
SPA	Special Program with Africa
SSP	Sector and Thematic Strategy Paper
SSR	Social and Structural Review
SWAps	Sector-wide approaches
WBI	World Bank Institute
WDR	World Development Report



# Overview

*The mission of IDA is to support efficient and effective programs to reduce poverty and improve the quality of life in its poorest member countries ... the focus must be on sustainability—to achieve enduring development impact with an environmentally sustainable framework—and equity—to remove barriers and open up opportunities for the disadvantaged.*

—IDA12 Replenishment Report

The International Development Association (IDA) is a unique instrument of development cooperation, focused on assisting the world's poorest countries. The establishment of IDA in 1960—as a separately funded but integral component of the World Bank Group—represented a bold innovation and an unprecedented commitment by the international community to improving global welfare. During the past 40 years, IDA has made substantial and distinctive contributions to growth and poverty reduction in low-income countries through a combination of concessional finance, analytical work, and aid coordination services.

During the seven-year period covered by this review (FY94–00), IDA committed just over \$42 billion to some 77 low-income borrower countries. These resources have supported country efforts to accelerate sustainable economic growth and poverty reduction through improved economic policies and investments; expanded access to basic education, health, and other social services; and strengthened public sector manage-

ment and governance. IDA has also assisted with the unprecedented challenges faced by countries in transition and the special needs of countries emerging from conflict. While persistent poverty, increasing inequality, and conflict characterize the period, a number of countries where IDA programs are being implemented have recorded declines in the incidence of poverty, strengthened social development, and begun to tackle governance and public sector reforms.

At the request of IDA's donor governments and its executive directors, this report reviews the IDA10–11 program and, on an interim basis, IDA12. It covers IDA's performance in implementing the undertakings set out in the Replenishment Reports for each of these periods. The methods used for this review are described in Annex G. The final report was presented to the Board on May 29, 2001. A summary of the discussion at that meeting is attached as Annex H. The Bank management response to the findings of the review is attached as Annex I.

## Summary of Findings

The IDA10–12 replenishment undertakings (summarized in box 1) have been highly relevant and timely. They encouraged IDA to adapt to a new development paradigm, embodying a comprehensive approach to poverty reduction that reflects the accumulated lessons of development experience. Individually, each area of operational emphasis makes sense. But together they have proved extraordinarily demanding—for both IDA and its borrowers. Even in countries where the commitment to poverty reduction and sustainable development is strong, building consensus for change, reforming policies, and strengthening institutional capacities are formidable tasks, which, in countries with limited human and financial resources, require tough choices and tradeoffs.

### *IDA10–12 replenishment undertakings have been highly relevant and timely.*

In evaluating IDA's performance, it is important to place its assistance in context. IDA provides a small share of the resources that countries use to pursue their development priorities—the largest share comes from the countries themselves. IDA is also only one among many external assistance agencies, accounting for 14–18 percent of official development assistance in the 1990s. It cannot determine the choices that countries make, although it can and does support and influence them. Nor can IDA alone be

held accountable for country development outcomes. The performance of borrowers and other development partners, as well as changes in the global economic environment, all play a role in determining outcomes. IDA can and should be held accountable, however, for how well it makes hard choices and necessary tradeoffs in deploying its concessional resources to fulfill corporate commitments, including both its lending and its nonlending advisory services, and how effectively it shapes its assistance to the priorities and circumstances of borrowers. It is largely in these terms—that is, of IDA's relevance (whether IDA “did the right things,” taking into account the actions of others) and its efficacy and efficiency (did it “do things right”)—that this review evaluates IDA. (For a concise summary of the report, see box 2.)

## Compliance

Overall, IDA's compliance with the formidable list of replenishment undertakings has been satisfactory, albeit with important qualifications. The implementation of IDA undertakings has repositioned country programs to better respond to development priorities. IDA has sharpened the poverty focus of its Country Assistance Strategies (CASs), analytical work, and lending. It has made a substantial contribution to poverty data collection and analysis; established a strong presence in the social sectors; and improved the poverty and social dimensions of its adjustment operations. More recently, IDA has markedly expanded its work in support of good gover-

### Box 1

### IDA 10–12 Replenishment Undertakings

**In broad terms, the three IDA replenishment agreements—reports that set forth IDA's goals for each three-year funding cycle—endorse poverty reduction as IDA's overarching objective and instruct IDA to:**

- **Sharpen the poverty focus of its support for country development.**
- **Direct its assistance, in support of that objective, to expanding access to basic social services, fostering broad-based growth, promoting good governance, and integrating gender and environmental considerations into development efforts.**
- **Increase its development effectiveness through more selective, more participatory, and better-coordinated country assistance programs.**

**The specific undertakings related to these instructions center on six program priorities (poverty, social sectors, private sector development, gender, environment, and governance) and four processes (Country Assistance Strategies, performance-based allocation system, participation, and aid coordination).**



## Box 2

## The IDA Review at a Glance

At the request of IDA's donor governments and its executive directors, OED carried out a review of IDA's implementation performance during IDA10–12. OED found the IDA10–12 replenishment commitments to be highly relevant and timely, but extraordinarily demanding for both IDA and its borrowers. The commitments include: (a) sharpening the poverty focus of support for country development; (b) expanding access to social services, fostering broad-based growth, promoting good governance, and integrating gender and environmental considerations into development efforts; and (c) increasing its development effectiveness through more selective, more participatory, and better-coordinated CASS.

Overall, OED finds IDA's performance in relation to its commitments to be satisfactory, but with qualifications. IDA has done much to sharpen the poverty focus of its analytical work, policy dialogue, and lending. The quality of lending and non-lending services has improved. Recently, it has brought governance to the fore. Yet it has made limited progress in integrating private sector development, gender, and environmental sustainability into its country programs. Taking account of a host of factors not under IDA's control, the development outcomes of IDA programs are rated partially satisfactory. Much remains to be done by IDA and its partners to meet the multifaceted challenge of supporting sustained, pro-poor, broad-based growth.

In moving forward, IDA should focus on implementation of its existing policy framework, align resources with strategic priorities, and consolidate its mandates. IDA should concentrate more on its areas of comparative advantage—work at the strategic level in support of economy-wide, sector-wide, and government-wide reforms—and make capacity building a core dimension of every aspect of its work. With the full support of its shareholders, it should also play a more proactive role in fostering aid harmonization and coordination—at the global and country levels—to reduce the high transaction costs of aid.

This will require even greater country and program selectivity; expanded work in the critical areas of public sector reform and institutional development, a joint commitment with partners to move from ad hoc to more structured coordination of aid programs, and reinvestment in IDA's analytical work and full funding of approved Country Assistance Strategies.

IDA would also benefit from adjusting the replenishment process. Three changes would improve the process: developing a long-term vision focused on results; engaging developing countries in setting priorities and monitoring replenishment commitments; and defining commitments in terms of monitorable and achievable objectives, with realistic costing.

nance as a key factor in country development efforts.

To strengthen the effectiveness of its country programs, IDA has also enhanced the role of its CASS as a tool for comprehensive diagnosis and program planning. It has strengthened the link between country performance and lending; increased stakeholder participation in projects and programs; and accelerated its efforts in aid coordination, especially in the past few years. These are major achievements.

Compliance, however, has been uneven across and within areas of program and process emphasis. Governance only recently acquired adequate weight in program priorities. There has been only partial and halting progress in integrating critical private sector development (PSD), gender, and environmental considerations into country assistance programs. And neither program selectivity nor coordination with development partners has been achieved to the degree called for in the replenishment undertakings, although the Comprehensive Development

Framework (CDF) and the Poverty Reduction Strategy Paper (PRSP) initiatives have provided new momentum in the past two years.

### Development Outcomes

Clearly, compliance with replenishment undertakings and development outcomes are not the same. Nor is performance in the implementation of replenishment injunctions (which are stated largely in terms of inputs and outputs rather than outcomes) the sole determinant of those outcomes. The global environment has been challenging for countries with weak institutions and poor governance, and poverty trends have been disappointing. Against this background, the improved development effectiveness of IDA operations is notable, while the development outcomes of IDA programs, assessed against its ambitious goals, have been partially satisfactory.<sup>1</sup>

Although IDA has done well in helping many countries lay the foundations for economic growth and poverty reduction, the record of IDA countries in sustaining growth at high enough levels,

over long enough periods, and through measures sufficient to benefit the majority of the poor has been mixed. This reflects a host of non-IDA influences on development outcomes, including regional conflicts, weak domestic capacities, mixed policy performance, variable quality of aid, and exogenous shocks. But it also highlights areas where IDA's own performance, while generally satisfactory and improving, could be enhanced still further and contribute more positively to development outcomes.

IDA made important innovations in its organization, lending instruments, and assistance strategies to increase the responsiveness of its operations to country development priorities. Robust self-evaluation and policy recasting have been put in place, contributing to increased development effectiveness. More important, the performance of IDA lending has shown substantial gains. But the linkage between institutional priorities and country programs has not been strong, and weaknesses in lending and nonlending activities that impede IDA's operational effectiveness at the project and country levels remain. Declines in the funding of analytical work, the substantial challenge of expanding governance work, the slow pace of improvement in institutional development impact and support for capacity building, inadequate selectivity, and insufficient monitoring and evaluation (M&E) at both the country and the project levels require stronger remedial action, as acknowledged and, in some cases, pinpointed by management's own self-assessments.

### **Why This Review?**

While IDA's main goals and basic features have remained consistent throughout its history, IDA has progressively refined and broadened its approach. It reached an intellectual and programmatic watershed with the publication of the *World Development Report 1990: Poverty*, which advocated a strategy of poverty reduction through economic policy reforms and productive investments. The goal was to improve the incomes of the poor through labor-intensive growth and to expand their access to social services and social safety nets. The strategy reflected empirical evidence that demonstrated

the importance of growth and the central role of human resource development in bringing about significant and sustained improvements in living standards.

The IDA10–12 replenishment undertakings adopted the framework of the 1990 strategy, with a call to sharpen IDA's poverty focus. They expanded the agenda to include gender, the environment, and governance as part of a "broad-based framework for poverty reduction" (IDA 1998). They also urged IDA to increase effectiveness through increased country ownership and improved development partnerships. The diversified and complex policy content of these commitments—a departure from the more general guidance embodied in previous replenishment agreements—is the ultimate rationale for this review. Has IDA acted responsibly to implement its replenishment commitments? Has it changed fast enough and in the right directions? As a result, is it well equipped to assist borrower countries in today's era of rapid technological change, borderless private investment, and increasingly fragile physical environment? These are the questions that motivated the IDA Deputies' call for an independent review of IDA's record.

## **The Program Dimension**

### **A Sharpened Poverty Focus**

IDA has progressively strengthened the poverty orientation of its analytical work, investment lending, and adjustment operations since adoption of the 1990 poverty strategy. Both momentum and specificity have increased over successive replenishment periods. Internal policy and institutional changes, combined with external contributions from IDA (and other donors), have moved many IDA borrowers into a position to direct greater efforts toward poverty reduction goals than at the beginning of the review period. But substantial and sustainable results for the poor require consolidation and deepening of development and aid reforms.

### ***Redirecting Country Assistance Strategies.***

IDA undertakings have emphasized poverty reduction as their overarching objective, and

this goal has been increasingly reflected in IDA CASs, particularly since 1997. Broad-based growth, human resource development, and protection of vulnerable groups have become common CAS objectives. CASs are also increasingly based on comprehensive poverty diagnosis and consultations with stakeholders. By FY00, a growing number of IDA CASs included poverty reduction targets linked to intermediate objectives and benchmarks for tracking country and IDA performance.

To underpin the sharpened focus of the CAS, IDA has made major contributions in collecting and disseminating poverty data and analysis. Poverty Assessments (PAs) have been completed for 90 percent of eligible IDA borrowers, and Public Expenditure Reviews (PERs) have been conducted for almost half. Still, linkages between country programs and poverty outcomes are not always well articulated. More needs to be done to integrate broad-based growth poverty reduction strategies into macroeconomic and sector strategies and interventions. Improvements are needed in setting program priorities that will have the greatest impact in reducing poverty. For this, the quality and policy relevance of economic and sector work (ESW) and the monitoring of linkages between IDA-supported policies and programs and poverty outcomes continues to need attention, with particular emphasis on strengthening borrower capacity to collect and analyze poverty data, monitor progress, and enhance program outcomes.

***Expanding access to social services.*** IDA's commitment to increase social sector lending has been highly satisfactory over the IDA10–12 period. Social sector investment lending is up from 20 percent of total IDA investment lending in the late 1980s to a sustained level of 40 percent since 1995. With the increase, IDA became the largest financier in human development and a major source of analysis and advice, particularly in Africa. Through its analytical work, lending, and technical assistance, IDA has helped countries strengthen their human development policies, increase their level of social expenditures, expand access to basic services, and, particularly in the transition countries,

adjust pension and other social protection mechanisms. Overall, IDA has shifted the focus of its assistance from projects to sector-wide reforms and provided some form of social sector assistance in virtually all of its active borrowers.

On the whole, IDA has had more success in helping countries to expand access to social services than in improving the quality of service delivery to the poor. The difficult challenge has been to help countries deal with the politically and institutionally complex issues, particularly deficits in public sector management and institutional development, that hobble the sector-wide reforms and programs needed to produce sustainable results. IDA has responded to this challenge with several program innovations, including new sector-wide and country-wide programmatic and adaptable lending instruments, a stronger field presence, and greater priority to institutional change, with a fuller recognition of the importance of partnership and ownership of policy reform. IDA has also increased its participation in country-led, donor-coordinated, sector-wide programs in education and health; given more attention to multi-country (regional or global) programs; and, most recently, increased its support for linking social sector reforms more closely with poverty reduction goals through assistance to countries in their preparation of PRSPs. Each of these innovations shows significant promise, but also presents operational challenges that call for further results-based process and procedural changes on the part of IDA, in conjunction with other donors.

### **The Challenge of Broad-Based Growth**

In promoting broad-based growth, the second major component of IDA's poverty reduction framework, IDA has traveled a considerable distance in implementing its commitment to improve the poverty and social dimensions of structural adjustment operations and to strengthen its support for PSD. Nevertheless, acceleration of broad-based, job-creating growth remains a major challenge.

***Gains from adjustment lending.*** Bank-wide project ratings indicate that adjustment operations

have improved their development effectiveness. Satisfactory outcome ratings have risen from 65 percent of completed projects in IDA9 to 80 percent in IDA11–12. In countries committed to reforms, IDA adjustment operations have contributed to macroeconomic stability and the removal of key economic distortions, but evidence on income and employment generation for the poor is less clear. Why has it been so difficult for development partners, including IDA, to support countries in moving beyond the intermediate outputs of adjustment programs (new policies, legislation, privatization) to achieve better poverty reduction results?

*Why has it been so difficult to support countries in moving beyond the intermediate outputs of adjustment programs to achieve better poverty reduction results?*

Many IDA countries have been inconsistent in their implementation of reform programs, short-circuiting their ability to sustain high growth rates and to implement the complex structural reforms necessary for long-term poverty reduction. It has also proved difficult to come up with practical policy measures to achieve not just growth, but broad-based growth, and to address the factors that affect the ability of the poor to participate in the opportunities created by growth-oriented policies. Of concern is evaluative evidence, including testimony of stakeholders, that the links between policy change, sector strategy, and the expected pattern of growth are weakly articulated in IDA CASS, and the mechanisms that are to transmit the benefits of policy changes to the poor are not spelled out. There is an urgent need for work on the determinants of pro-poor growth in specific country circumstances and for greater clarity and specificity in how IDA assistance can best support borrowers in setting and advancing country-specific priorities.

***Lags in rural and private sector development.*** Lags in both rural and private sector development are also important contributing

factors to the weak broad-based growth outcome. IDA's lending for agriculture and rural development, largely overlooked in the IDA10–12 replenishment agreements, has declined from 23.4 percent of commitments during IDA10 to 9.6 percent during the first year of IDA12. It appears that IDA has withdrawn, appropriately, from unsuccessful efforts, such as top-down systems of extension services and complex rural development activities that had higher than average failure rates, but it has not put improved approaches in place. Adjustment lending and related ESW have contributed to relevant policy reforms in a number of IDA countries, improving agricultural price incentives and exports. Reform efforts, however, have not resolved other structural and institutional constraints that impede agricultural productivity and marketing and rural poverty reduction.

In the context of robust lending for social funds, rural infrastructure, and health and education, decreases in agricultural and rural lending cannot be assumed, a priori, to be a bad thing. However, given that most of the world's poor will continue to live in rural areas well into the twenty-first century, and that agriculture accounts for a sizable share of poor countries' GDP, the lack of consensus regarding rural development strategies among development partners and the reduced priority of agriculture in aid programs are causes for concern. The sector requires renewed attention on the part of the international development community, with IDA's role to be determined in coordination with others.

In contrast, as efforts to stabilize macroeconomic conditions took hold in the 1990s, IDA increased its PSD activities and, in certain sub-sectors, has had some success. But CASS still tend to lack well-articulated PSD strategies, which in part reflects differences in perspective between IDA and its borrowers and continuing difficulties in linking IDA, International Finance Corporation (IFC), and Multilateral Investment Guarantee Agency (MIGA) activities into a coherent whole. In the past few years, IDA has forged a closer working relationship with IFC. Considerably greater synergies, however, can be tapped and selectivity exercised by further delineating

IDA's role in improving the country policy framework, IFC's connectivity to private corporations, and MIGA's catalytic function in foreign investment, in addition to shifting activities among institutions and dropping activities better pursued by other actors. Although the Bank's prior CAS retrospective did not analyze the treatment of PSD, the 2000 CAS report notes that by increasing the early involvement of IFC and MIGA in CAS preparation, PSD programming has been improved. Thus, it proposes a deeper integration of CASs and work programs in selected countries.

While many IDA projects have had successful outcomes, a selection of IDA Country Assistance Evaluations (CAEs) gives relatively low ratings to the effectiveness of IDA's PSD work and underscores the need to focus more sharply on the investment climate. These evaluations also reflect past weaknesses in IDA's support for small and medium-size enterprises and rural finance—two areas with new strategies that aim to improve future efforts. In addition, inadequate focus on the institutional and policy framework for privatization operations has meant that efficiency gains have often not been widely shared. In line with IDA12 commitments, such operations are now giving increased attention to social protection and environmental issues. Efforts to increase the private provision of infrastructure are more recent and show promise.

The PSD strategy paper now being prepared should explicitly define the rationale for a clear division of labor and greater selectivity within the World Bank Group and vis-à-vis others. It should also identify ways to improve IDA's support for the policy and regulatory environment for private investment, the proper institutional foundations for privatization, the expansion of the private provision of infrastructure and social services, and the overall distributional impact of PSD activities.

***IDA's strategic role.*** IDA's comparative advantage in support of broad-based growth and poverty reduction lies at the strategic level, not only in lending for adjustment programs and key investments in support of broad-based growth, but also in supporting the research and analyt-

ical work needed to identify the actions required for the poor to share in the overall gains. The PRSP initiative, launched after the negotiation of IDA12 and based on CDF principles, represents a major step in realizing these goals. It offers a new way to link poverty analysis, country-led policy design and program choice, partner involvement, and monitoring. In this context, IDA should increase its support for strengthening borrower capacity to track programs, analyze results, improve program outcomes, and inform broad public debate. In addition, IDA management should continue to consider how to improve the role of Sector and Thematic Strategy Papers (SSPs) in identifying knowledge and strategic gaps, with a sharpened focus on poverty reduction, as a guide to clarifying the kinds of activities that make the most sense for the World Bank Group.

***IDA's comparative advantage in support of broad-based growth and poverty reduction lies at the strategic level.***

### **Integrating Gender, the Environment, and Governance**

Although the IDA10–12 replenishment undertakings that called for integrating gender, environmental sustainability, and good governance into IDA's country assistance programs were highly relevant, progress has been constrained by a lack of consensus, within IDA and among its member countries, on the priority of these concerns, and on IDA's appropriate role in advancing them. While IDA has made important contributions in each of these areas, its success has been limited relative to its commitments.

***Slow progress in gender and environmental mainstreaming.*** In implementing the commitment to reduce gender disparities in health and education, IDA assistance has achieved satisfactory results, in part because of significant country ownership and effective partnerships with other development actors, and in part because interventions have been underpinned by rigorous analytical work. In countries with



large gender disparities, IDA has integrated gender into virtually all education projects, contributing to positive trends in girls' school enrollments. It has also contributed to improvements in maternal health. IDA assistance, however, has been weaker in promoting women's participation in the economy and in improving borrowers' institutional frameworks for gender. These shortcomings have undermined the efficacy of the assistance and led to disappointing results at the country level.

IDA's implementation of environmental undertakings has also been partially satisfactory. By the end of IDA11, National Environmental Action Plans (NEAPs) had been completed for nearly all IDA countries, but their quality has been mixed and their use in CASs has varied greatly. To improve the treatment of the environment in country assistance programs where environment is a priority issue, the Bank's 2000 CAS review identifies several "next steps." Drawn from recommendations in OED, external, and self-evaluations, these steps call for a better integration of environmental considerations into ESW, a strengthening of the link between environmental considerations and poverty reduction measures, and a better incorporation of environmental indicators and trends in CAS diagnoses of country development issues. These steps are essential to mainstreaming environmental considerations into IDA activities, but they are only first steps.

*Safeguards and mitigation should be a minimum threshold, but not the main thrust of the environmental sustainability strategy.*

While lending for environment projects remains at about the level reached in IDA9, IDA has increased the number of environmental components in projects in key sectors. This assistance has helped to increase public and governmental awareness of environmental issues, contributing to, for example, a reversal of land degradation, improved incomes from arid lands, and strengthened environmental capacity. Moreover, IDA has made efforts to help countries improve their environmental assessments,

although failures to implement environmental safeguard policies adequately in a few high-visibility projects have drawn public and Bank attention to the continuing need to further strengthen the Bank's environmental assessment process. Safeguards and mitigation should be a minimum threshold, but not the main thrust of the environmental sustainability strategy. Projects in all sectors need to be designed to ensure environmental quality and sustainability, but IDA has yet to provide guidance to define, promote, monitor, or evaluate this broader objective of mainstreaming.

Lack of country interest in borrowing from IDA for gender and the environment has been a constraining factor, in part because of the availability of grant funding from other sources. But IDA has also lacked clear accountability for gender and environmental mainstreaming. In both areas, IDA needs to concentrate on strengthening borrower institutions and policies as a matter of priority. In addition, based on comprehensive diagnoses, it should better integrate gender and environment into CASs, and increase gender and environmental diagnoses in the economic and social analyses carried out in preparation of IDA-supported projects, especially in situations where gender disparities are high or environmental threats serious. IDA also needs to clarify the scope of the Bank's gender and the environmental mainstreaming policy, strengthen the management for gender and environmental issues, and establish M&E systems to regularly track and periodically evaluate IDA-wide progress. New strategies to guide gender and environmental activities, currently under discussion within the Bank, give IDA an opportunity to deal with these matters.

***The critical factor of governance.*** Although largely missing from the Bank's 1990 poverty strategy, good governance was identified in the IDA10–12 period as a critical factor that affects all other areas of program emphasis. IDA was slow to comply with its IDA10 governance undertakings, but over the past four years it has given priority to public sector reform in country assistance programs and openly addressed issues of corruption. To strengthen its capacity

for expanded operational work, IDA has increased staffing, analytical work, and policy guidance. As a result of these efforts, country dialogue and reporting on governance issues have picked up, and lending for public sector reform has grown. In addition, institutional development issues are increasingly addressed in lending operations and PERs, and more attention is focused on wider issues of public expenditure management, although capacity building for effective and accountable processes remains a major task.

But there are shortfalls. The treatment of governance is not yet consistent across countries. Greater coordination among external agencies in regard to governance conditionality and assistance is needed to make progress on the broader governance agenda. More support is needed, for example, to bolster the rule of law, which is central to an environment conducive to investment, as well as to alleviate personal insecurity, a principal concern of the poor. IDA currently supports this work in only a handful of countries, but it does not have the comparative advantage to deal with all aspects of judicial and legal reform (including law enforcement). IDA's strengthening of public financial accountability in borrower countries—a previously neglected area—has gained momentum, but it still requires a considerably increased effort, focused on capacity building in borrower countries at all levels of government. In addition, governance has become a factor in determining CAS lending levels, with a “governance discount” applied to allocations, but this mechanism needs rethinking to ensure more effective treatment of governance performance.

### **The Process Dimension**

As it has refocused the development agenda, IDA has also been at the forefront of change in the aid “business.” IDA's Replenishment Reports put particular emphasis on greater selectivity in the use of aid and on improving partnerships by increasing participation and coordinating aid with countries' own development programs.

In line with replenishment commitments, this reform agenda has focused on strengthening four key IDA processes: enhancing the role of

the CAS in setting program priorities, improving the performance-based allocation (PBA) system to tighten the link between country policy performance and lending allocation, increasing stakeholder participation in projects and programs, and strengthening aid coordination among donors. While the PRSP initiative has given a significant impetus to these reforms, IDA, together with its development partners, still has a considerable distance to go in consolidating and institutionalizing improved partnership practices.

*There has been an increasing focus on the country as the unit of account in the design and assessment of IDA assistance.*

### **Improving Program and Country Selectivity**

**Enhancing the role of the CAS.** There has been an increasing focus on the country as the unit of account in the design and assessment of IDA assistance. The CAS—as both a document and a process—has become the main program-planning vehicle for this shift. Its self-evaluation content has improved considerably in recent years. As a result of more comprehensive diagnosis and greater participation in their design, CASs have contributed to program relevance, greater country ownership, and better aid coordination. As the Bank's 1998 CAS retrospective highlighted, however, at the start of IDA12, less than 40 percent of CASs discussed selectivity in key program areas, and fewer linked IDA's strategy with its comparative advantages, including prioritizing its activities across and within sectors and by instrument. FY00 CASs show some improvement in program selectivity, which reflects an increase in attention to this issue by member governments and management, but progress remains uneven. With the introduction of PRSPs, the role of the CAS will change again. As management has indicated, as of July 2002, CASs will normally be based on PRSPs while retaining their identity as business plans for the World Bank Group. Still, the challenge of program selectivity will remain. Moreover, consistency now needs to be achieved among

criteria for assessing the quality of PRSPs, CAS lending triggers, and IDA's PBA assessments.

***Strengthening the system of performance-based allocations.*** IDA's PBA system—the principal mechanism for achieving country selectivity—now better directs credits to countries with good performance ratings than at the start of IDA10. This improvement reflects increased knowledge about the causes of growth and poverty reduction, as well as specific replenishment recommendations, which include giving greater weight to governance, environmental sustainability, and nondevelopmental expenditures in assessing country performance. Since there are relatively few top performers (and most are small economies), the bulk of IDA lending goes to countries in the middle performance range. Some shortcomings that remain in the design and implementation of the allocation system are related to two key issues: equitable treatment across countries and the strength of the links between performance assessment criteria and countries' continuing poverty reduction. These issues could be addressed by rethinking the current “governance discount” methodology, which has failed to capture some borrowers with serious governance problems; further adapting the assessment criteria; and increasing transparency and dialogue with partners.<sup>2</sup>

***Few of IDA's program and process objectives can be satisfactorily achieved without enhanced aid coordination.***

**Building More Effective Partnerships**

***From ad hoc to structured aid coordination.***

Few of the program and process objectives of IDA's Replenishment Reports can be satisfactorily achieved without enhanced aid coordination. During IDA10–12, the focus has moved beyond the mechanics of donor agency coordination to improved aid management, preferably led by recipient countries, with donors directing their support to sound, country-designed policies and programs. These changes are reflected in suc-

cessive replenishment recommendations, culminating in IDA12, with its emphasis on country-led partnerships that combine the objectives of country ownership and donor coordination. But progress thus far has been limited, and uncoordinated aid programs continue to impose heavy burdens on recipient countries and limit the impact of aid programs.

Although progress was modest in IDA10–11, IDA has accelerated its efforts in aid coordination, particularly in the past three years. In-country coordination has been reinforced by the increased placement of IDA country directors in the field. IDA has given greater emphasis to harmonizing procurement procedures and evaluation processes among multilateral development banks. There has been a trend toward country-led coordination mechanisms. IDA has increased its participation in sector-wide approaches (SWAs), an aid mechanism that combines government leadership in the design of a strategy, an agreed medium-term expenditure framework, external assistance provided within that strategic framework, and agreed processes and indicators for monitoring progress on the ground. These SWAs are one of the few examples of formally structured program coordination mechanisms focused on both design and implementation. As such they should serve as key building blocks to support recent CDF and PRSP initiatives. Overall, the shift in approach to country ownership and partnership is clear. Consolidation and institutionalization of this shift, however, require the move from ad hoc to structured arrangements at the country level and a greater commitment to harmonization of policies and procedures at the corporate level by IDA and the other multilateral and bilateral agencies.

***Moving beyond project participation.*** A second key feature of the move toward more effective partnerships is increasing the participation of borrower country governments, civil society, and the private sector in IDA program design, implementation, and monitoring. The percentage of IDA projects with at least some primary stakeholder participation nearly doubled from 1994 to 2000, reaching 83 percent of all IDA proj-



ects. PAs and PERs have recently become more participatory, although clients remain dissatisfied with the extent of local capacity building. The participation of stakeholders in CAS preparations has also increased, but the impact on CAS design in all but a few cases is unclear. Moreover, the move beyond project participation to participation in analytical work and strategy design has intensified issues of representation, approach, and costs.

## Getting to Results

### The Corporate Issues

IDA has accelerated organizational changes since the start of IDA10. Its country focus and responsiveness are stronger, with some 24 IDA country directors now in the field. It has introduced innovative lending instruments to increase flexibility and institutional development impact. Along with these transformations has come a strong focus on improving the quality of IDA performance at the project and country levels. This emphasis has begun to show significant results in improvements in the performance of the lending portfolio. Outcomes of completed projects have risen to 70 percent satisfactory, close to parity with the International Bank for Reconstruction and Development (IBRD, or World Bank). The institutional development impact and sustainability of IDA projects have also improved, although from very low levels.

Project-level performance is an important indicator of IDA's contribution to country development efforts, but it tells only part of the story. In recent years, IDA has significantly shifted its focus from individual projects to the "higher plane" of country programs. OED CAEs and Bank research results suggest that the two most important determinants of country program outcomes are the level of borrower commitment to the objectives laid out in the CAS and the extent to which the specific components of the strategy, instrument mix, and the efficacy of country program implementation, including partnerships, are adapted to country circumstances. Reflecting these multiple factors, the 24 most recent CAEs (most of which cover assistance over the period of the 1990s) found that the development out-

comes for a third of the country programs were fully satisfactory and the bulk of the remainder were moderately satisfactory. Both the portfolio and CAE reviews highlight that development outcomes are influenced by exogenous factors, borrower and partner performance, as well as IDA's own performance. They also show a dynamic of improvement over the period. Finally, they point to issues at the corporate level that need further work.

**Accountability for policy compliance.** IDA's policy framework remains highly relevant. But a clarification of the rationale, intent, and scope of IDA's policy is needed in certain priority areas, particularly PSD, gender, and the environment. Recently, IDA management has responded to Inspection Panel investigations by allocating more resources to quality assurance and compliance monitoring of safeguards policies. But more needs to be done to clarify the assignment of accountabilities, improve staff training, and realign staff incentives. Regular monitoring and periodic evaluation also need strengthening at the corporate, country, and project levels. These issues underscore the importance of rebalancing the matrix toward the implementation of global priorities and strengthening the role of sector strategies in setting program goals, articulating IDA's role in meeting them, and helping to strengthen implementation strategies.

**Investing in analytical work and capacity building.** Broadening the range of lending instruments has increased IDA's flexibility and responsiveness. Both adaptable lending and new types of adjustment lending facilitate IDA's support of institutional reforms and the tailoring of its assistance to country circumstances. But achieving further improvements in program outcomes still depends on ensuring adequate, high-quality analytical work and enhancing the capacity-building dimensions of IDA's assistance.

**Deploying resources.** Cutting across all other issues is the matter of aligning resources to priorities. Three sets of issues are of particular relevance. First is the availability of budget resources for country priority lending and non-

lending services. As highlighted in the background studies for this report and discussed in Bank strategic direction papers and related budget proposals, administrative resources declined for both country lending and ESW over the period of this review. Second, despite the Bank's poverty reduction mission, country poverty level and performance factors have been relatively minor considerations in budget allocations. Regional and country budget allocations do not explicitly distinguish between IDA and IBRD countries. And, while corporate and intraregional decisions have begun to provide more budget resources to poorer countries, consistent with performance, the impact to date has been small. There are complicating factors in linking budget to poverty levels—for example, the differences in operating costs among countries. However, poverty could be given greater weight in budget allocations through the use of a country norm methodology, an approach that to date has only marginally influenced decisions. Third, the programming and budget system has lacked adequate mechanisms for reconciling commitments and budget allocations. This is a particular problem for CASs, which generally serve as a planning instrument for a two- to three-year period but are approved separately from annual country budgets. It is potentially significant, therefore, that in this year's budget process Regions are not only carrying out detailed costing of CASs, but also, for the first time, are preparing a three-year rolling budget to minimize unexpected movements in Regional funding.

*Cutting across all other issues is the matter of aligning resources to priorities.*

**Recent management proposals.** Over the period covered by this review, there has been a commendable buildup of management self-evaluation, learning, and proposed new actions, as identified throughout this report. While it is too early to judge the efficacy and efficiency of many of the recent initiatives, their relevance to IDA's evolving role is clear. In addition, in preparing for this year's budget exercise, management has proposed further initiatives, includ-

ing several that are highly consistent with the major findings and recommendations of this review. They are: (a) the establishment of a management committee whose principal role is to align corporate strategies, ensure institutional selectivity, and manage tensions between corporate priorities and country programs; (b) the continued sharpening of the framework for corporate priority setting, and definition of criteria for selecting those priorities; (c) the implementation of more accurate tracking and management of nonlending services; (d) the introduction of budget process reforms, as noted above, involving the full funding of CASs within a rolling three-year planning and budgeting horizon for FY02 and beyond; and (e) the further promotion of decentralization and rebalancing of the management matrix, including additional clarification of accountabilities.

**Could IDA Have Done Better?**

IDA's efforts to recast its mission; reach out to engage more broadly with its development partners; and reposition its country staff, country programs, and lending instruments were all highly relevant adjustments that have contributed significantly to increasing development effectiveness. Moreover, the recent CDF and PRSP initiatives provide important potential for further improving program implementation and results. As a consequence, the IDA program at the midpoint of IDA12 is different in important ways from the program at the start of IDA10 in FY94. Its portfolio performance has steadily improved, and its contribution to development outcomes in the future has been enhanced.

The impact of IDA's efforts would likely have been greater, however, if it had moved more quickly in the mid-1990s to increase attention to governance and institutional impediments confronting country development, and directed more of its analysis and dialogue to identifying ways to improve rural and private sector development and economic opportunities for women—all measures needed to stimulate broad-based, pro-poor growth and poverty reduction. IDA's impact would also have likely been enhanced if it had used its resources more selectively, not only among countries based on

demonstrated commitment to poverty reduction, but also in its choice of program approaches and instruments, based on more adequate diagnoses of country circumstances and its own comparative advantage in specific country contexts. Finally, IDA's effectiveness would likely have been further enhanced if it had found ways to improve capacity building in borrower countries in partnership with others, developed the necessary indicators and monitoring processes for a sharper focus on results, and, together with partners, moved considerably further in coordinating efforts at the country level to support country-led programs. These challenges have been described in numerous OED reports, and many of them have been addressed in management's self-evaluation reports and proposed future actions. The key to improved development outcomes in the future lies in aligning resources behind responses to these challenges in the context of the CDF/PSRP process at the country level.

### Looking Forward

The IDA10–12 review period has witnessed considerable change—in borrower countries, in IDA, and in the development system. The IDA10–12 policy framework has encouraged IDA to move in directions that are relevant to the needs of its borrowers and that remain broadly germane for the future. But IDA and its partners are still in the process of implementing the core elements of the framework, reinforced by new initiatives that were introduced during IDA12. IDA now needs to deepen and broaden the gains from the existing policy framework by:

- Focusing on implementation
- Adequately aligning resources to strategic priorities
- Consolidating the IDA mandates.

To achieve these goals, IDA will need to adjust further its role at both the country and the global levels, within the limitations set by resources available for its lending and non-lending services. In its primary role of supporting country-based development efforts, IDA should concentrate more on its areas of comparative advantage, which, for the most part, lie

at the strategic level in supporting economy-wide, sector-wide, and government-wide reforms, and on capacity building. At the same time, IDA should play a more proactive role at the global level to facilitate achieving the harmonization and coordination of external assistance needed to make greater progress toward the overarching goal of poverty reduction.

*IDA should play a more proactive role at the global level to facilitate achieving the harmonization and coordination of external assistance needed.*

### Next Steps

IDA could take several steps to build on the improvements of the past seven years in the development effectiveness of its country and global roles:

- **Be more selective.** IDA needs to do more to increase its country, program, and corporate selectivity. This calls for further improving IDA's PBA system and ensuring consistency among the PRSP, CAS, and PBA processes. It also entails strengthening sector strategies and better integrating them into CASs, based on countries' poverty reduction strategies, to help determine where IDA should take a leading or a supporting role in coordination with other donors. IDA also needs to clarify its priorities and objectives across sectors and themes to identify more clearly what it can (and cannot) commit to do. Because this corporate-level selectivity cannot be determined effectively in isolation from other agencies' strategic decisions, IDA needs to become part of a broad, agency-wide harmonization action plan. In practice, quantitative lending targets for sectors, lending instruments, or groups of countries can serve as disincentives to greater programmatic and country selectivity.
- **Focus on governance and capacity building.** Every area of this review highlights the centrality of governance and public sector capacity building, with a view toward encouraging borrower governments to provide public goods and services more efficiently and to be more transparent and accountable to their

publics. To encourage more effective government and improved program implementation, every aspect of IDA's assistance—from analytical work and design and supervision of operations to monitoring for results—should have a capacity-building dimension. This may require expanding IDA grant financing; it may also require instituting much more structured coordination with grant-giving agencies. While the governance agenda set out in the IDA10–12 Replenishment Reports remains relevant, recent experience suggests that IDA, its borrowers, and other development partners need to make a special commitment to enhancing public expenditure management and financial accountability. IDA should support, and link its future lending to, the commitments of its borrowers to establish time-bound plans for sound public financial accountability systems.

- **Commit to effective development partnerships.** IDA should work at the country and global levels to move to a new development architecture, including a shift from ad hoc structured arrangements of aid coordination. One potentially important way forward is to use the PRSP as a concrete way to apply the CDF principles. The implementation of the PSRP initiative is a priority for IDA12 and beyond. Within this context, another priority should be to strengthen and broaden the application of sector-wide programs at the country level, following recent lessons on how to make these effective, results-oriented, donor-coordinated approaches support country-owned programs. At the global level, IDA donors should ask the Bank's president to facilitate a time-bound process involving the heads of bilateral and multilateral assistance agencies to achieve greater harmonization in aid practices. The agenda should go beyond procedural issues to strategic concerns of program and country selectivity. While IDA cannot and should not take the lead in all aid coordination efforts, it can further adjust its own processes, and encourage others to do the same, to achieve the much greater coordination needed to reduce today's high aid transaction costs.

- **Clarify program objectives and policies.**

IDA should articulate what it means by its “focus on poverty reduction” and clarify its program objectives and policies in relation to that goal. The record of the past seven years shows that it needs to accelerate broad-based growth and governance reforms as key intermediate objectives of its overarching goal of poverty reduction. It also needs to link the objectives and operational policies of the crosscutting themes of gender, environment, and PSD directly to poverty reduction and to clarify the policy of gender and environmental mainstreaming.

- **Better align resources with program priorities.**

Finally, in applying the lessons of the past seven years, it is essential that IDA better deploy its resources relative to its commitments through its budget process and full funding of CASs. Poverty has been a relatively minor factor in budget allocations, although this could alter with the further application of a country norm-based methodology. Efforts to cost CASs more realistically should be accompanied by a process that ensures full funding of board-approved strategies. Also, ways are still needed to ensure funding of appropriate levels of due diligence and program-specific ESW and to ensure a greater focus on capacity building.

### The Replenishment Process

The findings of this review suggest that IDA's replenishment process itself might usefully be fine-tuned. It offers a valuable opportunity to discuss, at a global level, the experience and future direction of international development assistance and to mobilize funding to support key objectives. As currently constituted, the process falls short of fully realizing this potential.

Although consistent with an evolving consensus in the international development community, replenishment undertakings have been both overdetermined and overloaded (for example, in specifying the shares of lending for sectors and countries and in the number and detail of the recommendations). They have sometimes been unrealistic about what IDA and its bor-

rowers could reasonably accomplish in a three-year period, having focused on inputs rather than results, without addressing budget resources. More important, IDA's replenishment process has been disconnected from its development partners, both borrowers and other assistance agencies, to the detriment of setting priorities and applying its comparative advantage. Three changes could improve the process and, thus, the impact of future undertakings.

- **Develop a long-term vision focused on results.** As part of the IDA13 negotiations, management should be asked to develop, in consultation with borrowers, a long-term vision for IDA, clarifying what is meant by IDA's poverty focus, identifying ways to deploy IDA's resources, and taking advantage of IDA's global role as a complement to its country focus.
- **Engage developing countries in setting replenishment commitments.** The far more transparent and consultative process planned for the IDA13 negotiations goes well beyond the measures taken in IDA12 and should help to set achievable IDA goals and improve implementation. Beyond the negotiations, IDA should consider how to engage its partners in monitoring and evaluating IDA13 performance and results.
- **Define commitments in terms of monitorable and achievable objectives, with realistic costing.** IDA's replenishment undertakings have tended to emphasize inputs and, too often, unrealistic output targets that do not take adequate account of the need for country ownership if reform efforts are to be sustained. It would be better for Replenishment Reports to focus on development goals and on the kinds of priority activities that IDA should support in advancing those goals, while accounting for IDA's comparative advantage and reflecting realistic costings of replenishment commitments. In addition, Replenishment Reports ought to agree on IDA performance indicators and on a process of progress reporting, recognizing that operating within CDF principles means moving even further away from directly measuring the link between IDA activities and country development outcomes to new ways of tracking IDA's performance in partnership with others.





## Part I

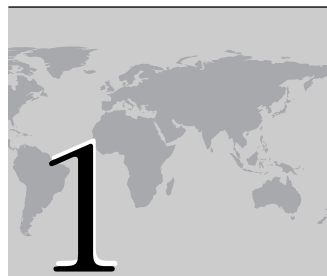
# The IDA Review and Its Context

*The mission of IDA is to support efficient and effective programs to reduce poverty and improve the quality of life in its poorest member countries.... To achieve this, the focus must be on: sustainability—to achieve enduring development impact with an environmentally sustainable framework; and equity—to remove barriers and open up opportunities for the disadvantaged.*

—IDA12 Replenishment Report (p. iii)







# Introduction

**T**he International Development Association (IDA) is a unique instrument of development cooperation. Its establishment in 1960 marked an unprecedented commitment by the international community to improve global welfare. IDA has made substantial and distinctive contributions to growth and poverty reduction in low-income countries through concessional finance, global knowledge, and aid coordination services. The largest source of concessional finance to low-income countries, IDA has provided an average of \$6.45 billion annually (in constant 1995 dollars) to some 77 eligible borrower countries through the 1990s.

The “development crusade” that gave rise to IDA has reached a new consensus in recent years focused on poverty reduction and stronger development partnerships. While IDA’s basic features—as a separately funded but integral component of the World Bank Group—have remained much the same, its support for country development has broadened in line with this evolving consensus and the changing circumstances confronting its borrowers.<sup>1</sup>

Has IDA changed fast enough in recent years and in the right directions? Has it acted responsibly to implement its commitments? As a result, is it well equipped to assist its borrowers in an era of rapid technological change, borderless private investment, and an increasingly fragile natural environment? These questions underlie the mandate for this review as set out in the IDA12

replenishment agreement between IDA and its donors.<sup>2</sup>

## **IDA10–12 Replenishment Undertakings**

Before IDA10, agreements between IDA and its donors focused largely on resource concerns (size of the replenishment, eligibility criteria for borrowers) and included general endorsement of IDA’s ongoing and planned activities. The extensive policy content of the IDA10–12 replenishment undertakings (IDA10, FY94–96; IDA11, FY97–99; and the first year of IDA12, FY00) makes this review of IDA’s compliance and effectiveness especially important (see box 1.1).<sup>3</sup>

The IDA10–12 agreements called for major program transformation to strengthen the poverty impact of IDA’s assistance. In broad terms, the IDA10–12 accords endorse poverty reduction

**Box 1.1****The IDA 10–12 Replenishment Undertakings**

The IDA12 agreement called for “a review of the IDA program during the IDA10–11 period and an interim review of IDA12, including performance in implementing the recommendations of the Deputies set out in each of these Replenishment Reports.”

The specific undertakings related to these broad instructions center on:

**Six program priorities, and**

- Poverty reduction
- Environmental sustainability
- Gender
- Governance
- Private sector development
- Social sector development

**Four processes:**

- Aid coordination
- Enhanced Country Assistance Strategy (CAS) design and implementation
- Participation
- Performance-based allocations.

as IDA's overarching objective and instruct IDA to:

- Sharpen the poverty focus of its country assistance programs.
- Direct assistance to expanding access to basic social services, fostering broad-based economic growth through private sector development (PSD), integrating gender and environmental considerations into all activities, and promoting good governance.
- Increase operational effectiveness by more selective use of resources, more participatory design of country assistance programs, and better coordination with other development agencies.

These issues form the agenda of this assessment of IDA's compliance.<sup>4</sup> Overall, they are highly relevant to the development challenges facing IDA borrowers. The comprehensive approach to poverty reduction and higher-quality aid processes that they embody reflect accumulated lessons of development experience (see Dollar and Prichett 2000; Kanbur and Sandler 1999; OED 1997a, 1998a, 1999a, 2000a; Tarp 2000). Individually, each of these areas of emphasis makes sense. Together, however, they have proved extraordinarily demanding for IDA and its borrowers.

### **IDA's Role in a Changing Development Environment**

Through the 1990s, total official development assistance to IDA-eligible countries amounted to about 8 percent of their combined gross domestic product (GDP). Of that amount, IDA's por-

tion accounted for some 14–18 percent. IDA's assistance, therefore, cannot determine the choices that governments make, although it can support and influence those choices. Nor can IDA alone be held accountable for country development outcomes. The performance of borrowers and other development partners, as well as changes in the global economic environment, all influence those outcomes. IDA can and should be held accountable, however, for how it deploys its resources in fulfilling its corporate commitments. (Did IDA do the right things, taking account of others?) It should also be held accountable for how effectively it shapes its assistance to meet borrowers' priorities and circumstances. (Did it do things right?) It is in these terms that this review examines IDA's efforts over the past seven years.

**Trends in development and aid.** The period covered by this review is very much a transitional one—in both country development and international aid. At the start of IDA10, many developing countries were plagued by slow or negative growth, major economic dislocations, and rising official debt. Internal conflicts were on the upswing, and the political liberalization that has come to mark the period was newly under way. Progress since then has not been broad or deep enough to significantly reduce poverty in most IDA countries. Although the share of the population living on less than a dollar a day declined during the 1990s, the number of poor people has remained roughly constant and inequality has worsened. But both

slow economic growth and conflict have been major contributing factors to these trends (see box 1.2 and Annex B for details on poverty, growth, and social trends). Governance problems and incomplete social and economic reforms have also been serious impediments. Behind these aggregate figures, however, stand a growing number of borrower countries that have improved their economic management, increased their rates of economic growth, and strengthened their social development with IDA's help (see World Bank 2000d, 2001b for diversity within countries). Some have also begun to tackle governance and public sector reforms.

In parallel, the development community has reached a new consensus on aid policies and practices, including a sharper focus on poverty, partnership, and policy performance. The pace of improvement in aid practices remains slow, but there is evident movement in useful directions, reflecting the accumulated lessons of development experience (see box 1.3). These promising, though incomplete, transformations require the deepening and broadening of reforms by both donors and recipients.

This evolving development agenda has posed difficult challenges for countries with limited resources and institutional capacities. It is now widely acknowledged that external assistance, to be effectively implemented and sustained, needs to be directed to countries' own strategies and programs for change. Building consensus, aligning resources in support of major social and eco-

nomics reforms, and implementing complex reform programs are formidable tasks—even where government commitments to reform are clear.

***A growing number of borrower countries have improved their economic management, increased their rates of economic growth, and strengthened their social development with IDA's help.***

***An overview of IDA's assistance.*** IDA has been at the forefront of much of the renewal and change in this period.

- Its financial assistance totaled \$42.3 billion in the period. Assistance remained fairly constant through IDA10 and 11 and, after a drop in the first year of IDA12, is expected to increase.
- The bulk of that assistance went to the two Regions with the largest number of poor people: Sub-Saharan Africa, which received 38.3 percent of IDA commitments, and South Asia, which received 28.2 percent. (See box 1.4 for three country examples of IDA's assistance.)
- IDA also provided assistance for the unprecedented challenges of countries in transition and devised new approaches for assisting countries emerging from conflict.
- Continuing a shift begun earlier in the decade, the largest share of IDA's lending supported the efforts of countries to expand access to basic social services. Another substantial share went to infrastructure development and

## Box 1.2

## Poverty, Growth, and Conflict

Some 1.2 billion people—one of every five—live on less than a dollar a day. The *share* of the population living on less than a dollar a day fell slowly in developing countries during the 1990s, from 28 percent in 1987 to 23 percent in 1998, while population growth held the *number* of poor people roughly constant. Social indicators improved more, particularly for health and education, but the aggregate gains are heavily influenced by rapid advances in China, which at the start of IDA10 accounted for a quarter of the world's poor. (See Annex B for more detail on poverty and social indicators.)

Slow growth explains a large part of the weak poverty outcomes: poverty generally declined in countries whose economies grew rapidly and increased in those whose economies stagnated or contracted (Ravallion 2000; World Bank 2001b). The overall decline in extreme poverty during the 1990s was driven by high rates of growth in countries with large numbers of poor people—although increasing inequality is now slowing the rate of poverty reduction in several countries.

Civil conflict, which afflicted 17 IDA countries in the 1990s, also explains part of the story. In Sub-Saharan Africa, for example, countries with better policy environments achieved *average* GDP gains of 5.2 percent during the 1990s, while countries experiencing civil strife or major political disruptions registered only 0.2 percent growth.

**Box 1.3****Trends in Official Development Assistance**

Flows of official development assistance (ODA grants and loans with a grant component of 25 percent or more) to IDA countries exhibited signs of fatigue through IDA10, declining from \$50.0 billion in 1994 to \$37.4 billion in 1997. A slight increase since then has brought ODA flows to \$41.6 billion in 2000, still short of the decade's earlier levels. In addition, key changes in aid programs over the past seven years have included:

- An increase in the share of aid going to poor countries with improved policy performance ratings (Collier and Dollar 1999)
- A more concentrated focus on poverty reduction as the objective of assistance programs<sup>a</sup>
- More explicit attention to matters of governance in both aid allocations and programs
- Greater emphasis on country ownership of externally funded activities, and innovations in the provision of aid in support of country-led efforts
- Heightened attention to the still elusive objective of aid coordination
- New interest among the international development community in the provision of global public goods to advance the fight against poverty.

These changes—in combination with improving country policies—hold promise for improved development outcomes in the future. Still, greater strides are needed in both country economic and institutional reforms and aid coherence and coordination among assistance agencies.

a. As indicated in the recent articulation of international development goals and the linking of the enhanced debt reduction initiative with countries' commitments to improved poverty reduction and social sector expenditures.

improved economic management—areas essential to sustainable growth (see Annex C for IDA commitments and disbursements by Region and sector).

- In support of its broadening development agenda, IDA introduced new lending instruments and program approaches to increase its responsiveness, flexibility, and attention to policy and institutional impediments in borrowing countries. It deepened its country focus by strengthening the role of Country Assistance Strategies (CASs), increasing the program and budget authority of country directors, and decentralizing staff to country offices. In addition, it has tightened the link between country policy and institutional performance and levels of lending.
- Three major new initiatives involving a central role for IDA—the enhanced Heavily Indebted Poor Country (HIPC) debt relief initiative, the Comprehensive Development Framework (CDF), and the Poverty Reduction Strategy Papers (PRSP)—reinforce the refocusing of the development agenda (see box 1.5).

**IDA's performance.** Along with these transformations in IDA's way of doing business has come a strong focus on improving the quality

of IDA's performance at the project, country, and sector levels. This emphasis has begun to show significant results in improving the performance of the lending portfolio (see figure 1.1). OED evaluations of completed projects exiting the portfolio in the first half of FY00 suggest that more than 75 percent of IDA projects can be rated satisfactory, reflecting improvements in IDA and borrower performance.<sup>5</sup> Data from the Bank's Quality Assurance Group (QAG)<sup>6</sup> confirm improvements in the quality of the ongoing portfolio and a remarkable convergence in the quality of project preparation and supervision for IDA and IBRD countries.<sup>7</sup>

These gains have been achieved even though projects are becoming increasingly complex and demanding. Over 85 percent of IDA projects evaluated since 1997 were substantially demanding for the borrower, and three-quarters were substantially complex. While this reflects, in part, the broader scope of the reforms countries are undertaking, projects that are too complex and demanding may overwhelm borrower capacity. More than one in three IDA projects show unsatisfactory borrower implementation, including nearly half of the projects in Africa. Further progress will require increased capacity building and further adaptation of assistance to borrower circumstances (OEDa).

## Box 1.4

## Country Examples of IDA's Assistance

*Mozambique*, which became a member of the World Bank in 1984, emerged from conflict in 1992 and has since made significant and accelerating advances in implementing market-based economic policies, boasting one of the strongest privatization programs in Africa. Following a period of post-conflict assistance, IDA's current portfolio comprises 16 projects estimated at \$737.3 million in commitments. Recent projects include a fast-track Flood Emergency Recovery operation, Railway and Port Restructuring, and efforts to support the government's HIV/AIDS plan. Poverty reduction is the overall goal for the government and IDA in the country. The 2000 CAS, which supports the government's Five-Year Strategy and the Interim Poverty Reduction Strategy Paper (IPRSP), focuses on three core objectives: (1) increasing economic opportunities, (2) improving governance and empowerment, and (3) improving human capabilities. Donor assistance plays a vital role in supporting the country's economy and accounts for approximately \$600 million per year—more than 15 percent of GDP. A Consultative Group (CG), for which IDA is chair, is the main coordinating mechanism for donor activities. IDA is a partner in sector-wide programs (which involve an agreed sector program and coordinated funding among donors) for health, education, transportation, and agriculture.

*Bangladesh* joined the World Bank in 1972. IDA has financed more than 182 operations in the country, with loans totaling more than \$9.4 billion. IDA's active lending portfolio for Bangladesh includes 26 projects, valued at roughly \$2.6 billion. A long-standing population program has substantially contributed to increases in family planning. Strong support in promotion of girls' education has helped to boost secondary school enrollment rates. Effective cooperation with the government, IDA, the African Development Bank (AfDB), and the Japanese Overseas Economic Cooperation Fund has funded the Jamuna Bridge, which connects the north and south of the country. Efforts to build effective institutions under-

pin the current strategy and core objectives and include (a) improving macroeconomic management; (b) promoting private sector-led growth; (c) reforming public sector management; (d) accelerating agricultural growth and rural development; and (e) promoting faster human development. IDA plays a key coordinating role by chairing the annual CG meeting, with local CGs focused on specific sectors meeting periodically throughout the year. IDA also supports a sector-wide approach (SWAp) in health that has increased access to health services, and donors are now working together with the government to improve the quality of health services in the country. IDA's lending levels in Bangladesh have been constrained in recent years due to absorptive capacity constraints, slow progress on structural reforms, and problems of governance and weak institutions.

*Ghana* joined the World Bank in 1957 and IDA has since financed some 94 operations in the country, accounting for more than \$3.5 billion in lending. The active lending portfolio of 23 projects is one of the largest in Africa. Recent operations have included a second Economic Reform Support Operation and Adaptable Program Loans (APLs) for Community Water Supplies, Urban Development, and Agricultural Services. IDA's current CAS is supportive of Ghana Vision 2020, the national strategy for reducing hard-core poverty and achieving broad-based economic development. The CAS has two parts: Part I, which sets out the government's poverty reduction strategy, and Part II, which presents IDA's business strategy. External assistance included some \$1.7 billion in commitments for 2000–01. The government has been strongly involved in aid coordination, and Ghana is credited with being one of the two Comprehensive Development Framework (CDF) pilot countries that have made the most overall progress in fostering country-led, long-term development partnerships. The widely regarded, ongoing health SWAp currently involves 17 donors and is characterized by strong government ownership.

There is also some improvement in the sustainability (resiliency to risk) and institutional development impact (the contribution of the project to capacity building) of completed projects.<sup>8</sup> The share of IDA projects that substantially met their institutional development objectives rose from less than 30 percent of projects during IDA9 and IDA10 to 35 percent since the beginning of IDA11. Projects judged likely to be sustained have increased to nearly half, up from a third during IDA9. But long-standing problems with sustainability and institutional development continue to limit impact, more for IDA than for IBRD projects. (See Annex D for detailed

information on portfolio ratings of completed and ongoing projects.)

Project-level performance is an important indicator of IDA's contribution to country development efforts, but it tells only part of the story. In recent years, IDA has significantly shifted its focus from individual projects to the "higher plane" of country programs. Evaluation and research results suggest that the two most important determinants of country program outcomes are the level of borrower commitment to the objectives laid out in the CAS and the extent to which the specific components of the strategy, instrument mix, and the efficacy of country

**Box 1.5****Three Key Initiatives of the Late 1990s*****The Heavily Indebted Poor Country Initiative:***

The HIPC debt relief initiative was proposed by the World Bank and IMF and endorsed by 180 governments in the fall of 1996. It was the first comprehensive international effort to reduce the external debt—including multilateral debt—of the world's poorest and most indebted countries. A major review in 1999 produced an enhanced HIPC initiative that is "deeper, broader, and faster" than the original framework. As of February 2001, 22 countries had reached their decision point under the enhanced HIPC and are now receiving debt service that will amount to about \$34 billion over time, or a reduction of \$20 billion in net present value of their outstanding debt. In the long run, the policy implications of the HIPC initiative, which includes placing debt relief within the overall framework of poverty reduction and improving the policy dialogue between the poorest countries and their multilateral creditors, may be as important as the initiative's immediate fiscal impacts.

***Comprehensive Development Framework:***

Introduced by World Bank President James Wolfensohn in January 1999, the CDF is a holistic approach to development, which aims to balance macroeconomic concerns with social and structural development requirements. The CDF is anchored in four interrelated principles that guide development assistance on the country level: a long-term holistic vision and strategy; enhanced country ownership of development goals and action; more strategic partnership among stakeholders; and accountability for development results. The CDF approach relies on country leadership, with development partners working selectively accord-

ing to comparative advantage. Since March 1999, the CDF approach has been piloted in the West Bank and Gaza and in the following 11 countries: Bolivia, Côte d'Ivoire, the Dominican Republic, Eritrea, Ethiopia, Ghana, the Kyrgyz Republic, Morocco, Romania, Uganda, and Vietnam. The September 2000 progress report found that 9 of the CDF pilot countries demonstrate good progress in determining a long-term vision and strategy, though overall progress in fostering the development partnership envisioned by the CDF varies by country. The Bank's current Strategic Framework puts the CDF at the center of the institution's strategic orientation for the coming years.

***Poverty Reduction Strategy Papers (PRSP) Program:***

In September 1999, the Development and Interim Committees of the World Bank and the IMF endorsed PRSPs as the new framework for Bank and Fund efforts to achieve sustainable poverty reduction (World Bank 2001c). PRSPs have become the basis for concessional lending from the World Bank and the IMF and for debt relief under the enhanced HIPC; they are a key mechanism for improving the policy performance of the poorest countries through an emphasis on clearly defined, monitorable objectives. Built on the four CDF principles, PRSPs are to be country-owned and grounded in participatory processes and should serve as the framework for other donor assistance. The PRSP benefits from strong coordination between the Bank and the Fund (with the Bank taking the lead on the social and structural framework and the Fund leading on the macroeconomic framework) that includes oversight from a Joint Implementation Committee and joint assessments of PRSPs by staff from both organizations.

program implementation, including partnerships, are adapted to country circumstances.<sup>9</sup>

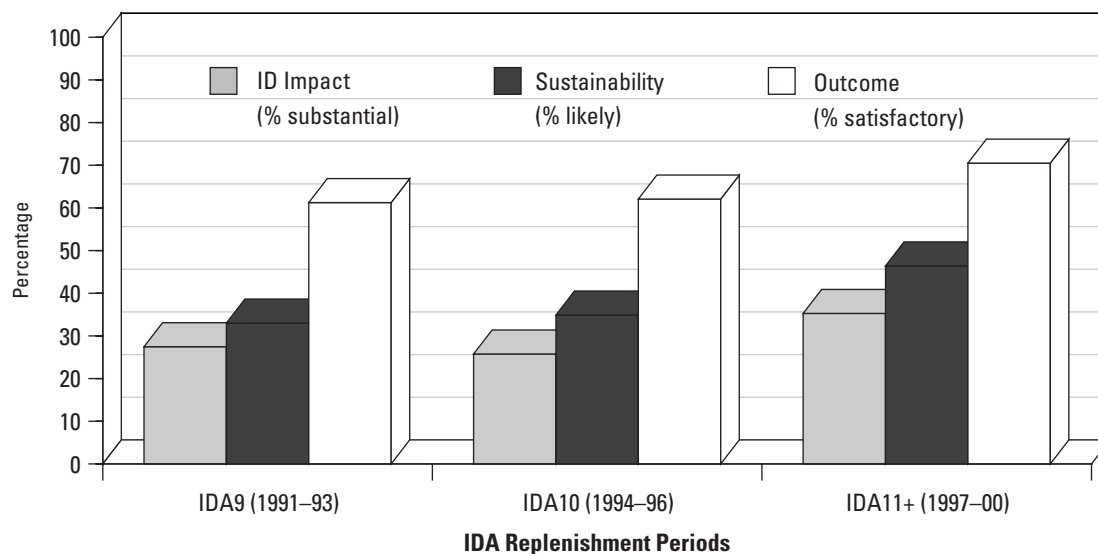
On a Bank-wide basis, country program outcomes are not strongly associated with country income. Moreover, it appears that with skillful strategy design and effective Bank and partner performance, a country strategy can be relevant and a country program outcome can be satisfactory even in countries with weak policies or inadequate institutions. What is important, in addition to a government's commitment to reform and capacity development, is the extent to which IDA's assistance strategy, projects, processes, and partnerships are judiciously adapted to the country setting.

More specifically, as reported in the OED *Annual Review of Development Effectiveness 2000*, reviews of completed OED Country Assis-

tance Evaluations (CAEs) identify several key determinants linking country-level program outcome with IDA performance:

- *Diagnosis.* IDA's diagnosis of major development issues and constraints—what needs to be done—is generally good, but the quality of diagnoses varies by issue and sector. Analysis of macroeconomic issues and constraints is usually strong, but links between stabilization and growth are not always articulated; and the overall impact of Public Expenditure Reviews (PERs) and Poverty Assessments (PAs) is strongly correlated with their quality, which has been highly varied in the past, although improving in recent years.
- *Focus on poverty.* As discussed earlier, IDA has sharpened the poverty orientation of its coun-



**Figure 1.1****Improvements in Project Outcomes, Institutional Development, and Sustainability in IDA/Blend Countries**

try programs. Economic growth, a necessary but not sufficient condition for poverty reduction, is at the center of nearly all country strategies, as is the provision of basic social services. However, OED analysis and Bank policy research suggest that equity affects the poverty impact of growth and that safety nets and empowerment of the poor deserve increased attention. More needs to be done to integrate broad-based poverty reduction strategies into macroeconomic and sector strategies and interventions. Also, inadequate attention by IDA and other donors to poverty monitoring and evaluation (M&E) has meant that significant knowledge gaps persist regarding linkages between policies and programs commonly supported by IDA and poverty outcomes.

- *Balancing corporate and country priorities.* IDA has improved its client focus. But client ownership does not eliminate divergences between IDA and country priorities, nor conflicting views on “right” policies. OED evaluations have identified inadequate borrower commitment as the most important reason for poor policy or program implementation and have emphasized the level of country con-

sensus about reform as critical to IDA program outcomes. CAEs have pointed to numerous past examples of lending to promote reforms, either through adjustment or investment lending, before enough consensus has emerged, thus incurring avoidable development risks.

- *Assessing ownership.* IDA and governments may agree on broad objectives, but may disagree on the measures and timetables to achieve them. Concrete actions and track records are better indicators of ownership than statements of intent. Instruments for assessing ownership are coming into wider use (and lending instruments evolving to better calibrate with their findings), but such assessments are still not systematically mainstreamed into project and program preparation.
- *Diagnosing institutional development.* IDA’s contribution to institutional development at the country level has been modest, reflecting the inherent difficulties of institutional change and capacity building. IDA’s diagnosis of institutional, political, and governance constraints has traditionally been weaker than its economic and technical diagnoses. Improvements have recently begun to show at the



country level, but further progress is needed to articulate comprehensive institutional and governance strategies.

- *Estimating capabilities.* Several CAEs found patterns of over-optimism in IDA's estimates of the receptivity of borrower governments to IDA's advice, their willingness to undertake difficult reforms, and their capacity to implement reform measures. In particular, programs have often underestimated the political difficulties and obstacles to rapid change of long-term socioeconomic systems, especially in transition countries.
- *Being selective.* At the country level, selectivity requires identifying interventions that are consistent with IDA's comparative advantage relative to its partners. CAE reviews and the Bank's two recent CAS retrospectives suggest that IDA is getting better at establishing priorities for country programs, but still has room for improvement. Justifying IDA's presence in many sectors by its convening role and capacity for policy analysis may underestimate the capacity of other actors to take the lead in program interventions, or fail to take into account the need to use IDA administrative resources selectively to achieve results.

The remainder of this report focuses on IDA's performance in the aggregate on its sector and thematic replenishment undertakings, as well as on related process reforms. It draws on a wide range of OED country and sector evaluations and other sources to do this.

***IDA has made major strides in recasting its mission—to make poverty reduction its overarching objective.***

Overall, IDA has made major strides in recasting its mission—to make poverty reduction its overarching objective—and in redirecting its operations in line with its relevant but highly ambitious replenishment commitments. Implementation of those commitments has been, on the whole, satisfactory, with momentum having increased in IDA11. IDA has done much to sharpen the poverty focus of its analytical work,

policy dialogue, and lending. It has helped countries lay foundations for renewed growth and accelerated poverty reduction through improved economic management and increased investments in basic social services. In recent years it has also brought governance to the fore as a critical development issue. Compliance remains uneven, however, across and within areas of program and process emphasis, with limited progress in integrating PSD, gender, and environmental sustainability into country assistance programs.

Assessed against its ambitious goals, the development outcomes of IDA's programs have been partially satisfactory.<sup>10</sup> Although IDA has done well in helping countries to lay foundations for economic growth and poverty reduction, the record of IDA countries in sustaining growth at high enough levels, over long enough periods, and by measures adequate to benefit the poor is mixed. This reflects a host of non-IDA influences on development outcomes, including regional conflicts, weak domestic capacities, mixed policy performance, variable aid policies, and exogenous shocks. This said, IDA's own performance, while having significantly improved over the review period, could be enhanced still further and contribute even more positively to development outcomes. It needs to clarify corporate objectives and accountabilities for implementing them, especially in some key, crosscutting areas. It needs still greater selectivity in resource use among countries and better prioritization of actions linked to poverty reduction within countries. Some familiar implementation challenges persist as well, especially in the area of institutional development, and the alignment of resources to program priorities remains incomplete.

### **Reviewing IDA's Performance**

This is the first independent report on the IDA program. Previous reports have been prepared by IDA management and have provided important background information for this review.<sup>11</sup> The methods used by the OED review are described in Annex G.

**Questions.** In evaluating IDA's performance, this review asks four main questions:

- How has IDA responded to the recommendations set out in the IDA10–12 Replenishment Reports?
- Have these responses advanced core objectives at the country level, especially the overarching objective of poverty reduction?
- Which factors have contributed to IDA’s performance and which have constrained it?
- What lessons can be drawn from the experience of recent years in the major areas of emphasis?

**Challenges.** These questions present several challenges. First, since neither the Replenishment Reports nor follow-on instructions from management provided specific compliance benchmarks,<sup>12</sup> the review addresses whether IDA’s actions were consistent with the letter and the spirit of the recommendations. It looks at how well IDA acted and institutionalized changes in its processes and programs. For example, on the commitment to making poverty the overarching objective, the review examines what IDA has done to sharpen the poverty focus of its analytical work and lending and to link other program objectives, such as PSD and environmental sustainability, to that goal. The review assesses whether IDA has made its processes (such as resource allocations) more poverty focused. Because of the proliferation of instructions and the absence of benchmarks, however, it has been difficult for IDA to be consistent and persuasive about its pursuit of objectives. Future replenishment undertakings would benefit from greater clarity and selectivity, as well as from more specificity in management’s implementation instructions.

Second, compliance is not the same as effectiveness. IDA’s performance on the replenishment recommendations (stated largely as inputs and outputs rather than outcomes) is not necessarily a good measure of its development effectiveness. Because of the review’s time frame (FY94–00), the bulk of actions being assessed are still under way, and their effects will continue over the medium to long term.<sup>13</sup> The review, therefore, examines IDA’s development effectiveness largely in terms of the quality of its underlying analysis, the coherence of its program

at the sectoral (or thematic) and country levels, the fit of lending and nonlending services to country circumstances, the strategic selectivity of resource allocations and choice of instruments, and, as far as possible, the impact on country policies, institutions, and actions. The limited information on outcomes and results of IDA’s actions (even for a longer period than that covered by this review) underscores the need for M&E at the project, country, and corporate levels and a more results-oriented set of IDA commitments.

Third, many factors bear on outcomes in a country context, making attribution difficult. It also considered the influence of both internal factors (such as institutional practices, accountability structures, and alignment of resources with program priorities) and external events. Where progress has been less than expected, the review looked at whether strategy, implementation, or a combination of the two contributed to the shortfall.

**Approach.** This review is based on major background studies of each of the 10 program areas and process reforms emphasized in the IDA10–12 Replenishment Reports. It also draws on the findings from in-country consultations (with representatives of government, civil society, the private sector, and other assistance agencies) in nine “focus” countries; two international workshops that included experts from borrower and donor countries; and wide-ranging interviews with Bank management and staff.<sup>14</sup>

The background studies and this report are based on desk reviews of Bank documents, databases, studies, and evaluations;<sup>15</sup> staff surveys; and country and international consultations. When evidence was available, the review used a results-based analysis to trace IDA inputs (policies, alignment of resources), outputs (volume and composition of lending and nonlending services), and reach (stakeholder participation, coordination with other donors) to outcomes and results. It analyzed the quality of IDA’s lending and nonlending services in terms of their relevance and fit, as well as evidence of outcome performance of ongoing and closed projects. Also, using the focus country consultations and OED CAEs, the review examined IDA’s

performance, taking account of its partners' performance.

In the following four sections, this evaluation examines how well IDA has performed in implementing its IDA10–12 replenishment commitments within the context of changing global development and aid trends, and how well IDA has integrated its program priorities with its corporate policies and country assistance programs (Part II). It looks at how well IDA has institutionalized the recommended process reforms to improve its overall effectiveness (Part III). The record reflects not only changing country circumstances, but also IDA's management of its

institutional capacities—its operational policies and procedures, instruments, and budget resources (Part IV) and the consistency and realism of the replenishment mandates themselves (Part IV).

The report concludes with suggestions for ways to improve the alignment of future mandates, institutional capacities, and program design and implementation to advance IDA's contribution to the overarching goal of poverty reduction. The report was presented to the Board of Executive Directors on May 29, 2001. A summary of the discussion at that meeting is attached as Annex H. The Bank's management response to the findings of the review is attached as Annex I.



## Part II

# The Program Dimension

*In line with IDA replenishment recommendations, IDA has done much to implement the revised poverty reduction strategy adopted in 1990. IDA has contributed to improved economic management, poverty data and analysis, and access to basic social services. Its adjustment programs have also become more attentive to poverty and social issues. These actions have contributed to sounder foundations for economic growth and human development. IDA has had less success in aligning its instruments of assistance to reinforce other measures for sustaining pro-poor, broad-based growth, especially measures supporting agricultural and rural development and development of the private sector.*

*IDA has also responded to replenishment commitments to broaden its poverty strategy by taking steps to integrate gender, environmental sustainability, and governance in its country assistance programs. This has represented a demanding change in IDA's authorizing environment. While IDA has made important contributions in each of these areas, the mainstreaming of gender and environmental issues has been limited relative to commitments, and while the treatment of governance issues has expanded markedly, the achievement of sustainable governance improvements remains a daunting challenge.*





# Sharpening the Focus on Poverty Reduction

The IDA10–12 replenishment undertakings commit IDA to sharpen its focus on poverty reduction in accordance with the Bank’s 1990 poverty strategy.<sup>1</sup> They also urge IDA to integrate gender, environment, and governance into that strategy as a “broad-based framework for poverty reduction” (World Bank 1998a) and to increase attention to poverty in its performance-based allocation (PBA) system (see Part III).

The replenishment commitments calling for a sharper focus on poverty (box 2.1) instruct IDA to:

- Strengthen the poverty focus of its Country Assistance Strategies (CASs).
- Build poverty analysis and monitoring into its analytical work and policy dialogue.
- Increase poverty-targeted and social sector investment lending.
- Promote broad-based economic growth through poverty-focused adjustment lending and support for private sector development (PSD).

Progress on these commitments has gained considerable momentum since the start of IDA10.<sup>2</sup>

## **Strengthening the Poverty Focus of Country Assistance Strategies**

Poverty has received greater coverage in IDA’s CASs during the past seven years, especially

since 1997, encouraged by strengthened guidelines and follow-up by management (OED 2000d; IDA Review 2001b).

- Broad-based growth, human resource development, and protection of vulnerable groups, key elements of the Bank’s 1990 poverty strategy, are commonly stated objectives where country circumstances warrant.
- CASs increasingly use data and analysis from Poverty Assessments (PAs) and Public Expenditure Reviews (PERs), which have gradually improved their poverty focus.<sup>3</sup>
- Greater consultation with borrower governments and other stakeholders in the preparation of CASs has contributed to the strategies’ greater relevance.

CASs have made less improvement, however, in setting priorities and identifying measures in support of country-specific, pro-poor growth strategies. Participants in country consultations commended IDA’s heightened atten-

**Box 2.1****IDA 10–12 Commitments on Poverty****IDA10**

- Complete Poverty Assessments.
- Increase share of lending to social sectors and to poverty-targeted investments.
- Include specific poverty reduction measures in adjustment programs wherever feasible.

**IDA11**

- Incorporate participatory components in Poverty Assessments and focus on the gender dimensions of poverty.
- Strengthen poverty monitoring, including the impact of projects with and without targeting mechanisms for reaching the poor.
- Use Public Expenditure Reviews to assess spending in terms of the development needs of the poor.
- Increase attention to structural and fiscal measures to expand opportunities for the poor.

**IDA12**

- Develop a broad-based policy framework for poverty reduction emphasizing investment in people, broad-based growth, good governance, and environmental protection.
- Broaden participation in policy formulation and program implementation.
- Direct about 40 percent of investment lending to the social sectors.
- Mitigate inequalities.
- Link assistance to poverty reduction targets, including the international development targets.

tion to the poverty impact of its assistance, while expressing concerns about inadequate priority setting and tailoring to country circumstances and weak governance and institutions (box 2.2). OED Country Assistance Evaluations (CAEs) confirm the relevance of the greater poverty focus in IDA CASs. But they also emphasize that more needs to be done to integrate poverty objectives into macroeconomic and sectoral operations and to identify the concrete measures needed not only for accelerating growth but also for overcoming social and structural constraints to poor people's participation in new economic opportunities. This includes adequate attention to the institutional mechanisms through which policy changes are expected to benefit the poor.<sup>4</sup>

*IDA has made major contributions to collecting and disseminating poverty data and analysis, an essential underpinning for a sharper CAS focus on poverty.*

CAS monitoring has improved recently, aided by the country program matrix introduced in IDA11.<sup>5</sup> By FY00, more IDA CASs contained poverty reduction targets linked to intermediate objectives that could be monitored annually,<sup>6</sup> although it is still too soon to know the effect on program outcomes.

### **Building in More Poverty Analysis and Monitoring**

IDA has made major contributions to collecting and disseminating poverty data and analysis, an essential underpinning for a sharper CAS focus on poverty and an important achievement that might not have happened without IDA (box 2.3). Still, there is important unfinished business—from improving the quality and policy relevance of much of the analysis to strengthening countries' capacities to collect and analyze poverty data, monitor progress, and enhance program outcomes.

Reviews of PAs,<sup>7</sup> PERs,<sup>8</sup> and other economic and sector work (ESW) highlight the importance of working collaboratively with borrower governments and institutions. They also note weaknesses that limit the strategic relevance of the work. PAs and PERs have had little impact on country policy where ownership by government and other stakeholders has been lacking.<sup>9</sup> Recently, participatory PAs have begun to incorporate the views of poor and disadvantaged groups, but it is difficult to trace their influence on government policies or IDA assistance programs.<sup>10</sup>

The first year of Poverty Reduction Strategy Papers (PRSPs) exposed continuing weaknesses in countries' poverty data collection and analysis and in public expenditure tracking, despite recent



**Box 2.2****Stakeholders' Views**

In country consultations, stakeholders praised the World Bank's broad strategic perspective on development issues, but expressed concern that the Bank sometimes promoted a "one-size-fits-all" approach. They cited several strengths and weaknesses of the Bank:

**Strengths**

- Outstanding analytical work and dissemination of information
- Ability to fold issues of poverty into broader discourses on economic and social development
- Strong human resource capacity and attractive lending terms
- Aid coordination and sector coordination.

**Weaknesses**

- Too little local ownership of ideas and interventions
- A strategy that is too macro and connects poorly with micro-economic issues and poverty
- Little involvement in areas that matter most to the poor (agriculture, rural credit, small and medium-size enterprise development) and insufficient attention to governance issues
- Processes and procedures that are too rigid to permit true partnership and full participation
- Insufficient focus on national capacity building for poverty analysis, monitoring, and evaluation.

Source: OED 2000a, Bank data.

efforts to increase country participation in PERs and to focus more on government financial management. Intensified efforts are needed to strengthen analysis and monitoring capacities, ranging from short-term measures to credibly track public expenditures to long-term efforts to strengthen capacities in poverty analysis, performance monitoring, and evaluation of program impacts.

Projects increasingly include impact evaluation frameworks to assess poverty-related results over time, a sorely needed improvement.<sup>11</sup> But monitoring and evaluation (M&E) by IDA and by borrowers remains fragmented and underfunded. That means that IDA and its partners are not building a reliable database for assessing alternative policy mixes and implementation

approaches to poverty reduction in different contexts. The PRSP and new forms of programmatic lending add new dimensions to the need to strengthen M&E. A key priority, as reported in the early PRSP progress reports, is to support the buildup of borrowers' capacities to track progress, analyze results, improve program outcomes, and inform broad debate on priorities. (See Part IV for further discussion of M&E.)

Management is aware of these problems in poverty analysis and other ESW and has given them increasing attention in the last two years. Resolving the problems is critical to IDA's analytical, advisory, and aid coordination services and involves issues of accountability and resource allocation (see Part IV).

**Box 2.3****IDA's Contribution to Poverty Data Collection, Analysis, and Dissemination**

- PAs have been completed for most (90 percent) of IDA's eligible borrowers. Although progress lagged in the overly ambitious IDA10 replenishment undertaking because of severe deficiencies in poverty data and the need to build government support and interest, many countries now collect and use income and consumption data in developing policies. (As an indication of this increase in information, the *World Development Report (WDR) 2000/2001's* global assessment of poverty was able to use data from 110 developing countries, compared with only 60 countries at the time of the previous poverty WDR in 1990.)
- Almost half of active IDA borrowers have a recent PER, and new approaches in some countries are increasing the capacity for such reviews and strengthening ownership. For example, Ghana and Vietnam, assisted by IDA, have undertaken their own reviews.
- Other ESW, such as Social and Structural Reviews (SSRs) and sectoral analyses, has also strengthened the focus on poverty.
- Following IDA12 recommendations, IDA recently increased analytical work on other aspects of poverty reduction. A notable initiative, responsive to IDA Deputies' concerns, focuses on child labor through the Global Child Labor Program, a catalyst for research and analysis, pilot studies, and other activities.

### **Increasing Poverty-Targeted Interventions and Social Sector Lending**

IDA has met its commitments to increase lending to poverty-targeted and social sector interventions, focusing on efforts that benefit the poor directly and expand their access to education and basic health services. A greater challenge has been to help countries with politically and institutionally complex sector-wide reforms and programs. For this, new program approaches—not just higher levels of lending—have been critical.

*The increase in social sector lending has made IDA the largest financier in human development and a major source of analysis and advice, especially in Africa.*

**Maintaining the share of poverty-targeted interventions.** In line with replenishment commitments since IDA10, the share of investment lending classified under the Program of Targeted Interventions (PTIs)<sup>12</sup> rose after IDA9 and then leveled off (see Annex E). Monitoring of the poverty impact of these investment credits has lagged, although it has been somewhat better than in other projects. The program remains mainly a way of looking at inputs, however. It says nothing about outputs, outcomes, or impacts, and its focus on direct targeting of the poor may not always be the most effective way of reducing poverty.<sup>13</sup> To strengthen countries'

own poverty reduction strategies through better knowledge about effectiveness, tinkering with the PTI will be less important than supporting more and better outcome and impact evaluations, not just in projects but also at the country level.

**Investing in social sectors.** Investment in the social sectors has been a large part of IDA's poverty strategy throughout the period under review. This assistance has expanded access to basic services, but the greater challenge has been to help countries improve the quality and efficiency of service delivery to the poor through sector-wide reform.

Lending in social sectors (health, nutrition, and population; education; social protection; and water supply and sanitation) rose from 20 percent of IDA investment credits in the late 1980s to 40 percent by 1995, where it has remained. That level satisfies the IDA10 and 11 commitments to emphasize the social sectors and the 40 percent investment lending target of IDA12.

This assistance has varied across sectors and Regions, influenced by the presence of other donors and by country commitments and capacities to implement reforms (see box 2.4 and Annexes C.1 and C.2).

The increase in social sector lending has made IDA the largest financier in human development and a major source of analysis and advice, especially in Africa. Through its analyt-

#### **Box 2.4**

#### **Where Did Increased Investments in the Social Sectors Go?**

Most of the increase in IDA investments since the mid-1990s has gone to health, nutrition, and population, whose share rose from slightly more than \$2.0 billion in IDA10 to some \$2.3 billion in IDA11. Education commitments remained largely stable, increasing slightly from \$1.85 billion in IDA10 to \$1.91 billion in IDA11 (with the number of projects exceeding those in health). Social protection lending was also largely stable, with a strong acceleration in lending in the Europe and Central Asia (ECA) Region; while investments in water supply and sanitation increased in IDA11 after contracting significantly in IDA9 and IDA10.

South Asia and Africa dominate IDA's social sector lending. In South Asia, where India and Bangladesh are sizable borrowers, social sectors account for about 45 percent of lending. In Africa, the social sectors account for just over 30 percent of lending, with the amount declining slightly from IDA10–11, although the number of projects has increased. An FY00 HIV/AIDS initiative will allocate up to \$500 million to countries in Africa during the next three years.

The Regional distribution is affected by the concentration of lending in blend countries—as directed in IDA11–12—in social and environmental matters. This influences sectoral patterns in countries such as China, India, and Pakistan. Also in the ECA Region, where countries are “nominal” blends, most of the social sector lending to date has entailed social protection provisions in the context of economic adjustment credits.

ical work, lending, and technical assistance, IDA has helped countries strengthen their human development policies, increase social expenditures, expand access to basic services, and adjust pension and other social protection mechanisms, particularly in countries in transition. Overall, IDA has provided some form of social sector assistance to virtually all its active borrowers.

The focus of social sector assistance has shifted from projects to sectors, with increased attention on the quality and financing of service delivery for the poor. Through its analytical work and conditions attached to adjustment lending and debt relief, IDA has encouraged countries to protect—and even increase—social expenditures. Available evidence suggests a general upward trend in national expenditures, although often from very low levels, and some improvement in the efficiency of that public spending. This emphasis on countries' own expenditure levels has reinforced IDA investment credits in support of inputs needed for the geographic expansion of basic services (construction of schools and clinics, provision of essential drugs); training for service providers; and improved sector policies and service delivery, among others.

**Program evaluation.** Country consultations found that governments and civil society welcomed IDA's heightened emphasis on the social sectors, its broadened strategic perspective, the strong contribution of its analytical work, and its increasing coordination with other donors. OED

CAEs also stress the relevance of the increasingly systemic focus of IDA assistance, especially on the composition of social sector spending, its regional distribution, and inefficiencies in public spending (see box 2.5).

Project portfolio review ratings also showed improvements, particularly during IDA11, with outcome ratings of completed projects rising from 61 percent in IDA10 to 78 percent in IDA11 and the first year of IDA12 (see Annex D). The ratings showed some improvement in sustainability and the institutional development impact of investments, although both these results remain at inadequately low levels,<sup>14</sup> reflecting what past evaluation findings have shown to be major challenges in implementing social sector reform efforts.

When governments have demonstrated commitment and leadership and IDA has effectively tailored its support to realities on the ground, project outcomes have been significant. The recently evaluated Second Technician Education Project in India is a good example. State-level government commitment, ownership, and attention to execution made it possible to overcome the implementation challenges of a very complex project plan.<sup>15</sup> However, reviews also point to a number of frequently experienced implementation difficulties. For example, an OED evaluation of Bank assistance to health, nutrition, and population during the 1990s and more limited education reviews (OED 1999b, d) point to:

- Weaknesses in institutional analysis and institutional development impact, especially in

### Box 2.5

### Examples of IDA Support for Increased Social Service Expenditures

**In Uganda, IDA adjustment and investment lending in the 1990s encouraged the Ministry of Finance to raise public expenditures in health and education. By documenting service performance problems and expenditure leakages, IDA helped strengthen the ministry's efforts to protect public spending.**

**In Burkina Faso, adoption of minimum budget allocations to health and education as a condition of adjustment lending and debt relief reinforced IDA investments in support of the decentralized health system and a reorientation of the primary education system, resulting in higher school enrollments.**

**In Mozambique, IDA's presence in the health sector strengthened the dialogue with the government on expanding public spending on health and influenced the balance between investment and recurrent spending.**

Source: OED 1999e, 2001b; Landau 1997.

efforts that aim beyond expanding access to social services to improving service quality to the poor, a politically and institutionally complex task

- Uneven quality of sector work needed to tailor program priorities and implementation strategies to country circumstances
- Unrealistic expectations about borrowers' institutional capacities and readiness for reform (OED 2000a; Johnson and Wasty 1993).
- Insufficient assessment of project impact and cost effectiveness in reaching the poor.<sup>16</sup>

The health, nutrition, and population study covering operations through 1998 concluded that, although the quality of institutional analysis has improved, the Bank has been more successful in expanding service delivery than in improving service quality and efficiency and promoting institutional change. Project designs have also tended to be more complex in countries with weak institutional capacity.<sup>17</sup>

Moreover, investment projects have often had to deal with systemic governance problems, such as weak budget management, weak financial accountability, and the need for broad civil service reform. The OED CAE for Cameroon, for example, found that intended beneficiaries received no more than about half of public expenditures allocated to health and education. These problems cannot effectively be solved project by project. They require progress on public sector reform and institutional development on a broader programmatic basis and at the national and provincial levels. While a new emphasis on private provision of social services may alleviate some inefficiency in service provision (IDA Review 2001g), broad governance and public sector management challenges still have to be confronted directly and systematically.

**Program innovations.** To deal with these implementation challenges, IDA has introduced several program innovations. These include: new lending instruments (designed to deal with the institutional complexities of improving service delivery and with getting better results from sector reforms); increased participation in country-led, donor-coordinated, sector-wide pro-

grams; more attention to multi-country (regional or global) programs; and the PRSP process and its emphasis on linking social sector reforms more closely to poverty reduction goals. Each shows important promise, but also operational challenges that require further attention.

Two new *adaptable lending instruments*—Learning and Innovation Loans (LILs) and Adaptable Program Loans (APLs)—were introduced in 1997 to provide increased flexibility, especially for investments involving complex institutional change.<sup>18</sup> Experience shows the usefulness of these new instruments for testing operational ideas and facilitating adjustments and change as projects unfold. But it also shows a need for more supervision (and therefore more budget allocations than anticipated) and better M&E in support of these flexible implementation approaches than have yet been put in place.<sup>19</sup> In addition, two new forms of lending—the programmatic adjustment credit focused on medium-term social and structural reforms and the more recent Poverty Reduction Support Credit focused on providing support for countries' medium-term poverty reduction strategies—offer new ways of reinforcing public sector reforms and institutional development.

IDA has also increasingly engaged in *sector-wide approaches* (SWAs), especially in health and education. SWAs, which can be supported by a wide variety of lending instruments, typically involve multi-donor participation in support of an agreed, country-led reform program and lending framework as part of a medium-term expenditure plan. The rationale for this approach is dramatically illustrated by the situation in Mozambique. Before an integrated education sector program was set up, external assistance to the Ministry of Education was being provided under more than 150 different projects and subprojects, funded by some 16 donor countries, 6 U.N. agencies, and 3 multilateral financing institutions, including IDA.<sup>20</sup>

Consultations in Bangladesh, Ghana, and Mozambique expressed strong support for these approaches, noting that, although they took time to organize, they markedly improved the delivery of development assistance over the traditional fragmented project approach. In a few

cases, such as the Ghana Health Sector Program (box 2.6), there has been sufficient agreement on objectives and approaches for donors to pool their funding. Reviews and tracking of sector-wide programs confirm that they have significantly improved project relevance and consistency of sector expenditures with macroeconomic conditions and institutional assistance; strengthened country ownership of the reform program; and improved country and donor dialogue on priorities and approaches. Progress has been slower on country budget management (at central and decentralized levels), support for improved implementation capacity, donor coordination of procedures and processes through government mechanisms, and the establishment of self-monitoring systems.

These SWAps have important potential as building blocks in a country's poverty reduction strategy. Early experience with PRSPs has shown the value of revisiting sector strategies in light of explicit poverty reduction goals, to sharpen the focus on equity and efficiency objectives and establish indicators to assess performance in serving the needs of the poor. SWAps are a means of aligning external assistance with these strategies to improve access, financing, and

accountability mechanisms in ways that benefit the poor.<sup>21</sup>

***New regional and global initiatives.*** Although IDA usually provides repayable credits to member country governments, new regional and global initiatives on specific problems and supported by grant funds have occasionally complemented country-based lending. An early example was the Riverblindness Control Program in West Africa. More recent initiatives include the Global Forum for Health Research, which promotes research to improve the health of the poor; the Stop TB Initiative; and the Global Alliance for Vaccines and Immunization, which works to boost childhood immunization rates and vaccine research for major infectious disease killers in poor countries, including HIV/AIDS. The Bank has also joined a global effort to improve the use of global data and strengthen country monitoring capacity. While such programs look promising for advancing the fight against poverty, expanding IDA's participation poses challenges in setting priorities with partners, building partnership mechanisms for program implementation, and mobilizing funding, including grant funds, as needed.

## Box 2.6

### Pooling Donor Funds in Support of Health Sector Reform in Ghana

**IDA and 16 other assistance agencies have provided integrated support for the Ghana Ministry of Health's five-year sector reform program. This support has included pooled funding arrangements and a common framework for M&E. Most donor funds, including the IDA credit, are provided as untied contributions to a common health account and managed under existing government procedures. The other resources are earmarked funds but are included in the government's annual planning and budgeting cycle; they are channeled through the Financial Controller rather than given directly to program managers, apart from other funding. The health account funds, kept in a bank account under the control of the Ministry of Health and the Controller and Accountant General, are distributed to all eligible health units that meet minimum "readiness criteria," including submission of annual budgets accompanied by quantified targets and objectives and procedures for authorizing payments, maintaining accounts, and providing monthly reports.**

*Source:* Johannson and Adams 1998.





# Promoting Broad-Based Growth

In promoting broad-based growth, the second major component of IDA's poverty reduction framework, IDA has supported economic policy and structural reforms and productive investments to accelerate job-creating growth. The IDA10–12 replenishment commitments on the importance of growth for poverty reduction emphasize IDA's role in improving the poverty and social impact of adjustment lending (box 3.1) and promoting private sector development (PSD) (see box 3.6). IDA has made considerable changes in its adjustment operations over the period. It has also made progress on some of its PSD replenishment undertakings. Nevertheless, the acceleration of sustained, broad-based, job-creating growth remains a major challenge in a large majority of its eligible borrower countries.

## IDA's Evolving Adjustment Operations

Adjustment lending has been IDA's major tool for helping countries improve their economic management (box 3.2). As a share of total IDA lending, adjustment credits fell from 25 percent on average during FY92–97 to 19 percent in FY98–99 and 16 percent in FY00, as adjustment lending to Africa and South Asia slowed. The share of sectoral adjustment operations decreased significantly over this same period (see Annex F).

In the period under review, adjustment operations have evolved in ways consistent with the replenishment undertakings:

- As countries moved from first-generation macroeconomic reforms (trade, exchange rate, monetary policy) to second-generation

social and structural reforms (in the social sectors, financial and private sector development), adjustment lending evolved to support institutional reforms and increasingly emphasized poverty reduction and social sector reforms. As the share of policy conditions supporting macroeconomic reform declined and the share supporting public sector reforms, financial and private sector development, and social sector reforms increased, the focus has become more long-term, institutional, and microeconomic.

- In FY99, 15 percent of conditions on IDA adjustment credits related to social sector reforms, an increase over previous years. "Poverty-focused" adjustment credits increased



**Box 3.1****IDA 10–12  
Commitments  
on Improving  
the Poverty Impact of  
Adjustment Lending**

**Replenishment recommendations related to these operations have encouraged IDA to include special poverty measures in the design of adjustment programs, to protect social expenditures, and to see that reform packages are compatible with productive investment.**

from 33 percent of IDA10 operations to 46 percent of IDA11 operations (67 percent by value).<sup>1</sup>

*Countries that have sustained reforms have had at least modest increases in per capita income growth and decreases in the incidence of poverty.*

A rising share of adjustment operations has been rated satisfactory during the 1990s, according to Quality Assurance Group (QAG) quality at entry ratings and OED quality at exit ratings. QAG found a decline in adjustment operations at risk from 38 percent in FY95 to 16 percent in FY00. OED found an increase in outcome ratings of satisfactory or above from 65 percent in IDA9 to 80 percent in IDA11 and the beginning of IDA12. A quarter of the improvement is explained by the lower share of evaluated adjustment operations in the Africa Region, which has consistently ranked last among Regions in adjustment lending performance (OED 2000a, p. 11). In addition, there have been

improvements in the design of operations and better Bank and borrower performance.

On the broader issue of impact on poverty reduction, two findings emerge clearly from a range of studies. One is that many countries receiving adjustment credits have been able to protect (and even increase) social sector spending (IDA Review 2001b). The increase, however, has not always improved results for poor or vulnerable groups (Castro-Leal and others 1999; OED 1999c). Corruption, imbalances in allocations between capital and current budgets, and disparities in the distribution of expenditures to services benefiting different income groups undermine the impact of such spending on poverty. The Bank's recent retrospective on adjustment lending points out that the poverty and social focus of adjustment lending has increased over time, but it is still inadequate in many cases and remains a major priority.<sup>2</sup>

The second finding is that adjustment operations have done well, on average, in helping countries lay a foundation for accelerating growth and poverty reduction. Countries have improved macroeconomic stability, lowered inflation, and removed economic distortions (Branson, Javarajah, and Sen 1996), and in many countries trade, price, and regulatory reforms have contributed to higher agricultural output and productivity growth (Meerman 1997). Countries that have sustained reforms have had at least modest increases in per capita income growth and decreases in the incidence of poverty.<sup>3</sup> Countries with good records of successful adjustment operations include India, Uganda, and Vietnam in the early 1990s and Bangladesh in the mid-1990s. But the record on sustaining growth rates high enough that many

**Box 3.2****Poverty Impacts of Adjustment Lending  
in Uganda**

**Two Structural Adjustment Credits (SAC I and SAC II) in 1991 and 1994 and the Agricultural Sectoral Adjustment Credit in 1990 were among IDA's most potent poverty reduction instruments. SAC I and II continued a focus on stabilization and market-oriented reforms begun in the latter half of the 1980s, but were largely concerned with public sector management and private sector development. The adjustment and agricultural credits supported important reforms in coffee, for example, that have increased poor farmers' incomes. The liberalization of coffee marketing allowed farmers to retain 65–80 percent of export earnings, compared with 30 percent before the reforms—increasing revenues by about \$19 per capita per year.**



of the poor benefit is not broadly positive (see box 3.3).

Why has it been difficult for countries to move beyond new policies, legislation, and even action (privatization, for example) to better poverty outcomes? One reason is that many IDA countries have not consistently implemented their policy reforms, making it difficult to institutionalize the complex structural reforms needed to sustain growth rates high enough for long-term poverty reduction (Devarajan, Dollar, and Holmgren 1999; Killick, Gunatilaka, and Marr 1998). The recent collaborative study *Can Africa Claim the 21st Century?* notes that: “Many African countries have moved in and out of compliance with economic and structural reform programs, so formally being on a program has meant little for the policies actually pursued over longer periods. And short-term reforms have failed to address some difficult underlying institutional problems—and in some cases may have made them worse” (World Bank 2000b, p. 35). Sound policies, the study notes, pay off in the medium run but require good economic management over a sustained period, which has been difficult to achieve.

Research on adjustment lending and reform in Africa also points to the intervening role of the domestic political economy and to the limitations of a conditionality-driven model of adjustment. Conditionality that is useful to governments in the early stages of reform may be too intrusive during second-generation social and struc-

tural reforms. Typically, financing has tended to be reduced in that later phase just as policy reforms are taking hold and resources are needed for supporting policy and structural adjustments (Devarajan, Dollar, and Holmgren 1999). Reflecting these lessons, many adjustment credits since the mid-1990s have had fewer and simpler policy conditions.<sup>4</sup> “Floating” tranches have given governments more flexibility in timing reforms, within the discipline of a medium-term expenditure framework (OED 1999c). Introduced in 1998, programmatic adjustment lending promises support for countries facing the institutionally and politically complex demands of second-generation reforms (see box 3.4). Countries need strong budgetary and expenditure capabilities to make these new adjustment credits work. Better monitoring of country and IDA performance is needed as well.

*Programmatic adjustment lending promises support for countries facing the institutionally and politically complex demands of second-generation reforms.*

Another contributing factor is the difficulty in identifying practical policy measures for achieving not just growth, but broad-based growth. The poor typically benefit from growth, but how much they benefit varies greatly (Ravallion 2000). The fight against poverty has to address the

**Box 3.3**

**Weak Broad-Based Growth, Despite Improved Macroeconomic Stability, in Bolivia and Tanzania**

Despite dramatic achievements in macroeconomic stabilization and trade liberalization in 1986–91, growth and poverty reduction in Bolivia have fallen short of expectations. The OED Country Assistance Evaluation (CAE) cites five reasons: incomplete reforms, including in the financial sector; strong opposition by interest groups to privatization and legal, judicial, and regulatory reforms; regional imbalances in growth; inadequate social safety nets; and insufficient investment in human capital.

Boosting agricultural productivity has been on Tanzania’s reform agenda since the government agreed to a structural adjustment program in 1986. Yet despite a steady return to macroeconomic stability in the mid-1990s and a well-regarded reform program covering key areas of budget management, privatization, and incentives, agriculture has stagnated. Among the many reasons for the weak supply response are poor infrastructure, lack of credit, price variability, and weak public sector support for agriculture, characterized by an uneven commitment to reform in the early 1990s. Noting the absence of a clear rural development strategy, OED’s findings suggest that this may have contributed to the apparent neglect of policies for improving agricultural growth and reducing rural poverty.

Source: OED 2000e, OED data.

**Box 3.4****Programmatic Adjustment Lending to IDA Countries**

**Introduced in 1998, programmatic structural adjustment loans and credits focus on medium-term structural and social reforms, providing support for a country-owned reform program through sequenced one- or two-tranche adjustment operations over three to five years. Unlike traditional adjustment loans, in which conditionality is based on promised actions, these loans and credits provide funding for completed reforms.**

**Draft Interim Guidelines on Poverty Reduction Support Credits were proposed in April 2001 as an adaptation of programmatic adjustment lending. This instrument is conceived as a series of programmatic adjustment credits with a strong focus on poverty. Two to three annual credits in a series will be synchronized with the borrower's annual budget and policy cycle to the extent practicable. Each credit would support the borrower's medium-term program of social and structural reforms and institution building set out in the country's PRSP. The credits are also intended to facilitate coordination with the IMF. The first one is being prepared to support Uganda's poverty reduction strategy and focuses heavily on public sector reform.**

factors limiting the ability of the poor to participate in the opportunities created by growth-oriented policies (Kanbur 2000; Ravallion 2000; Thomas and others 1999). The Bank's 1999 *Annual Progress Report on Poverty* (World Bank 1999) notes weak attention in Country Assistance Strategies (CASs) to the transmission mechanisms through which policy changes are expected to benefit poor groups. The August 2000 progress report on Poverty Reduction Strategy Papers (PRSPs) calls for more work on the determinants of pro-poor growth and for greater specificity about how to support borrowers in setting and advancing country-specific priorities. Weak progress in agriculture and rural development is one continuing factor.

### **Lags in Agriculture and Rural Poverty Reduction**

*World Development Report 1990 and 2000/2001* (World Bank 1990, 2000a) point out that reducing poverty requires major investments in areas where the poor live and in activities they pursue. IDA's experience confirms that investing in rural social and economic infrastructure can raise the incomes and living standards of the poor (box 3.5).

Thus, the decline in IDA's lending in agriculture and rural development—from 24.3 percent of commitments under IDA10 to 19.1 percent under IDA11 and to 9.6 percent during the first year of IDA12—raises some questions (see Annex C), especially in the absence of compensating increases by other assistance agencies.<sup>5</sup> The decline is especially sobering in light

of a recent assessment of the “undercapitalization” of African agriculture (World Bank 2000b). Most of the world's poor will continue to live in rural areas well into the first half of this century, and agriculture still accounts for a sizable share of poor countries' GDP.

To some extent, the decline in lending is the result of a reclassification of assistance under different sectoral headings (for example, lending for rural roads, which has increased, is now in the infrastructure portfolio). But much of it also comes from IDA having withdrawn, appropriately, from unsuccessful efforts (such as top-down systems of extension services and complex rural development activities that had higher than average failure rates), but without improved approaches having been put in place for helping countries make the comprehensive improvements needed to accelerate agricultural productivity growth, market development, and rural poverty reduction.<sup>6</sup> Adjustment lending and economic and sector work (ESW) have contributed in many countries to relevant policy reforms that have improved agricultural price incentives and exports. However, the Africa collaborative study notes that “recent reforms have improved agricultural price incentives, but they have not done as well at addressing other structural and institutional constraints, including rural infrastructure (irrigation, roads, power, telecommunications), agricultural research and extension, and farmer health and education—factors that impede agricultural productivity and output.”<sup>7</sup>

Relative decreases in rural or agricultural lending over other sectors cannot be assumed to be

**Box 3.5****Pro-Poor Rural Development Projects  
in Bangladesh and India**

**In Bangladesh, two of IDA's most successful pro-poor investments have been in rural road rehabilitation and rural electrification. The rural electrification project, approved in FY90, sought to expand distribution networks to underserved areas and to rehabilitate distribution systems taken over from state ownership. The project improved household lighting, increasing opportunities to study and earn income and raising the quality of life, and it led to more efficient energy use in industry and agriculture. At credit closure, consumer connections far exceeded original estimates. A socioeconomic study showed that average household income in the program villages is about 50 percent higher than that in non-electrified villages and attributed 22 percent of the difference to electrification. The poverty rate in electrified villages is lower as well. The investment completion report notes that "although electrification has not shrunk the gap between the richest and poorest," the incomes of the poorest 10 percent of households in electrified villages are much higher than those of their counterparts in non-electrified villages.**

**Although the forestry project in the Indian state of Madhya Pradesh did not explicitly focus on poverty, it led to significant improvements in livelihoods and living standards, especially for tribal peoples. While IDA financed activities in 2,500 communities with more than 1 million people, the project expanded to more than 12,000 communities and 6 million people. It increased production (income) for the poor and created conditions for empowering poor communities on the forest fringe. Community protection funds helped to increase public choice and to reduce debt, and thus reliance on moneylenders. The project also made substantial progress toward environmental goals. Detracting from the project's major social gains, however, were the conflicts over forest access between villages during participatory planning and the limited participation by women in decisionmaking.**

a bad thing a priori, especially since lending for social funds, rural infrastructure, and health and education have been robust. Lack of consensus among development partners regarding rural development strategies and the reduced priority given to agriculture in aid programs is, however, a cause for concern. The sector requires revitalized attention on the part of the international development community, with IDA's role to be determined in coordination with others.

### **Strengthening Private Sector Development**

Lags in private sector investment are another important part of the weak growth story in IDA countries. For example, the ratio of private investment to GDP is not much higher than 5 percent for Madagascar or Mali, although it is as high as 30 percent in Malaysia. As efforts to stabilize macroeconomic conditions took hold in the 1990s, IDA increased its PSD activities, with success in some areas. The IDA10–12 Replenishment Reports all urged greater support for PSD to accelerate job-creating, broad-based growth (box 3.6). However, PSD activities have not, on the whole, been well integrated into IDA country assistance programs.<sup>8</sup>

Some 250 IDA projects with PSD components have been approved since the start of IDA10. At the project level, OED assessments show that 87

percent of closed projects had satisfactory outcomes, 55 percent were judged likely to be sustainable, and 37 percent had at least substantial institutional development impact, about the same ratings as for IDA projects overall. While the outcome ratings show satisfactory progress, the low institutional development impact is of concern, given the importance of well-functioning institutions for achieving the boost to broad-based growth that can come from PSD. The IDA-supported projects have entailed:

- High compliance in microfinance (box 3.7) in developing and disseminating best practice globally, including through IDA's support for the Consultative Group to Assist the Poorest (CGAP).
- Rapidly expanded support for private provision of infrastructure since the start of IDA11, with 60 percent of such activities in Africa.
- Assistance for new private sector legal and regulatory frameworks (more support is planned) and for some 131 privatizations (the addition of the transition economies to IDA's private sector work in the mid-1990s vastly increased the scope of this undertaking), but scale and effectiveness are not yet adequate.
- Modest progress in support of small and medium-size enterprises and rural finance. IDA has moved away from using public

## Box 3.6

## IDA 10–12 Undertakings on Private Sector Development

The IDA10 Replenishment Report emphasized improving the enabling environment for business—through legal and regulatory reforms, export promotion, and privatization—with private sector assessments as an analytical underpinning for countries' efforts. The IDA11 report, while reiterating the importance of the business environment, also emphasized private provision of infrastructure and a shift to a more poverty-focused agenda, including greater attention to small and medium-size enterprises. The IDA12 report intensified the focus on poverty reduction. It called on IDA to ensure that privatization activities were consistent with social equity and environmental sustainability—and took a broader systemic perspective, endorsing the piloting of partial risk guarantees to catalyze private investment and directing IDA to develop a comprehensive private sector development strategy by the end of 1999.

institutions to provide directed credit and services to small enterprises and from using government-owned rural finance institutions to provide targeted credit. But sound alternatives have yet to be found.<sup>9</sup> Thirty-five IDA countries have no programs for increasing access to rural finance.

At the country level, many OED CAEs point to a need for better choices of interventions, approaches, and instruments and for more attention to the distributional impact of PSD activities. The evaluations give low ratings to the effectiveness of PSD work. Many express concern about weak institutions and the lack of a comprehensive, country-specific PSD strategy.<sup>10</sup> The gains from increased efficiency are not always widely shared, in large measure because of inadequate attention to the institutional and policy framework for PSD activities.<sup>11</sup>

A review of IDA's PSD agenda shows a need for improvements in several areas:

- *Business environment.* IDA has focused on the important first steps for improving the business environment through policies on foreign trade, investment, and the financial sector. It has focused less on competition, consumer protection, property rights, insolvency and bankruptcy reform, and corporate governance, especially where institutions are weak. And while trade policy reform has altered producer incentives and promoted exports, few projects have explicitly supported export development, and not enough use has been made of IDA's analytical and advisory services for addressing cross-border trade and investment problems.
- *Financial sector development.* Since FY94, IDA has approved 70 operations with significant financial sector development components, most of them in the Africa and Europe and Central Asia Regions. Evaluations point to a need to strengthen the institutional foundations for a fair and robust market-based economy.<sup>12</sup> Improvements in the policy and regulatory environment for financial markets are needed to increase the access of rural and urban micro, small, and medium-size enterprises to commercially viable financial services.
- *Privatization.* Project ratings show that most IDA-supported privatization efforts have improved results at the firm level, but macroeconomic and distributional results have been mixed. Problems with the methods and sequencing of privatization and weak institutions are partly to blame. Where legal and regulatory institutions are weak, privatization has not improved (and has sometimes worsened) equity and has done little for short-run productivity. But trying to reform state enterprises rather than divest them has not been any more successful. Achieving better results will require a more intensive, country-specific diagnosis; a long-term view; proper institutional foundations; and a concentration on key firms and sectors.
- *Private provision of infrastructure and social services.* Improving the efficiency of the delivery of infrastructure and social services is critical to growth and poverty alleviation. In private provision of infrastructure, the recent focus has been on helping governments set up policy and regulatory frameworks that

**Box 3.7****Bangladesh: Poverty Alleviation through Microfinance**

**The Poverty Alleviation Microfinance Project supports an ambitious expansion of microcredit activities in Bangladesh that has increased the outreach of the 171 participating nongovernmental organizations from 440,000 clients in 1996 to 1.8 million by mid-1999. Women account for 90 percent of the clients, and loan recovery stood at 98.4 percent in June 2000. The program is executed by a nonprofit organization and is governed by a general assembly representing the main stakeholders concerned with poverty alleviation and social mobilization issues in the country.**

**Today, microcredit reaches 8 million households—60 percent of Bangladesh's poor. An ongoing impact study finds that microcredit has increased borrower incomes and asset accumulation; improved access to health, education, and sanitation facilities; and enhanced mobility and efficient time use. Through the Poverty Alleviation Microfinance Project, IDA helped to scale up the industry's operations and increase outreach during a time of declining grant financing. The Second Poverty Alleviation Microfinance Project will help the industry achieve sustainability by accessing financial markets through improved creditworthiness. It will improve industry disclosure standards, formalize the regulatory and supervisory system, and strengthen capital adequacy, portfolio quality, and governance systems.**

*Source: IDA Review 2001g.*

will motivate the private sector to respond to consumer needs and enable poor households and communities to share the benefits of better services. The emphasis has been on developing market structures and regulatory regimes appropriate to institutional and capacity constraints while improving governance and expanding capacity. Private provision of infrastructure shows promise as a growth area for IDA assistance.

A strategy paper prepared in 1999 laid out a reorganization of World Bank Group PSD work. This step was accompanied by the preparation of subsector strategies for small and medium-size enterprises and the financial sector. But to date there is no overall strategy for Bank support of PSD linked to its mission of poverty reduction and based on World Bank Group areas of comparative advantage. The strategy paper now being prepared (for completion in 2001) will meet this IDA12 replenishment commitment.

Clearly, PSD is a complex, multifaceted endeavor, and there is a need for IDA to exercise selectivity based on country commitment and performance, demonstrated IDA comparative advantage, and partnership with other key actors. With countries' increasing economic openness, there is demand for a greater focus on governance, environmental, and social issues related to private investment. In this context, the forthcoming PSD strategy should propose selec-

tivity criteria reflecting the distinctive roles of IDA/IBRD, IFC, and MIGA. Considerable synergies can be tapped within the World Bank Group by combining IDA's role in improving the country policy framework, IFC's unique connectivity to private corporations, and MIGA's catalytic function vis-à-vis foreign direct investment. Development rewards would surely be enhanced if the three agencies were to work more closely together and with their external partners to generate environmentally and socially sustainable development. This would require

***There is no overall strategy for Bank support of PSD linked to its mission of poverty reduction and based on World Bank Group areas of comparative advantage.***

improving the delineation of respective roles, shifting activities among institutions, and dropping activities that are found to be better pursued by other actors. The sector strategy provides a good opportunity to make explicit the definition and rationale for a clear division of labor and a greater selectivity within the World Bank Group and vis-à-vis others. It should also help identify ways to improve IDA's support for the policy and regulatory environment for private investment, the proper institutional foundations for privatization, the expansion of the private provisioning of infrastructure and social services,

and a positive distributional impact from increased private sector-led growth.

### Looking Ahead

Two recent process initiatives—the CDF and the PRSP—could significantly improve the effectiveness of IDA's support for poverty reduction in borrower countries.

- Application of the CDF principles, which emphasize country ownership and coordination of development assistance in support of poverty reduction, should help IDA align its country program priorities with borrowers' poverty reduction efforts through coordination with other development partners.
- The PRSP initiative, by providing a structure for operationalizing the CDF principles, is intended to achieve what the IDA replenishment recommendations have sought for many years: effective country strategies that link macroeconomic policy, sector strategies, and high-impact interventions to enhance opportunities and reduce vulnerabilities of the poor.

Several lessons from the period under review should inform these efforts:

- Countries' poverty reduction strategies and IDA's support of them must focus on accelerating broad-based growth. Notwithstanding the uneven country record, many IDA borrowers are in a better position than at the beginning of the IDA10 period to focus on broad-based growth and poverty reduction goals thanks to their policy reforms and the contributions of IDA and other development partners. But rates of growth are projected to remain too low and inequality rates too high across a large number of IDA countries to sig-

nificantly reduce poverty in the near future. And there is still much to learn about the determinants of sustainable, pro-poor growth in individual countries.

- IDA's comparative advantage is strategic, not only in lending for adjustment programs and key investments in support of broad-based growth, but also in supporting the research and analytical work needed to ensure that the poor share in the gains. Because of the importance of private sector and rural development to economic growth and poverty reduction, these areas need redoubled efforts—with IDA's role determined in coordination with its development partners.
- IDA's contributions in the social sectors remain relevant and in need of continued effort, particularly the attention to sector-wide reforms. However, IDA and its partners need to sharpen their focus on results and on the institutional issues that impede their achievement. Experience has demonstrated the benefits of working through sector-wide programs. These coordinated, country-led sector reform efforts ought to be more widely used as the building blocks of IDA's and other agencies' support of countries' poverty reduction strategies.
- Across all areas of activity, IDA has made major and widely regarded contributions to countries' efforts through its analytical work. This work needs to be sustained and adapted to emphasize strengthening countries' capacities to diagnose conditions, analyze and improve policy and program outcomes, and inform broad debate. The availability of adequate resources for this aspect of IDA's role requires priority attention, as recent management reports have indicated.





# Integrating Gender, Environment, and Governance

**T**he IDA10–12 replenishment agreements emphasized gender, environmental sustainability, and good governance as core elements of IDA’s broadened poverty reduction framework. While these undertakings were highly relevant, progress has been constrained by lack of consensus, in IDA and its member countries, on explicit priorities and on IDA’s role in advancing them.

IDA has made important contributions in each of these areas, but progress has fallen short of commitments. In the areas of gender and environment, implementation of replenishment undertakings has been partial, with greater progress on some matters than on others and, overall, slow progress on the integration, or mainstreaming, of gender and environmental considerations in all IDA activities. Recently, good governance has received much heightened attention as a critical factor in poverty reduction. Still, the effective treatment of governance issues, although expanding rapidly, remains a challenge, and unresolved issues about IDA’s role persist.

Although these three issues were largely overlooked in the Bank’s 1990 poverty strategy, the *World Development Report 2000/2001* (World Bank 2000a)—with its emphasis on opportunity, empowerment, and security—broadens the perspective on poverty reduction in ways that suggest linkages to gender, environment, and

governance. IDA should build on those insights to help strengthen domestic consensus, policies, and institutional capacity for incorporating these issues into countries’ own development strategies.

## **Addressing Gender**

The Bank’s 1994 Operational Policy on “Gender Dimensions of Development” (OP4.20) aims to reduce gender disparities and advance women’s economic opportunities. It also requires the Bank to assist countries in strengthening institutions for increased participation of women in development. The IDA10–12 commitments built on these objectives, giving added emphasis to integrating gender considerations into all IDA lending activities (see box 4.1). In implementing those commitments, IDA assistance has achieved satisfactory results in education and health, in part because of significant country ownership and effective partnership with other development actors, and also because operations were underpinned by

**Box 4.1****IDA 10–12 Commitments on Gender**

**The IDA10 and 11 replenishment commitments echoed the objectives of the Bank's 1994 gender policy on reducing gender disparities and advancing women's economic opportunities, urging IDA to undertake regular gender analysis, expand support for family planning and social services for women (especially girls' education), and integrate gender in all lending activities. IDA12 called for intensifying and monitoring the mainstreaming of gender in IDA operations, expanding dialogue on gender, undertaking gender equality assessments, and helping countries implement national gender equality plans. It also instructed IDA to prepare a gender strategy in 1999.**

rigorous analytical work. IDA assistance has been weaker, however, in promoting the economic participation of women and improving borrowers' institutional frameworks for gender. The shortfalls have undermined the efficacy of the assistance provided and led to disappointing results at the country level. Moreover, the broader intent of integrating gender in all IDA activities has yet to be implemented.<sup>1</sup>

***Increasing attention to gender in analytical work and monitoring.*** Overall, the integration of gender considerations into the full range of IDA economic and sector work (ESW) has been weak. Analyses in the areas of health and education have increasingly considered gender dimensions, focusing on low enrollment of girls and maternal and child health. Poverty Assessments (PAs) and Public Expenditure Reviews (PERs) have also increasingly included gender analyses (Whitehead and Lockwood 1999; OED 2000c), but again looking largely at education and health and not at women's participation in economic activities. Outside the social sectors, there has been some analysis of gender in agriculture—where women account for a large part of the labor force in poor countries—and recently in transport, but still very little in these areas and even less elsewhere.<sup>2</sup> The lack of a consistent analytical framework has impeded the integration of gender considerations in general ESW. And gender-disaggregated data and analysis remain limited overall, even in the social sectors. The importance of these findings is underscored by recent evidence on the links between analysis and lending, drawn from review of 12 country cases, that confirms the oft-made argument that good analytical work leads to improved gender integration in lending.

Both Bank policy and IDA replenishment undertakings emphasize monitoring policy implementation and impact on the ground, a commitment that needs stronger follow-up. In 1987, the Bank became one of the first agencies to establish a “women in development” rating system to evaluate the integration of gender issues in projects. The system tracks projects after they have been approved, for the extent to which inputs attend to gender commitments. Taking the next step of monitoring impact at the project level has been more difficult. Only 20 percent of IDA projects use gender-disaggregated monitoring indicators, and 70 percent of these are in health. And there is still no Bank-wide system to provide feedback on progress in mainstreaming gender.

***Integrating gender in country assistance programs.*** Overall, the diagnostic treatment of gender in IDA Country Assistance Strategies (CASs) has improved significantly over the review period. Some 66 percent of a sample of IDA CASs since 1997 include satisfactory gender analysis, compared with 7 percent in the two years preceding IDA10. But even in CASs with good gender analysis, the link between diagnosis and the proposed lending program remains mainly in the areas of education and health. Moreover, projects and programs show no improvement in integrating gender considerations during the past 10 years. While 46 percent of IDA projects undertaken (compared with 40 percent of IBRD projects) contain at least some gender analysis, only 25 percent include gender-specific actions. Again, most of these projects are in education and some areas of health.

Support for girls' education, especially in countries where gender disparities are great,



stands out as an area of strong Bank commitment (see box 4.2). Evaluations of projects closing in FY95–00 indicate that where there are large gender disparities in enrollments, IDA has integrated gender concerns into virtually all education projects and has contributed to positive trends in female enrollment. Where disparities have been smaller, gender-related issues in education have received little or no attention, a missed opportunity to improve the situation for girls.

In the health sector, attention to gender has focused mainly on maternal health, through components to reduce illness and death among women of childbearing age and among children by expanding maternal health and family planning services (see box 4.3). Some of these components have increased women's access to good-quality reproductive health services,<sup>3</sup> but others have been highly localized, and their sustainability is uncertain. Most other project components (such as construction of health clinics) are gender-blind. Gender analysis has yet to be undertaken for many health issues with a major impact on women, including those related to environmental degradation. Many projects lack a sharp focus on results.

In the productive sectors, integration of gender concerns has been very limited, and is mainly seen in agriculture and transport. Operations in other productive sectors have virtually ignored gender issues. A review of projects in eight IDA countries designed to increase women's economic participation finds that assis-

tance has been directed primarily to microlevel, ad hoc activities and that governments have not been able to scale up or replicate most of them, although a few notable successes demonstrate the benefits that can be achieved (see box 3.7, which describes the successful microfinance project in Bangladesh). In The Gambia, a long-standing national commitment to improve women's economic status and to build the institutional capacity for program implementation resulted in a country-led agenda through which IDA provided program and institutional support.<sup>4</sup>

IDA assistance has given women a greater voice in project implementation and helped strengthen institutions to deliver gender-aware programs in selected sectors and in a few countries. Overall, however, it has not worked with governments to strengthen institutional capacities for designing and implementing gender policies.<sup>5</sup>

**Clarifying the gender policy.** Budget constraints and lack of strong country interest have limited progress in integrating gender into IDA's country assistance programs. But internal shortcomings are to blame as well. Despite the increased visibility of gender issues in the Bank following the 1994 gender policy (formation of the External Gender Consultative Group in 1996, the Gender and Development Board in 1997, and new gender thematic groups in 1998), a recent OED evaluation found no consensus in the Bank or in member countries on the scope of the Bank's gender policy and implementation

## Box 4.2

## Increasing Assistance for Girls' Education

**IDA's assistance in girls' education has been a strong feature of its poverty reduction efforts in the past decade. The share of IDA education lending going to girls' education rose from 39 percent in 1996 to 48 percent in 1999. While only 23 education projects targeted girls at the start of IDA9, about half of the 98 projects in IDA's education portfolio at the end of IDA11 did so.**

**The Bank's 1994 gender policy focused explicitly on girls' education, requiring that the Bank aim to reduce gender disparities in education and take gender into account in its operations in order to remove barriers to girls' school attendance. In 1997, a girls' education program identified 31 active borrowers as having significant gender disparities in education and targeted 15 of them (all in the Africa and the Middle East and North Africa Regions) for exceptionally large enrollment gaps between boys and girls. The 1999 education sector strategy maintained a focus on gender.**

**Analysis of a small sample of countries shows that IDA has supported both demand- and supply-based interventions, including construction of schools in remote areas, training of female teachers, and processes for reducing the opportunity cost of girls' schooling. In the cases reviewed, these efforts have had a significantly positive effect, except where exogenous factors impeded project implementation.**

**Box 4.3****Maternal Health in Bangladesh**

The Fourth Population and Health project in Bangladesh adopted a “gendered” approach to maternal and child health. The OED Gender Review found that project outcomes clearly influenced such positive trends for women’s health in Bangladesh as sharply declining fertility rates, rising women’s life expectancy, and lower rates of under-five mortality. The project resulted in the expansion of family planning—maternal and child health service delivery through satellite clinics in rural areas; a wide range of successful information, education, and communication programs that deal with the responsibilities of both men and women in family health; construction and staffing of an Institution for Mother and Child Health, with women making up half the staff; establishment of a Gender Issues Office headed by a joint secretary for expanding women’s involvement in the Ministry of Health; increased efficiency of three intersectoral population programs; and the recruitment and training of 4,500 female health assistants.

strategy. Many staff are unaware of even those policy elements on which there is consensus; and the Bank has yet to establish adequate support and accountability processes for ensuring policy implementation.<sup>6</sup>

*A recent OED evaluation found no consensus in the Bank or in member countries on the scope of the Bank’s gender policy and implementation strategy.*

There are two distinct but related problems with the current policy. The first is the lack of consistency among international norms, Bank gender policy, and IDA12 replenishment commitments. Consistent with the platform of the Beijing Conference on Women,<sup>7</sup> the Bank focuses on reducing gender disparities and furthering women’s economic opportunities. But while the Beijing platform places women’s advancement within a gender analytical framework, the Bank has not fully made this shift. Even in the health sector, efforts remain focused on the narrower goal of improving women’s reproductive health. The IDA12 agreement goes beyond even the Beijing platform by instructing IDA to undertake gender equality assessments and to assist countries in implementing national gender equality action plans. The second problem is IDA’s focus on reducing gender disparities in education and health without simultaneously addressing women’s economic participation, which limits the impact of health and education improvements on women’s well-being, national development, and sustainable improvements in gender relations.

**Lessons.** Characteristics of good practice in integrating gender considerations into country assistance are described in box 4.4. These lessons and the findings from the recent OED gender evaluation lead to the following recommendations for strengthening the integration of gender considerations into IDA activities:

- **Clarify the scope of the gender policy.** As a guide to IDA’s operations, the rationale, intent, and scope of the Bank’s gender policy need to be clarified. The statement of objective should make clear that the policy is a core part of the institution’s overarching objective of poverty reduction.
- **Strengthen borrower institutions and policies.** Most borrowers have formulated national policies and action plans, which aim to improve the well-being of women and are usually consistent with the principles stated in the Beijing Platform for Action. IDA should strengthen institutions to support the implementation of these policies and plans. In countries where such policies and plans are weak, support for their strengthening (through country dialogue and nonlending services) should be an IDA priority.
- **Integrate gender considerations into CASs.** Based on a comprehensive diagnosis, the CAS should explain how IDA assistance will take into account the linkages between poverty and gender. This assistance and its underlying strategy should be explicitly related to the borrower’s policy framework for gender.
- **Integrate gender analysis into the design of IDA-supported projects.** Gender diagnosis should be integrated into the economic and social analysis carried out in the prepa-

**Box 4.4****Characteristics of Good Practices  
in Integrating Gender**

**Country Ownership**, including visible and actively implemented country gender policy or strategy and strong commitment reflected in domestic institutions, and the design of assistance consistent with countries' own action plans.

**Analytical work** that underpinned and laid a strong technical foundation for IDA's operations.

**A holistic approach** to gender issues within a country assistance program, including attention to institutional issues.

**Strong partnerships** with other donors and civil society organizations and **systematic monitoring of results**.

ration and design of IDA-supported projects so that both men and women are able to access the benefits equitably. This is especially critical for countries with high gender disparities.

- **Strengthen management of the gender program and establish a monitoring and evaluation (M&E) system.** The Gender and Development Board should be provided with the necessary authority to ensure gender mainstreaming across sectors and themes as appropriate, and actions should be taken to ensure that institution-wide progress is regularly tracked and periodically evaluated.

The Bank's forthcoming Gender Strategy, soon to be released, provides an opportunity to clearly link gender activities with the overarching goal of poverty reduction and provide a clear implementation strategy. Monitorable benchmarks will be needed for measuring progress and effectiveness in implementing the policy for mainstreaming gender into IBRD and IDA activities.

**Enhancing Environmental Sustainability**

The creation of the Environment Department in the 1987 reorganization marked environmental sustainability as a major objective of the World Bank's work.<sup>8</sup> Participation in the 1992 Rio Earth Summit and publication of *World Development Report 1992: Environment and Development* (World Bank 1992a) reinforced that commitment. Specific IDA10–12 replenishment undertakings emphasized four priorities for IDA's environmental work (see box 4.5):

- Integrating environmental concerns into country strategies
- Lending for environmental objectives
- Enhancing the application of environmental safeguard policies
- Increasing attention to global environmental issues.

IDA has broadened awareness of environmental issues in borrower countries, particularly at the project and program level. It has supported innovative projects, extended the use of environmental assessments, and conducted

**Box 4.5****IDA 10–12 Commitments on Environmental Sustainability**

Influenced by assessments leading up to Rio and by negative public reaction to controversial IDA projects such as the Narmada dam in India, the IDA9 Replenishment Report elevated environmental sustainability to the same level of importance as poverty reduction and broad-based growth. The IDA10 Replenishment Report reiterated that emphasis, while the IDA11-12 reports revised the emphasis slightly, putting poverty reduction at the center and environmental sustainability and broad-based growth in essential supporting roles.

More specifically, the Replenishment Reports recommended:

- **Completion of national environmental action plans (NEAPs) in all IDA countries and their incorporation in CASs and country policy dialogue**
- **Continued lending for environment projects and integration and mainstreaming of environmental considerations in all IDA activities**
- **Improved implementation of safeguard policies, including by assisting borrowers to improve the quality and scope of environmental assessments**
- **Support for projects addressing global environmental issues (climate change, biodiversity, desertification) and integrating global concerns in country dialogue.**

significant research and analysis. Direct lending for environmental projects increased in IDA9 and then leveled off, while environmental components of other projects increased significantly (table 4.1). In many countries, project work developed out of NEAPs, usually prepared with IDA assistance. Still lacking, however, is the full integration of NEAPs and environmental sustainability concerns into CASs and country dialogue, and the establishment of criteria for mainstreaming environmental concerns in other sectors and linking them to poverty reduction. Weak borrower interest and tight budgets play a part, but so do inadequate guidelines, accountabilities, and incentives for implementing IDA commitments.

***Integrating environmental concerns into country strategies.*** Following replenishment recommendations, NEAPs have been completed in nearly all IDA countries, although more slowly than intended and with mixed quality and follow-up. The combination of high-quality NEAPs, strong government interest, and IDA support resulted in strong environmental programs in some countries (see box 4.6), but overall the picture is mixed.

In 1999, as throughout the decade, only about half of the CASs reviewed treated environmental sustainability adequately.<sup>9</sup> CASs were not required to include environmental performance indicators, nor was environmental sustainability a priority in management reviews or a major factor in the policy dialogue for many countries.

IDA's underlying ESW and other analysis of environmental issues have been good to excellent, but environmental analyses for most IDA

countries are more than five years old. Staff working on environmental issues say that they lack the time, resources, and incentives to apply the analysis. As a result, IDA's environmental actions have been less strategic than they might have been.<sup>10</sup>

***Lending for environmental objectives.*** Direct environmental lending shows no discernible trend since increasing in IDA9, although the number of projects has increased slightly (table 4.1). However, environmental components in agriculture, urban, water supply, and energy projects increased, both in the number of projects and the estimated level of financing, in IDA10 and then leveled off.<sup>11</sup>

Guidelines for adjustment lending (Operational Directive 8.60) suggest that environmental factors be considered, but they do not encourage environmental reforms through adjustment operations. A recent management review found little increase in environmental coverage in adjustment operations over the period and has now provided the basis for follow-up action (Reed 1996; World Bank 1997a). A working group (including the Environmentally and Socially Sustainable Development Network, ESSD, and other units) is currently preparing the conversion of the Operational Directive (OD8.60) that will provide guidance on treating the environment in adjustment operations.

Beyond direct lending, replenishment agreements have increasingly stressed the need to address environmental concerns in all projects. This emphasis on mainstreaming goes beyond the mitigation ("do no harm") actions of the Bank's safeguard policies to encompass positive

#### Box 4.6

#### Using the NEAP to Develop Strong Project Works

**When the NEAP in Bangladesh was found to be a long shopping list of concerns without adequate priorities, the country department mounted a further mission with the government to establish priorities and translate them into projects. Initially a single environmental project was planned, but the parties decided that it would be more effective to incorporate most of the priority actions identified in the NEAP into other projects. IDA did this in several of its own projects, and the United National Development Programme also conducted a follow-on project to the NEAP to improve environmental management. As a result, the NEAP was translated into an effective program that was mainstreamed into the IDA portfolio.**

Source: IDA Review 2001h.

**Table 4.1****Direct IDA Lending for the Environment and Environmental Components, FY91–00**

Fiscal year	Direct environment lending (number of projects)	Direct environment lending (\$ millions)	Environmental components, other sector projects (project no.) <sup>a</sup>	Estimated IDA financing of environmental components <sup>b</sup> (\$ millions)
1990	2	191	13	155
1991	1	179	19	290
1992	5	229	34	554
1993	4	202	23	235
1994	4	172	26	581
1995	3	69	33	552
1996	5	349	34	1,063
1997	12	257	25	435
1998	4	149	28	556
1999	5	213	21	437
2000	7	60	27	608

a. Based on sectoral reviews of the agriculture, urban, water supply and sanitation, and energy portfolios. This includes environmental components in sector projects that closed over 1990–00.

b. The value of IDA financing for environmental components has been calculated at the same proportion as the overall IDA commitment in total project costs, as this review did not undertake a component-by-component breakdown. This approach is conservative and likely underestimates IDA's support for environmental components.

“do good”) aspects of project design in all sectors. To date, there are no clear guidelines for promoting, monitoring, or evaluating mainstreaming, suggesting that it is not yet a functional priority, despite the replenishment recommendations. The recent IDA report on mainstreaming finds that sector strategies (notably energy and urban development) have incorporated significant environmental input and committed to better mainstreaming of future sectoral operations. The report finds only moderately satisfactory mainstreaming in CASs, however, and no integration as yet in Poverty Reduction Strategy Papers (PRSPs): “While in some cases environment may be missing from client priorities for a good reason, there is much more to be done to ensure that appropriate attention is paid in the country dialogue to the long-term sustainability of natural resource use and to the impacts of environmental degradation on development” (World Bank 2001e, p. 4).

Where environmental concerns have been a borrower priority and figured prominently in IDA country strategies, results have been impressive. IDA lending has appropriately addressed

natural resource management (the emphasis in IBRD lending is on pollution abatement). Projects have helped reverse land degradation (Sodic Lands Project in India, Loess Plateau Project in China), strengthened environmental management (through a series of environmental management projects in Madagascar with coordinated donor assistance, and in China), and increased income generation on arid lands (Arid Lands Project in Kenya). Environmental project performance and supervision have been on a par with Bank lending in general.<sup>12</sup>

**Enhancing safeguards.** OED and management reviews in 1996 and 1997 concluded that safeguard policies and procedures were essentially sound and had often helped to mitigate potentially adverse effects of IDA-funded projects and boost environmental awareness. The reviews also noted major shortfalls: environmental assessments have come too late in the project cycle to influence design, alternatives were not adequately considered, and supervision of actions recommended in environmental assessments has often been weak.

Assessments by management and staff have attributed shortfalls in part to inadequate resources for implementing safeguards. Also, decentralization of responsibility for environmental assessments to Bank Regions has created an awkward conflict of interest for Regional and network staff, making them both promoters of environmental issues and policemen of environmental safeguards.

The April 2000 Inspection Panel report on the Western China Poverty Reduction Project brought high-visibility attention to these implementation problems. It also revealed widely divergent views among managers and staff on how to apply safeguard policies. Reviews of safeguard policies and environmental assessment processes are under way. They seek to improve implementation and find ways to extend safeguards to adjustment and programmatic lending. More resources have been allocated to the safeguard process in the FY01 budget, and a new central unit dedicated to safeguard policy quality assurance should impose a more integrated management approach.<sup>13</sup>

*IDA also has great potential for addressing regional and transboundary issues, but the strong country orientation of its internal organization makes it difficult to address such issues.*

But the larger issue of efficacy remains. Despite a positive impact at the project level, the effects at the country level have been modest because of the limited coverage of IDA-funded environment projects, the lack of follow-up procedures after project closure, and the slow adoption of effective environmental assessment

processes in most countries. Many countries have established their own environmental assessment regulations, but implementation remains weak.<sup>14</sup> Moreover, there has been almost no move toward a more strategic, sectoral approach to environmental assessments. The ongoing review of safeguard policies should identify ways to build greater country capacity (box 4.7 describes a good case example).

***Increasing attention to global environmental issues.*** IDA countries stand to suffer most from the adverse impacts of global concerns, such as climate change. IDA has provided information on the local costs and benefits of addressing global environmental issues, and Global Environment Facility (GEF) funds have been used to finance such projects.<sup>15</sup> Analysis has identified where local and global benefits can be mutually reinforcing and tradeoffs minimized (Hughes and Lvovsky 1999). The emphasis on local impacts of global issues has helped in developing relevant projects and programs. The Clean Fuels Initiative, for example, seeks to reduce locally harmful particulate emissions as well as carbon dioxide emissions.<sup>16</sup> In addition, IDA has begun to help countries mitigate negative environmental impacts and should expand those efforts where circumstances and interest make this a priority.<sup>17</sup>

IDA also has great potential for addressing regional and transboundary issues, but the strong country orientation of its internal organization makes it difficult to address such issues. Budgets, programs, and incentives are not designed to support this work. Some GEF projects, such as the Lake Victoria project and the Central American Mesoamerican Biodiversity Corridor, have effectively addressed regional transboundary

#### Box 4.7

#### Eritrean Environmental Guidelines: Doing the Right Thing Right

In 1995 Eritrea issued a National Environmental Management Plan. IDA provided support for its implementation, with an IDF grant to prepare environmental assessment guidelines, legislation, and training. Although the 1998–00 border conflict delayed formal enactment of legislation, the government's guidelines have been applied. In 2000 IDA undertook a pilot initiative in which the Eritrean environmental guidelines would be applied to IDA projects in lieu of Bank guidelines. Three projects have been processed successfully in this manner.



problems with global implications. There has also been IDA lending follow-up to the Lake Victoria project. While the GEF and other grant resources offer opportunities for solving trans-boundary problems, these resources are limited; consequently, IDA should do more to support cross-border programs when there are substantial benefits to neighboring countries. In these cases, IDA should modify, as needed, its heavily country-focused programming and budgeting in order to bring the countries together to solve shared problems (in watersheds or other ecosystems that span national boundaries). These issues are important to development, and few other agencies can address them effectively.

**Challenges and constraints.** Environmental sustainability is among IDA's most challenging goals and a source of tension within the Bank and with borrower countries. Using environmental and natural resources is essential to growth and poverty reduction. Abusing them is a threat to health, economic sustainability, and long-term ecosystem integrity. Many environmental impacts are indirect and long-term, which makes drawing the line between use and abuse difficult. Debates rage between parties interested in short-term gains and those with long-term horizons, and between those interested in local and national priorities and those interested in global priorities. Opportunities for enrichment from exploitation of natural resources can lead to corruption and impede sound policymaking.

IDA's primary external constraint in pursuing its environmental commitments is the lack of interest and commitment among member governments. Many countries do not want to borrow from IDA to address environmental issues either because they do not view them as a priority<sup>18</sup> or because they prefer to use grant funds. In several cases, the GEF has been the only way to bring environment projects into country programs.<sup>19</sup> But these projects are no substitute for IDA operations, because the GEF has a very different mandate—to provide incremental funding for cross-border or global issues, not poverty reduction.

Internal factors also affect IDA's performance. The environment has been treated con-

ceptually and operationally more like a sector than a crosscutting theme, and the links to IDA's poverty reduction work are still undefined. Frequent reorganizations have confused accountabilities for environmental goals. The Bank's network role in setting, supporting, and monitoring objectives needs clarification and strengthening. While high-profile crises attract attention and galvanize action (as in the follow-up to the Western China project), over the long-term crises appear to make borrowers and managers risk-averse in program design.

**Recommendations.** The review of IDA's assistance in ensuring environmental sustainability points to a number of lessons, some broadly similar to those that have emerged from the evaluation of IDA's work on gender. The lessons include the importance of strengthening countries' own policies and institutions; better integrating environment in CASs and sector strategies; making environmental sustainability a central feature of policy dialogue, with particular attention to the links between poverty and environment;<sup>20</sup> integrating environmental analysis into project design to foster environmental quality and sustainability (with safeguards and mitigation serving as a minimum threshold, not a first line of defense); and further strengthening accountability within the Bank for environmental and safeguard policy compliance.

***IDA's primary external constraint in pursuing its environmental commitments is the lack of interest and commitment among member governments.***

Specifically, the findings and lessons lead to three main sets of recommendations (these are outlined in more detail in the environment background study for this review and are taken into account in the design of the new environment sector strategy):

- IDA should build on its comparative advantage and analytical capacity to demonstrate the critical role of the environment in sustainable development and poverty reduction. It should incorporate environmental objectives into its

country assistance and sector strategies and enhance its efforts at country capacity building, focusing on strengthening institutions, policies, and regulatory enforcement.

*IDA should concentrate its resources, in partnership with other actors, on assisting the efforts and strengthening the institutions of countries that demonstrate a commitment to environmental sustainability.*

- IDA should strengthen its accountability for incorporating environmental goals into its activities where the environment is a priority issue and for complying with the Bank's environmental safeguard oversight system and process. In parallel, it should modernize and adapt its policy framework to the changing practices and instruments being used, and place greater emphasis on helping borrowers build their own capacities to formulate and implement environmental policies and manage environmental resources and risks.
- In helping to advance the global environmental agenda, IDA should concentrate its assistance on the local and national benefits, and increase its attention to regional (transboundary) issues in its analytical work and programs.

Overall, IDA should concentrate its resources, in partnership with other actors, on assisting the efforts and strengthening the institutions of countries that demonstrate by their policies and

actions a commitment to environmental sustainability. Where countries are not committed to addressing environmental problems, IDA should work toward informing policymakers of the importance of environmental considerations to strategic development priorities through better treatment of the environment in the diagnosis underlying CASs, collaborative analytical work, and policy dialogue.<sup>21</sup> Moreover, experience around the world has shown that government intervention—through regulations and market-based incentives—is essential to safeguarding the environment. Governments have a great deal of control over the allocation of natural resources, so linkages with IDA's efforts to support effective governance are also important to environmental objectives.<sup>22</sup>

### Improving Governance

*With poverty reduction front and center of our agenda, our work at the “rock-face” must be on governance, institutions, and capacity building.*

—James D. Wolfensohn  
1999 Annual Meetings Speech

IDA was slow to implement replenishment undertakings in IDA10, not only on such sensitive matters as the rule of law, transparency, and accountability, but also on capacity building, institutional development, and public sector management (see IDA Review 2001e). But momentum accelerated in the latter half of the 1990s (see box 4.8). World Bank President James Wolfensohn gave new prominence to governance issues, emphasizing public sector reform as an integral part of the Bank's poverty reduc-

#### Box 4.8

#### IDA 10–12 Replenishment Commitments on Governance

Recognizing that governance intersects all areas of IDA's support for countries' development efforts, replenishment undertakings have urged IDA to assist borrower governments in strengthening the rule of law and public accountability systems and becoming more transparent and participatory. Each CAS is to show how governance is being addressed, and PERs are to be used to strengthen public expenditure management and to assess whether nondevelopmental spending (such as on the military) is crowding out social expenditures. Replenishment undertakings also urged IDA to assist judicial reform and anticorruption measures, encourage broader participation in governance reform, and tighten the connection between lending levels and governance performance.



tion mission and instructing country teams to address corruption openly. A major effort followed to expand capacity for operational work in governance through increased staffing, analytical work, and policy guidance; to increase lending for public sector reform and other elements of governance; and to link overall lending more closely to countries' governance performance (discussed in Part III).

***Building Bank competencies.*** Efforts have been under way during the past three years to build staff capacity in public sector reform. The Public Sector Group, established in 1997, quickly achieved a strong record in developing information and practical guidelines on best practices. The Bank recently recruited experts in public accounting and auditing and is building up its team of legal and judicial reform specialists.

Analytical and policy work on governance has also expanded in the past three years.<sup>23</sup> The most recent policy statement, *Reforming Public Sector Institutions and Strengthening Governance*, proposes a more proactive approach to governance and institution building. Three Bank Regions—Africa, Europe and Central Asia, and Latin America and the Caribbean—have recently produced special regional studies on governance.<sup>24</sup> The Bank's Development Economics Vice Presidency has done valuable analytical work,<sup>25</sup> and the World Bank Institute (WBI) has made helpful contributions.<sup>26</sup> The Bank has increased its analytical work on public financial accountability and related policy guidelines, although it has been slow to take a systematic approach to assessing and strengthening borrowers' public financial accountability systems, which have repeatedly been shown to be important for achieving desired outcomes in governance.<sup>27</sup>

***Fuller treatment of governance in CASs and lending.*** Governance now figures prominently in CASs, which are widely discussed with stakeholders in each country. Governance considerations have also been given greater weight in country performance-based lending allocations, though not as effectively as they need to be (see Part III).

The coverage of governance and public sector reform in lending programs is still partial, held back by resource constraints and limited country ownership. Nonetheless, the number of public sector reform projects and multi-sector projects with significant public sector reform components more than doubled from 45 in FY97 to 96 in FY99.<sup>28</sup> Structural adjustment operations addressing public sector reform also more than doubled from FY98 to FY99, to 22.

Satisfactory ratings for completed public sector management projects rose as well, from 54 percent in FY95 to 94 percent in FY98 (dropping

***Coverage of governance and public sector reform is still partial, held back by resource constraints and limited country ownership.***

slightly to 91 percent in FY00). In FY98–00 more than 75 percent of the rated projects were considered likely to be sustained, and two-thirds to have a substantial institutional development impact (all ratings exceed the average for Bank projects overall). And because successful reform requires strong ownership, broad participation, modest investment, long implementation, and timely technical assistance, the Bank has experimented with adapting lending instruments for public sector reforms.<sup>29</sup>

Still, in most countries the dialogue on governance reform is just beginning. IDA has yet to put governance squarely on the table in a consistent way for all borrower countries. It does not always give core elements of public sector reform—from improved budgeting, auditing, and accountability to the rule of law and transparency in public sector activities—the attention they deserve in country assistance programs. And it still faces a challenge in strengthening country ownership and political commitment for reform (box 4.9). Governance is not an easy agenda—for IDA or for borrowers. Building domestic consensus for reform is critical. Because transparency is a key ingredient, IDA needs to do more to “walk the transparency talk.” And progress will require close coordination with the IMF and other development agencies.

## Box 4.9

## Kenya: A Case Study of Withholding Lending to Foster Governance Reforms

The May 1998 OED Country Assistance Note on Kenya concluded that IDA assistance had not been effective in promoting reforms. Given weak compliance with IDA conditionality, and the poor governance situation, the note recommended limiting lending to small, poverty-targeted interventions and shifting the focus to nonlending activities.

The September 1998 CAS envisaged Kenya to be in a low-case lending scenario for the three years of FY99–01. Base-case lending levels including budget support were *directly* linked to improvements in governance. The focus on governance to trigger the base-case scenario was a first in IDA history. If the base case were triggered, the volume of lending in the first year would be around \$100 million, but *strong* progress in implementation would justify increasing annual lending toward the higher end of the range. IDA would also invest in nonlending services.

IDA's stance of suspending new lending to Kenya (coordinated with other donors) led the government to appoint the Change Team in July 1999 and to initiate economic governance and policy reforms. In August 2000, IDA approved a \$150 million budget assistance loan (the EPSRC), although the conditions for such support, as specified in the September 1998 CAS, were not fully met. Following the EPSRC, two AIDS projects and an Emergency Energy Project were also approved. Total IDA commitments between FY99 and December 2000 have been \$362 million, of which \$322 million was approved in the last six months of 2000.

Although some progress has been made in the design of governance reforms, there has not been much progress in terms of effective implementation. Improvements in governance were not sufficient to merit a move to large-scale lending, because it was predicated on *strong* progress in implementation. There were also several additional factors. One is the continuing risk of policy reversals, as in the past. This risk has now materialized with a delay in the sale of Kenya Telecom (a central trigger for IDA assistance in the 1998 CAS); with the declaration of Kenya's Anticorruption Authority as unconstitutional, stripping it of investigation and enforcement powers; and with the passage of a bill in the Parliament to cap commercial bank interest rates, undoing liberalization in the financial sector. Second, the impact of the governance reforms at the central level had not been felt at the local level of communities. And third, important laws, bills, and circulars expected to be passed have not yet been approved by Parliament.

IDA's approval of fast-track emergency projects also raises the issue of IDA's role in a crisis situation in a country with a poor governance environment. There are good reasons to engage in crises, but rapid-disbursing program lending should not anticipate reforms, but rather should depend on solid and evident progress in the implementation of the governance reforms, especially where institutional changes are required. For this reason, IDA has held back the disbursement of both the second tranche of the EPSRC and further disbursements under the Emergency Energy Project.

**Emerging issues.** Assessment of the country work relating to governance raises four main issues:

- *Consistency of treatment.* IDA's reporting and country dialogue on governance have expanded and become increasingly candid, but country treatment is not consistent. Such inconsistencies are hard to explain to borrower countries and risk undermining the dialogue in cases where a firmer stance has been adopted. In addition, better harmonization of donor assistance strategies on governance is needed to avoid undermining efforts to build national ownership and consensus in support of effective government.
- *Rule of law and judicial reform.* Many studies show that the rule of law is important not only in creating an environment conducive to investment but also in alleviating personal

insecurity, a principal concern of poor people (Dollar and Kraay 2000, 2001; World Bank 2001d). Until recently, IDA viewed assistance in establishing the rule of law largely as part of promoting a conducive environment for private investment.<sup>30</sup> In a few countries it has begun to support broader reform of legal and judicial systems, and has started to prepare more such efforts. Especially given that some key areas of this work (such as law enforcement) are not part of IDA's comparative advantage, IDA should, consistent with CDF principles, closely coordinate its legal and judicial reform activities with its development partners.

- *Institutional capacity.* IDA has increasingly incorporated institutional concerns in its activities, from public expenditure work to civil service reform and tax administration reform.<sup>31</sup>

Still, mainstreaming governance concerns in all sectoral work and strengthening public expenditure management remain major challenges. Tackling crosscutting and systemic institutional problems calls for long-term, integrated, multi-sectoral CASs for institution building that are prepared with development partners.

- *Public financial accountability and transparency.* Accountability is a key part of good governance. Weak public financial accountability systems in many IDA countries undercut program implementation. Both fiduciary concerns and development effectiveness call for more attention to this matter. As an underpinning for future IDA lending, borrowers should commit themselves to setting up sound financial accountability systems and agree to put in place—with external assistance if needed—monitorable plans for achieving them. Since establishing such systems will take time, the commitment should be to steady steps toward a robust and transparent system of public financial accountability. Transparency is also important, but IDA (and other assistance agencies) does not demand that project reports from borrowers be made public. As part of a broader effort to harmonize donor reporting requirements, IDA and its development partners should require the public agencies they assist to prepare and make public regular reports on their activities, to inform the public about their performance, and to set monitorable performance targets.

## Lessons

The three issues addressed here—gender, environment, governance—have been highlighted as key components of the IDA10–12 “broad-based framework for poverty reduction.” In drawing together the lessons of development experience over the past decade, the *World Development Report 2000/2001: Attacking Poverty* (World Bank 2000a) confirms their relevance in its emphasis on opportunity, security, and empowerment as essential elements of a comprehensive attack on poverty. Experience in the past seven years offers three sets of lessons for IDA.

First, IDA has provided important support to countries’ development efforts in these cross-

cutting areas, but real progress has usually hinged on the existence of a consensus for change in the borrowing country. Positive outcomes have occurred where assistance has responded to or encouraged country policies and action plans. This implies an approach of country selectivity, which concentrates resources where the greatest opportunity for gains exists, and support directed to strengthening countries’ own institutions as the entry points for IDA support. In countries where national policies are weak, IDA should support their strengthening as a priority through collaborative analytical work, policy dialogue, and institutional capacity building. Strategic selectivity also means leaving the field to other agencies better able to move the agenda forward in specific areas.

Second, IDA needs to clarify the intent and scope of its policies for “mainstreaming” both gender and environmental sustainability, linking them clearly to the goal of poverty reduction. It also needs to further strengthen the management of its gender and environment programs. For this, Networks need to articulate strategies that set achievable objectives for which IDA is prepared to commit the necessary resources and develop indicators and processes for tracking performance. Regions need to ensure that these issues are incorporated into CASs where diagnosis shows the issue to be a development priority. QAG and OED need to give more attention to the mainstreaming of these issues in their evaluative frameworks.

*Real progress has usually hinged on the existence of a consensus for change in the borrowing country.*

Third, good governance affects all of a country’s development efforts and all areas of IDA’s assistance. Moving governance and institutional development issues to the center of the IDA program has been a major accomplishment of the past several years. But achieving significant reform remains difficult. IDA and its borrowers and other development partners must accept joint responsibility for this agenda and distinct

accountabilities for improved outcomes. IDA needs to sustain the recent momentum in attention to governance, while broadening the coverage and increasing the consistency of treatment across countries. With other assistance agencies, IDA needs to improve and deliver on its support for institutional development and accept that it is a long-term process. In particular, IDA and its borrowers and other partners need to commit together to a major drive to improve public expenditure management and public financial accountability, reinforced by increased transparency.

IDA's support of a broad-based approach to poverty reduction in borrower countries has become increasingly relevant in the period under

review. But IDA is still learning how to set policy priorities that promote equitable and sustainable growth that include the poor, both women and men, and learning how to help governments become more effective and accountable in delivering public services required for a well-functioning economy. The main task over the next few years is to consolidate such lessons. Much of what needs to be done involves setting sharper priorities clearly linked to the overarching objective of poverty reduction and strengthening implementation strategies to better take account of institutional and policy weaknesses, country circumstances, and the actions of development partners. These are largely matters of process, which Part III addresses.



## Part III

# The Process Dimension

*Along with refocusing its development agenda, IDA has been at the forefront of fundamental change in the “business” of aid. IDA replenishment commitments, aimed at improving development effectiveness, have emphasized three aspects of aid quality: greater selectivity, increased participation, and donor coordination in support of countries’ own development efforts.*

*IDA’s progress was moderate during IDA10–11, but the Comprehensive Development Framework and Poverty Reduction Strategy Paper initiatives introduced after IDA12 negotiations have given significant impetus to this aid reform agenda. Consolidating and institutionalizing these new processes will require more-structured aid coordination at the country level, in support of recipients’ poverty reduction strategies, and greater harmonization of processes and procedures at the corporate level. Equally, IDA needs to further adjust its own instruments and procedures and should be encouraged by its donors to facilitate a time-bound process among agencies to achieve the long-overdue harmonization of aid practices so as to reduce the transaction costs borne by IDA borrowers.*





# Improving Program and Country Selectivity

To improve IDA's development effectiveness, the IDA10–12 Replenishment Reports urged IDA to enhance the role of Country Assistance Strategies (CASs) and strengthen selectivity in resource allocation (see box 5.1).<sup>1</sup>

## Enhancing the Role of the Country Assistance Strategy

IDA has increasingly focused on the country—not just the project—as the unit of account in the design and assessment of assistance. CASs have been the main program-planning vehicle for this shift. To better align IDA assistance programs with replenishment commitments, donor governments proposed during IDA9 replenishment negotiations that IDA prepare a multi-year CAS for each borrower, which would be discussed with the Board of Executive Directors.<sup>2</sup> Since then, replenishment recommendations have given increasing attention to the CAS as a planning document and as a process for sharpening IDA's poverty focus and increasing its programmatic selectivity.

IDA has largely complied with the recommendations to make CASs more poverty focused, more comprehensive in their diagnosis of development challenges, and more participatory as a programming process. The CAS has increasingly become a vehicle for strengthening country ownership and enhancing aid coordination. But CASs have not yet achieved the degree of

strategic selectivity called for in IDA11 and 12, which is based on greater specialization and coordination with other assistance agencies at the country level.<sup>3</sup>

**CAS content and lending programs.** Since the start of IDA10, internal CAS guidelines have evolved broadly in line with replenishment recommendations. Current guidelines call for a comprehensive diagnosis of countries' poverty challenges and identification of measures to speed improvement. They stress selectivity and partnerships and encourage stakeholder participation in CAS preparation. As of July 1, 1999, they have mandated the public release of IDA CASs.

Since 1998, management has issued three retrospectives on how well the CAS process meets those guidelines.<sup>4</sup> These and other reviews find notable improvements in the coverage and content of CAS documents. Analytical work is often reflected in the CAS,<sup>5</sup> though analytical weaknesses still constrain the policy relevance of the diagnosis: The poverty focus and diagnosis of CAS documents have been strengthened (as noted in Part II).

**Box 5.1****IDA 10–12 Replenishment Commitments on Improving Development Effectiveness through Selectivity**

IDA10–12 replenishment recommendations urged IDA to be more selective within countries by concentrating on areas of its comparative advantage, and more selective among countries by directing more assistance to borrowers with sound policy environments.

To achieve greater program selectivity, the recommendations encouraged IDA to enhance the role of its CASs in setting program priorities, taking account of country needs and the activities of other assistance agencies. They urged that CASs focus more selectively on actions to speed poverty reduction; provide a comprehensive diagnosis of the country's development challenges—drawing on the results from major building blocks of IDA's analytical work, such as Public Expenditure Reviews (PERs), Poverty Assessments (PAs), and environmental action plans—and be finalized only after discussion with the Board. They also urged that the borrower government, civil society, and

other donors participate in preparing the CAS to better align the IDA program and the country's development priorities and that the CAS be made public.

To achieve greater country selectivity, recommendations encouraged IDA to adjust its performance-based allocation (PBA) system to link lending allocations more closely to countries' policy performance. They also called for assigning greater weight to governance, environmental factors, and nondevelopmental expenditures; applying performance criteria more transparently and more consistently across countries; and opening the system to more public scrutiny.

To forge more effective partnerships, the recommendations called on IDA to engage greater stakeholder participation in projects and programs and improve coordination with other agencies and strengthen country-led management of aid.

- Governance has received significantly more attention in recent CASs.
- Attention to the role of other donors has also improved.
- Problems remain with the timeliness of PERs and the uneven treatment of gender, environment, and private sector development (PSD) (see box 5.2 on the increasing use of joint IDA-IFC CASs, which should improve attention to PSD).

*A majority of CASs discuss coordination with other donors and comparative advantage in broad terms, but fewer than 40 percent cover selectivity in program design for key areas.*

Most CASs are now prepared through a participatory process involving the borrower government, and usually civil society representatives and donors. Consultations carried out for this review found that participants in some countries viewed the process as an effective effort that had influenced the CAS design. In other countries, participants expressed frustration with the apparent lack of impact beyond greater information on the IDA program.<sup>6</sup>

A review of lending programs in a sample of countries (including the countries visited in IDA

review consultations) showed a reasonably close correspondence between the program discussed in the CAS and actual lending, although many projects were not tightly linked to the underlying CAS analysis (see Part II).<sup>7</sup> The CAS process was also found to be flexible enough to drop or delay lending when circumstances change or governments prove reluctant to carry out agreed reforms, or to introduce new operations when priorities change, especially in emergencies or when unexpected opportunities emerge, such as a change in government. Nonlending services are less well discussed and prioritized, both the “due diligence” economic and sector work (ESW) and the program-specific analytical work that underpins lending.

**Strategic selectivity.** Improvements in coverage and consultation have not yet been accompanied by much increased strategic selectivity in the design of country programs. Many CASs present criteria for choosing among options, but proposed lending operations do not consistently reflect those criteria.<sup>8</sup>

The CAS retrospective analyses of 1998 and 1999 found that a majority of CASs discuss coordination with other donors and comparative advantage in broad terms, but fewer than 40 percent cover selectivity in program design for key areas. Recent CASs have been more attentive to



**Box 5.2****Joint IDA-IFC Country Assistance Strategies Highlight Private Sector Development**

**Joint IDA-IFC CASs, introduced in FY97 to foster closer coordination and cooperation with IFC, may lead to more strategic attention to private sector development. More than half of IDA CASs in FY00 were prepared jointly with IFC. These CASs feature a shared diagnosis and agenda for action for private sector development. The 1999 CAS retrospective study notes that joint CASs have promoted dialogue on IFC's role and strategy in the country beyond individual operations. The Azerbaijan CAS (FY00) specifies how IFC activities will complement IDA assistance to the financial sector and identifies a number of priority areas for IFC involvement in private sector development. A review of FY00 IDA CASs found that joint CASs generally contain a more coherent, comprehensive treatment of PSD and financial sector issues and often include a discussion of past experience and lessons learned in these areas.**

the activities of other donors, but few link IDA's strategy with its comparative advantage or prioritize activities by sector and instrument (an IDA12 recommendation). As the 1999 retrospective noted, while many CASs use the *vocabulary* of strategic selectivity—mentioning comparative advantage, track record, choice of instruments, and so on—few actually use selectivity itself as an analytical tool for focusing on certain sectors or themes and exiting from others. Furthermore, very few spell out why particular lending or nonlending instruments were selected.<sup>9</sup>

Several factors have contributed to this limited progress in programmatic selectivity:

- A reluctance to withdraw from activities and to rely on partners to assume responsibility.<sup>10</sup> Once significant staff and budgetary resources have been invested in identifying and preparing a new area of operation, that activity tends to remain in the program even if it is no longer fully consistent with strategic selectivity. Borrowers also often prefer that IDA stay and that it take the lead across a wide range of issues.
- Contradictory directions set by replenishment commitments. Endorsements of overall selectivity and selectivity within country programs are accompanied by exhortations for IDA to engage in the full range of development issues. Recommendations of new areas of emphasis, such as governance or the financial sector, are not offset by specific recommendations for reduced attention elsewhere. The Replenishment Reports have adopted the rhetoric of partnership but have not yet consolidated mandates or explicitly recognized where IDA could “comply through others.”

Programmatic selectivity improved in FY00 CASs, although progress is uneven. The Mozambique CAS notes, for example, “to the extent that other partners have a strong presence and comparative advantage [in the social sectors] and are willing to finance activities on a grant basis, the Bank will scale back IDA's financing contribution.” The proposed lending and nonlending programs seem to apply this principle well. The latest CASs also show a marked increase in performance benchmarks, which should enhance attention to development results. In three self-evaluation pilots (Bolivia, Mali, and Yemen), progress benchmarks that clearly differentiate between country and IDA performance indicators will be used in ongoing evaluations of program impacts by the country teams. Improved monitoring at the country, sector, and project levels will also be needed if benchmarks are to be used more often to encourage strategic selectivity favoring the areas in which IDA is demonstrably contributing to results on the ground.

*The latest CASs also show a marked increase in performance benchmarks.*

**Building in the CDF and PRSP processes.** The Comprehensive Development Framework (CDF) and Poverty Reduction Strategy Paper (PRSP) initiatives have major implications for the CAS. The PRSP process is expected to become the vehicle for applying the CDF principles to country assistance efforts and for focusing IDA and other donor support on countries' own development priorities. In addition, PRSPs and joint Bank-Fund assessments of them will provide comprehensive diagnosis for the bulk of IDA

country lending and nonlending programs. The participation built into the PRSP process will lessen the need for participation in CAS preparation. Management has indicated that as of July 1, 2002, CASs will normally be based on PRSPs and will become business plans for the World Bank Group.

While CAS content will change, the challenge of achieving greater selectivity in program priorities and instruments and of setting performance benchmarks will not. Countries' presentations of their own strategic priorities and monitorable targets in their PRSPs should make this easier. But CASs will still need to make strategic choices based on IDA's corporate goals and comparative advantages and the activities of other assistance agencies.

*IDA's comparative advantage is mainly at the strategic level—helping countries to improve their overall economic management and policy framework, set sector strategies, and implement sector-wide reforms.*

Experience shows that IDA's comparative advantage is mainly at the strategic level—helping countries to improve their overall economic management and policy framework, set sector strategies, and implement sector-wide reforms. This view of IDA's role was widely endorsed in country consultations. New programmatic lending in support of countries' PRSPs conforms to this strategic role, although to be effective it requires a major investment in improving the public expenditure management systems and financial accountability of member countries. As discussed below, IDA should also make more use of sector-wide programs as building blocks of the PRSP process, basing its involvement on its corporate objectives and implementation strategies as set out in Bank Sector Strategy Papers.

Converting the CAS to an IDA business plan that supports a country's poverty reduction strategy also has implications for PBA. The PRSP, CAS, and IDA-PBA process all need to be reconciled with each other, as discussed below.

## **Strengthening the System of Performance-Based Allocations**

IDA's PBA system for rationing lending resources is its principal mechanism for achieving country selectivity. The system has evolved over the IDA10–12 period to reflect new knowledge and IDA replenishment recommendations. These changes have strengthened the link between countries' policy and institutional performances and lending levels. Further adjustments are needed to fully ensure equitable treatment of countries, to strengthen the links between actions that matter for poverty reduction and CAS lending scenarios and lending allocations, to apply performance criteria transparently and consistently, and to open the PBA system to more public scrutiny.<sup>11</sup>

Since 1977, the Bank has had a system that generates an indicative allocation of all IDA funds available for the next three years based on country performance. Under the system's current terms, the evaluation of borrowers' performance is based on the implementation of sound policies and institutional arrangements conducive to sustainable economic growth and poverty reduction within a framework of good governance, as assessed through the Country Policy and Institutional Assessment (CPIA), and the effective implementation of their IDA portfolio (see box 5.3).<sup>12</sup>

Today, the PBA formula directs more resources to good performance than it did at the beginning of the period.<sup>13</sup> For every \$1 per capita lent to the median IDA borrower in FY93–95, about \$1.20 went to those ranked in the top quintile by performance and \$0.85 to those in the lowest quintile. By FY98–2000, the spread had widened, with \$2.10 per capita going to the best performers and \$0.60 to the poorest. But there is relatively little difference in lending per capita among the middle three quintiles, and because many in the top quintile are relatively small, the bulk of IDA lending, in absolute terms, goes to the middle-rated performers.

***Complying with design and implementation recommendations for the PBA system.*** Consistent with replenishment recommendations, the design and implementation of the PBA system have been improved:

**Box 5.3****The Performance-Based Allocation System**

The PBA system annually allocates all IDA funds available over the following three years in a three-step process.

**Step one: assessing country performance.** Staff prepare two annual ratings of each borrower's performance, the CPIA rating and the IDA portfolio performance rating, currently combined in an 80 to 20 ratio. CPIA ratings derive from an unweighted average of 20 indicators that relate to four sets of concerns: economic management, structural policies, policies for social inclusion, and public sector management and institutional arrangements. Policies, not actual outcomes, are key considerations. The combined performance rating is reduced by a third for borrowers found to have severe governance problems—the “governance discount.”

**Step two: determining the indicative allocations.** Performance ratings are factored into a formula to arrive at a three-year indicative, or “norm,” allocation of IDA resources for each

country. The formula ensures that the resource allocation rises faster than the performance rating, allowing a considerable reward for countries at the upper end of the performance scale. Population size and GNP per capita are also factored in. IDA management determines the approved allocations in light of the norm allocations and other relevant factors. Maximum and minimum lending conventions apply, and allocations for some special case borrowers, including effective IDA-blend and eligible post-conflict countries, are not driven by the formula.

**Step three: relating the allocations to CASs.** The approved allocation generally forms the base case lending scenario for each CAS (or CAS update) presented to the Board for review. But CASs do not provide information on the country performance ratings or the norm and approved allocations underlying the base case lending scenario. There is no link between the PBA system and the alternative CAS lending scenarios (the high and low cases).

- Policy performance criteria have been amended to reflect increased knowledge about the causes of growth and poverty reduction and instructions in IDA replenishment agreements.
- Staff have worked to improve the consistency of assessment and review processes across countries.
- Allocations take into account borrowers' performance on existing IDA credits.

Country allocations may be raised above normal PBA levels under certain circumstances, such as for post-conflict borrowers (see box 5.4). In FY00, allocations above the norm also continued for many transition economies in

Europe and Central Asia and for a few better-performing Sub-Saharan African countries. For post-conflict countries, a modified process with explicit criteria for eligibility has been established. In other cases, the CAS will need to explain the rationale for the deviation.

**Improving the PBA system.** Notwithstanding the many improvements, shortcomings remain in the design and implementation of the PBA system. These shortcomings relate to two issues that are fundamental to the system's relevance and credibility: the extent to which the system ensures reasonably equitable treatment across countries, and the strength of the links between CPIA performance criteria and countries' further

**Box 5.4****A New Approach to IDA Allocations to Post-Conflict Borrowers**

The PBA system has been modified to better align IDA allocations with the exceptional financial needs of post-conflict IDA countries while still maintaining a focus on policy performance. The modified allocation process includes:

- Eligibility criteria for countries warranting exceptional treatment
- Reengagement criteria to determine the size of the initial allocation
- Post-conflict progress indicators to assess performance in post-conflict countries eligible for exceptional treatment
- Limits on the duration and volume of exceptional allocations.

The post-conflict progress indicators consolidate CPIA indicators, refined and regrouped to reflect the realities of countries affected by conflict, with a new cluster of indicators relating to public security, reconciliation, and demobilization and disarmament.

poverty reduction. To improve the handling of these two issues, further adaptations of the system are suggested.<sup>14</sup>

- *Establish a written record.* Staff ratings should contain written rationales for each CPIA criterion. Without them, it is difficult to ascertain whether criteria have been interpreted uniformly across countries and regions and applied consistently (despite the significant efforts of IDA management to improve consistency).<sup>15</sup>
- *Improve the design of the rating systems.* The CPIA rating criteria, which account for 80 percent of the overall performance rating, have evolved to reflect increased knowledge of the determinants of growth and poverty reduction and IDA replenishment recommendations. There is room for further development of the CPIA and IDA portfolio performance rating systems (as suggested in box 5.5).<sup>16</sup>
- *Rethink the governance discount.* The governance discount, introduced in 1998, is not working as intended, except to show that IDA takes governance seriously. By the second year of operation, only borrowers with the very lowest overall CPIA ratings were affected. Yet the discount did not capture some borrowers whose governance has raised serious concerns, sometimes to the point of curtailing IDA lending. Further study is needed to identify ways to achieve both equitable out-

comes and a more substantial cut in lending to countries that fail to improve governance, even if their other performance ratings are average. In particular, more work is needed on establishing better governance indicators, such as that under way within the Bank, which involves discussions with researchers outside the Bank and IDA's partners.

- *Relate the PBA system to the CAS and PRSP processes.* Although the approved IDA allocations that emerge from the PBA process are reflected in most CAS base case lending scenarios, two improvements are needed. First, as recommended in the IDA12 Replenishment Report, each CAS should discuss the rationale for the base case lending scenario. This is especially needed when the approved allocation differs from the norm allocation or when it is made without applying the allocation formula (as in the case of blend countries). Second, the triggers<sup>17</sup> recommended in the CAS for moving to higher levels of lending need to be clearly linked to CPIA criteria for measuring performance. And as the CAS becomes focused on support of countries' PRSPs, consistency will be needed between the CPIA criteria and those suggested in the guidelines for Bank-Fund joint staff assessments of PRSPs.
- *Increase disclosure.* More than anything, the process needs greater transparency and dialogue with partners. Recently, the Bank dis-

### Box 5.5

### Suggested Changes for the Performance Rating Systems

#### For the CPIA system:

- Remove criteria not shown by research to be important for growth and fund research to identify policies that lead to poverty reduction (beyond that achievable by growth alone).
- Assign appropriate weights to the criteria.
- Ensure that each CPIA criterion consists of just one element that can be appropriately rated and reviewed.
- Develop consistent definitions for each rating level for each criterion, with similar interval values between equivalent ratings for each criterion.
- Ensure that each criterion rates policy performance rather than level of development, rewarding equally all borrowers doing everything feasible in their situation.

- Ensure that each criterion can be objectively assessed and that IDA has the capability to assess it.

- Redefine the governance indicators in light of ongoing consultations and research.

#### For the IDA portfolio performance rating system:

- Separate the responsibilities of the borrower and of IDA for portfolio performance (a task now being worked on by IDA management).
- Remove the counterintuitive (but substantial) positive effect on ratings resulting from the cancellation of poorly performing projects.
- Adjust the rating scale to make it compatible with the CPIA rating scale, with which it is combined.

closed the PBA methodology on its Website and has discussed it with some development partners. But disclosure has not yet led to the two-way dialogue recommended in the IDA12 Replenishment Report. Individual performance ratings are not disclosed, although countries are publicly listed by performance quintile. A recent Board decision authorized disclosure of ratings to individual borrowers and asked for further analysis of disclosure. Fuller disclosure is needed to ensure equitable treatment of countries, to share the knowledge of outside parties in the continuing appraisal and evolution of the system, and to use the system as a diagnostic tool for enhanced partnership rather than simply a means of rationing IDA resources.<sup>18</sup> This change fits in well with efforts to build more effective development partnerships through increased country ownership, improved donor coordination, and distinct donor and recipient accountabilities for effective use of aid.

***Assisting poor performer countries.*** As intended, greater selectivity has resulted in lower lending allocations for countries with poor policy performance. Nonetheless, IDA's core objective of poverty reduction requires a continuing engagement with these countries. Poor policy performance can be due to weak country capacity as much as to weak commitment by leaders. While adjustments in some CPIA criteria could make this distinction clearer, the main issues are to identify assistance instruments that can be used effectively in weak policy environments and to ensure the adequacy of budget resources for nonlending services where lending is limited.

The replenishment recommendations encouraged IDA to remain engaged in countries with poor policy performance through well-tailored country strategies and quality nonlending services, complemented by targeted lending where

appropriate. They also urged IDA to respond promptly to changes in performance and to develop a comprehensive approach for activities in post-conflict countries. IDA has broadly complied with these guidelines, although project outcomes have been persistently lower in countries with poor performance. A recent QAG review of ESW has also found, based on a relatively small sample of activities over a limited time, that the quality of ESW has also been lower in countries with poor performance ratings, while CAEs and interviews with country staff emphasize the inadequate stock of analytical work in these countries.

***The quality of ESW has also been lower in countries with poor performance ratings.***

OED evaluations emphasize five main lessons for assisting poorly performing countries:

- Give primary attention to governance issues and weak institutional capacity, which can undermine project implementation.
- Avoid complex project designs and overestimating implementation capacity—simple, social fund-type projects may be best.
- Use innovative lending instruments (such as APLs and LILs) that sequence assistance over time and use delivery mechanisms that can more directly reach intended beneficiaries.
- Ensure close supervision and good aid coordination, suggest the value of having a presence in the field.
- Apply a differentiated approach to ESW in weaker policy environments, including strong supervision and enhanced quality assurance (OED 2000a).

One implication of these lessons is the need to have a high level of budget resources relative to lending in weak policy and institutional environments.





# Building More Effective Partnerships

**B**uilding more effective partnerships with borrowers and other development agencies is the second major process reform emphasized in the IDA10–12 replenishment recommendations. Increasing the participation of borrower countries’ governments, civil society, and the private sector and improving coordination in development partnerships are key features of that reform.

## **Moving Beyond Project Participation**

As urged by replenishment recommendations (see box 6.1), participation in IDA projects has increased considerably since the start of IDA10, although staff are still learning how to most effectively engage stakeholders. Participation in analytical and policy work is increasing, but questions of representation, approach, and costs remain.<sup>1</sup>

**Record on participation.** Stakeholder participation in IDA-financed projects increased substantially over the IDA10–12 period:

- In a random sample of 88 IDA projects, the share with participation by primary stakeholders increased from just under 45 percent to 83 percent and the share with a high level of participation (beyond consultations) increased from 29 percent to 50 percent.
- The share of IDA CASs prepared with participation by members of civil society groups rose from 20 percent to nearly 70 percent.

Yet the Bank has no overall policy on participation and has produced no major policy statement since its 1994 report *The World Bank and Participation*. Although some 15 Operational Directives and Operational Policies address participation, the lack of clear policy guidelines is particularly evident in economic and sector work (ESW) and in support to governments to broaden participation in policy and sector program design. Thus, progress has been more limited in new areas of emphasis in the replenishment mandates:

- Participation has been greatest in Poverty Assessments (PAs), although the share has remained at 60–70 percent since IDA10, despite repeated directives to do even more. There has been less participation in Public Expenditure Reviews (PERs) and other ESW, although borrower governments, civil society, and other donors have been more involved in recent initiatives.
- Efforts have increased to encourage governments to include broad participation in their



**Box 6.1****IDA 10–12 Replenishment Commitments on Improving Development Effectiveness through Partnerships**

**IDA10 recommendations emphasized increasing the participation of primary stakeholders in IDA-assisted projects, environmental assessments, and Country Assistance Strategies (CASs); giving more attention to governance; and building staff capacity to promote participation. IDA11 and 12 added increasing participation in ESW, particularly the analytical work to underpin a sharpened poverty focus (the Poverty Assessments, social sector reviews, and Public Expenditure Reviews) and encouraging borrower governments to broaden public participation in their own projects and programs. IDA10 also emphasized better coordination among donors, while IDA11 and IDA12 recommended greater programmatic selectivity based on IDA's comparative advantage. IDA12 emphasized country-led partnerships that combine country ownership and donor coordination.**

own activities and to create an enabling environment for participation. However, there is little guidance on this matter and little evidence on what has been done.<sup>2</sup> The Poverty Reduction Strategy Paper (PRSP) process represents a significant departure by including broad-based participation in its formulation, implementation, and outcome-based monitoring as one of the five core PRSP principles. Experience with this enhanced participation at the strategic level should be tracked and evaluated with IDA's partners.

*Perhaps the key obstacle to effective participation is the lack of understanding by IDA and government agencies of what needs to be done to help communities organize to contribute.*

Quality and effectiveness have not always kept pace with participation in projects, CASs, and underlying diagnostic work. Best-practice participation efforts in projects have often remained islands of success. Government participation in preparing CASs has become routine, but the quality and impact of civil society engagement remain highly variable. In the best cases, both IDA staff and stakeholders have noted an improved focus in the CAS. But examples of best practice are still infrequent, and participants receive little feedback. Much the same can be said about participation in ESW. When efforts have been made to work collaboratively, quality and capacity building have benefited, but the costs are high and examples of best practice are few.

**Constraints on effective participation.** Perhaps the key obstacle to effective participation is the lack of understanding by IDA and government agencies of what needs to be done to help communities organize to contribute meaningfully to project design and to build institutions to implement projects that represent diverse interests. Weak governance also plays a role. Government resistance remains a major constraint to participation in countries, while staff incentives and resources are the biggest constraint in the Bank.

Costs are another significant factor. Wide consultation is expensive, for borrowers and IDA. For stakeholders (including government and communities), the costs of participation averaged between 2 and 12 percent of total costs in eight case study projects.<sup>3</sup> Only limited information is available on Bank costs, which occur mainly during the preparation of operations, but they appear to be substantial, although less than those to governments. Three case study projects had preparation costs of \$22,000–\$75,000, much of it covered by trust funds. Costs of participation in CAS preparation ranged from 4 to 30 percent of the total (as high as \$50,000–\$60,000 when participation was extensive).

These factors suggest a need to build and disseminate best practices in participation and to guard against requirements or expectations that are too high. Particularly for institution building reforms, the strategy articulated by government has to be internalized at the administrative and subnational levels. Consultation with the private sector and civil society needs to reinforce, not conflict with, democratic political processes, including those of parliaments.

**Implications for IDA policy.** While efforts to build participation into IDA-financed projects continue, more emphasis is needed on building countries' capacity to make their own policy and program processes more participatory. It is not clear that this is an area of IDA's comparative advantage and thus its support in this regard may need to be worked out in closer partnership with others.

### Improving Aid Coordination

Few of the program and process objectives emphasized in the IDA Replenishment Reports can be achieved without better aid coordination. During IDA10–12, the focus expanded beyond the mechanics of donor agency coordination to improved aid management, led by recipient countries, with donors directing support to sound country-designed policies and programs. Replenishment recommendations reflect this evolving perspective. Still, progress has been limited, and uncoordinated aid programs continue to impose heavy burdens on recipient countries and to limit the impact of aid agencies' programs.<sup>4</sup>

**Compliance in building partnerships.** Until the past few years, IDA had made only modest progress in complying with commitments that entailed actions within its own control. But the momentum has accelerated recently with the Partnership Initiative of 1998 (World Bank 1998c) and the Comprehensive Development Framework (CDF) and PRSP processes. IDA's initial translation of these initiatives into operational policies, procedures, and organizational changes and its work with other multilateral development banks on harmonizing processes and procedures are encouraging developments.

- Most of the progress in strengthening coordination with bilateral aid agencies has occurred in the field. Weak commitment has slowed procedural and policy reforms at the agency level.<sup>5</sup> Posting IDA country directors in the field has improved in-country coordination, and greater use of in-country coordination groups of donors and government has shown some positive results. Still, complaints persist about IDA's inadequate consultation with other donors on country programs and

its lack of transparency and timeliness in sharing information and providing feedback.

- IDA management has conveyed to staff the need to address programmatic selectivity at the country level in consultation with borrowers and other assistance agencies. Management has also provided increased guidance through directives on the CASs and the sector strategies. A recent report on the eight country CDF pilots notes progress, though still limited, in achieving greater selectivity on the ground.
- IDA-led Consultative Groups (CGs) and local coordination forums are moving toward country-led partnerships. Some CG meetings are now held regularly in borrower countries (Bolivia, Ghana, Tanzania, and Uganda).
- The Strategic Partnership with Africa (SPA), launched in 1987 and chaired by the Bank, has continued to evolve and deepen coordination processes. While its initial focus was on quick-disbursing resources to support economic reforms, sector programs are now receiving significant emphasis.<sup>6</sup>

**Uncoordinated aid programs continue to impose heavy burdens on recipient countries and to limit the impact of aid agencies' programs.**

- Work with other agencies is moving forward on a comprehensive approach to guide assistance to post-conflict countries, and a new operational policy statement has been issued based on extensive consultations with other donors, civil society, and NGOs (IDA Review 2001c, para. 43–46).
- As discussed in Part II, IDA has increased its participation in sector-wide approaches (SWAs), which combine several reinforcing elements: government leadership in the design of a strategy set within a medium-term expenditure framework; external assistance in support of the strategy objectives; and agreed indicators for monitoring performance and progress.<sup>7</sup> Donor support takes various forms—from pooled financing in a few cases to separate investment projects within the

sector-wide framework—and the open discussion of differences in approach gives governments an opportunity to choose among alternatives. SWAps also provide an important means of advancing sector reforms and addressing implementation capacity problems in countries' poverty reduction strategies. Both governments and donors support this approach, but harmonization of donor procurement and other procedures remains a problem (World Bank 2000e; Jones 1999, 2001). The PRSP process has increased coordination between the Bank and the IMF in low-income countries. A Joint IMF–World Bank Implementation Committee was established in May 2000 to oversee the Heavily Indebted Poor Countries (HIPC) debt relief initiative and the PRSP program. This committee's primary concern has been to establish a common approach to the HIPC initiative and PRSP program and to ensure that countries receive consistent messages from both organizations. PRSP missions are conducted jointly, and a joint staff assessment accompanies the documents to the Bank and IMF Boards. The PRSP process, which is strongly supported by borrowers and other assistance agencies, could become the major vehicle for increasing donor coordination at the country level.

Overall, the principles of country ownership and partnership now inform IDA's strategies and priorities on many fronts. Still, IDA has not yet fully aligned its own practices and procedures with these new approaches. Nor have IDA and other assistance agencies adequately harmonized their policies and procedures to fit this framework.

***IDA should be encouraged to initiate and manage a conference of bilateral and multilateral agency heads to agree to a time-bound, monitorable plan of action.***

***Implications for IDA's future role.*** To move forward, IDA, its borrowers, and other development partners need to accept mutual responsibility and distinct accountabilities for achieving

development outcomes. Borrower countries must take responsibility for implementing sound policies and building effective institutions, underpinned by transparent, accountable systems of financial management and evaluation. Development agencies need to take responsibility for the predictable delivery of quality aid through coherent support for agreed objectives, better coordination and division of labor along lines of comparative advantage (including a willingness to gear up to provide diagnostic work in areas of leadership), and efficient aid delivery that is aligned with capacity building and country-led efforts.

More concretely, IDA should concentrate on three interrelated measures:

- Carrying through with the IMF on institutionalizing joint support of the PRSPs, including strengthening collaboration with other agencies supporting countries' poverty reduction strategies.
- Promoting expanded use of sector-wide programs as building blocks of the PRSP process, drawing on experience to refine and strengthen core processes, encouraging a lead donor model to reduce transaction costs for recipients and donors, and adjusting its own processes and procedures to facilitate effective participation.
- Pursuing strategic selectivity at the corporate level, based on sound sector strategies, and the integration of those strategies into CASS that are consistent with countries' own poverty reduction strategies.

In addition, this review recommends that IDA donors ask the institution to assume a stronger role in accelerating donor coordination to reduce transaction costs for recipients of aid from multiple sources and to strengthen country capacity for managing and coordinating aid resources. The forces working against donor coordination and harmonization are strong. As the preeminent multilateral development finance institution focused on poverty reduction, IDA has the potential for facilitating change. The agency-level agenda goes beyond important procedural issues, such as procurement and reporting, to the policy and strategic issues of division of labor,

aid delivery mechanisms to enhance ownership and capacity, and PBAs. While the time for real progress is long overdue, there is still no standing mechanism to ensure high-level agency commitment. IDA should be encouraged to initiate and manage a conference of bilateral and multilateral agency heads to agree to a time-bound, monitorable plan of action.

### **Directions for the Future**

These process reforms—in program and country selectivity and partnerships based on greater

participation and better aid coordination—are essential for greater development effectiveness. These reforms need to be pursued simultaneously to maximize their impact. Most of the improvements are needed at the country level, in the design and implementation of assistance projects and programs. But changes are also needed at the agency level to adjust policies and procedures to support improved country assistance programs. Part IV turns to the internal adjustments that IDA needs to make to support these development effectiveness measures.





## Part IV

# Getting to Results

*IDA replenishment commitments have been broadly consistent with an evolving consensus in the international development community [see Development Committee Communiqué 2001] and have encouraged IDA to move in directions relevant to the needs of borrower countries. As a result, IDA in FY00 is very different from IDA in FY94. Still, translating key objectives into monitorable programs and verifiable results remains unfinished business. Issues of accountability for policy compliance, instrument choice and program monitoring, and alignment of resources with priorities need closer attention. Further organizational change, as recent management reviews and proposals indicate, is required if the broad policy framework laid out in the IDA Replenishment Reports is to bring desired results.*

*While the period covered by this review has been one of considerable change—in borrower countries, in IDA, and in the international development system—IDA and its partners are still putting core elements of the IDA10–12 framework into practice, reinforced by the new initiatives that have come into play in IDA12. For the immediate future, the principal needs are to consolidate mandates, focus on implementation strategies, and direct resources to agreed new program priorities and processes.*







# Corporate Issues

Over the seven-year period covered by this review, IDA management has repositioned IDA and recast its mission statement in line with its replenishment commitments. It has:

- *Refocused and broadened the development agenda.* As discussed in Part II, IDA has sharpened its poverty focus, although helping countries accelerate equitable and sustainable growth remains a challenge. IDA has also expanded its agenda, giving more attention to governance and institutional impediments, devising new approaches for aiding post-conflict countries, and assisting in the unprecedented challenges facing transition economies.
- *Increased responsiveness to borrowers.* The World Bank Group has moved program staff to the field, including 24 of 51 country directors. This has enhanced the coordination of aid at the country level and improved dialogue with government and civil society about policies and priorities.<sup>1</sup> In implementing the enhanced Highly Indebted Poor Country (HIPC) debt relief initiative, Bank leadership has also responded to a key development impediment for many IDA countries. In addition, project preparation, appraisal, and approval have been accelerated, thus dealing with a long-standing complaint of borrowers.
- *Diversified instruments.* IDA has introduced new lending and nonlending products and services, including Adaptable Program Loans (APLs), Learning and Innovation Loans (LILs), new programmatic adjustment credits, more sector-wide programs with development partners, and due diligence analytical work. It has also stepped up efforts to build more effective partnerships in support of country development through the Comprehensive Development Framework (CDF) and Poverty Reduction Strategy Paper (PRSP) initiatives, although both are too new to assess. In addition, several new global and regional initiatives are important to IDA countries, including the new \$500 million African HIV/AIDS program.
- *Improved quality of the IDA portfolio.* Better outcomes have raised the overall performance of IDA's portfolio close to that of the IBRD. This is a major achievement. Of course, quality at entry remains below 100 percent, and the long-standing issues of uncertain and unlikely sustainability and limited institutional development continue to impede long-term impact. Performance in Africa has improved but has not yet reached the level found in other Regions; and some sectors remain problematic, including rural development.

While these changes have positioned IDA to advance core commitments, implementation remains a challenge. Three main implementation shortfalls—in strategic selectivity, support for country ownership and capacity building, and focus on and accountability for results—need to be addressed through adjustments in the following corporate management areas.

### **Accountability for Policy Compliance**

A recent management report to the Development Committee stated “while the country must ‘own’ its vision and program, the Bank must ‘own’ and be accountable to shareholders for its diagnosis and the program it supports” (Development Committee 2000). For the Bank, the relevance and implementation of corporate policies is a key starting point. Yet policy objectives are not enunciated clearly enough to guide country programs, and mechanisms of accountability for policy compliance are weak. These shortcomings leave a gap between corporate policies on IDA commitments and country programs.

### *Lack of clear policy objectives has particularly constrained effective integration of cross-sectoral themes such as gender, environmental sustainability, and private sector development.*

Lack of clear policy objectives has particularly constrained effective integration of cross-sectoral themes such as gender, environmental sustainability, and private sector development into Country Assistance Strategies (CASs). Sector and Thematic Strategy Papers (SSPs) are intended to articulate policy objectives and guide their implementation at the country programming level. However, OED evaluations show weak integration of sector and thematic strategies into country assistance programs (OED 2000b). Through a thorough review of the role and effectiveness of past SSPs, management is now seeking to sharpen these documents’ strategic role and strengthen their linkages to the CAS process.

Strategies are now in place for nine sectors and thematic areas, but as of this writing they

are still being prepared for three areas that significantly lag in IDA compliance: gender, environment, and private sector development. Typically, SSPs assess the development rationale for Bank participation in the sector and identify best-practice approaches. They are weaker in giving direction to Bank activities based on the Bank’s record and comparative advantage. OED has emphasized that SSPs should specify the policy framework, taking account of global experience and best practice; assess the performance of Bank programs to improve development effectiveness; describe the future program of assistance in the aggregate, including monitorable global goals, countries of concentration, deployment of instruments, and skill and budget requirements; and assess ongoing and planned activities of partners, the need for new alliances, and the comparative advantage of the Bank (OED 2000a). Management’s review of SSPs is focusing on these issues and will identify cost-effective ways to address them. Consistent with CDF principles, the review will recommend wide-ranging consultation with partners to assess past performance, define comparative advantage, and set out the vision and strategic directions for sectors and thematic areas. With these reforms, SSPs can and should play more of a role in helping to guide replenishment undertakings as well.

Weaknesses in accountability procedures have also impeded compliance with IDA commitments. A gender study, for example, found no requirements to assess how gender issues are treated at any stage in the project cycle, including supervision. Nor have accountabilities for the mainstreaming of environmental issues been clear—a constraint likely to be addressed in the new environment sector strategy.

Accountability for quality, which has received extensive management attention, also requires improvement, although the Quality Assurance Group (QAG), since its creation in 1997, has done pioneering work in tracking the quality of ongoing Bank operations.

More rigorous scrutiny of quality safeguard supervision (for both social and environmental aspects) was introduced in last year’s QAG assessments, and safeguard aspects are now

widely addressed in Bank operations. Yet, while serious neglect appears to be rare, the quality of Bank oversight during appraisal and supervision could be improved in about 20 percent of cases. To support this objective, the Bank is now in the process of revising its management systems for safeguards policies, with a view to maintaining decentralized responsibility while strengthening central coordination. This process should lead to an improvement in the accountability mechanisms for safeguards compliance, although some issues remain to be addressed.<sup>2</sup>

In addition, both background studies for this review and a Bank task force on the cost of doing business have called for a shift to a long-term, country-based capacity-building approach to accountability for safeguards and public finance. This would entail a systematic rather than a project-by-project emphasis on capacity building. It would also require a broad discussion of the harmonization of environmental safeguard and financial accountability policies among clients and donors, beginning with assistance to countries to meet their own national standards (IDA Review 2001e, 2001h).

### Instrument Choice

IDA uniquely combines the provision of global knowledge with financing and advisory services. As reported in the *Annual Review of Development Effectiveness 2000* (OED 2000a, hereafter referred to as ARDE 2000), the choice and mix of instruments—matched to the development objectives, consensus on reform in the borrower country, and the country's policy, institutional, and political context—are key determinants of effective Bank assistance.

ARDE 2000 finds that lending instruments perform better in countries with improved policy and institutional environments (as measured by the Bank's CPIA ratings), but the sensitivity varies by instrument. Technical assistance loans, which support targeted capacity building, perform well in countries with above-average performance ratings, but only half are satisfactory in countries with lower ratings. Investment loans fare slightly worse, likely reflecting what project evaluations show about the influence of weak policy environments on investments, as well as the inade-

quate adaptation of projects to weak institutional contexts. Sector adjustment loans, which support economy-wide policy changes, perform well in both high- and medium-rated countries, but considerably worse in low-rated countries. This may be due to weaker sectoral ministries and capacities, the complexity of sectoral reforms in poorly performing countries, and a multiplicity of donors providing different and overlapping advice and assistance. Studies of adjustment lending suggest, however, that some policy reforms, particularly first-generation macroeconomic reforms involving primarily the central ministries, can be successfully implemented in countries with a weak track record when there is a turnaround and adequate government commitment. But the conditions for successful, complex second-generation structural and sectoral change are far more demanding.

Instrument choice raises several important issues:

- *Analytical work.* IDA's contribution to country policy analysis is widely regarded as a major area of comparative advantage.<sup>3</sup> Yet each thematic background paper prepared for this review raised concerns about the quality and adequacy of analytical work, including the core due diligence and country-specific sectoral and thematic work that underpins operations (table 7.1).<sup>4</sup>

The declining resources and quality problems of economic and sector work (ESW) are cause for concern. QAG's recent findings—that the value added by country management exceeds that by sector management, and that the quality of ESW is especially weak in thematic areas—shows a need to further rebalance the management matrix (OED 2000a). The Networks are supposed to lead ESW, as well as support it. Structural obstacles that prevent this need to be addressed. Ways also need to be found to fund good due diligence ESW without crowding out country-specific project and program analysis. Two core products, Poverty Assessments (PAs) and Public Expenditure Reviews (PERs), continue to receive lower than average QAG ratings, and key fiduciary due diligence assessments are lagging in some areas (table 7.2). Yet staff are concerned

**Table 7.1** Breakdown of Operational Country Service Costs by Activity (Direct Costs Only, in US\$ millions)

Use	FY93	FY96	FY00
Lending	150	142	118
Economic and sector work	99	64	72
Supervision	111	119	152
Other <sup>a</sup>	50	66	96

a. Includes TA and aid coordination, country program support, and client training.

Source: World Bank data.

that due diligence work has squeezed resources for project and program analytic work as the total resources for ESW have declined.<sup>5</sup>

- *Adjustment, programmatic, and investment lending.* Each of these lending instruments serves specific functions and has its own implementation challenges (see box 7.1). Selectivity in lending instrument choice is a strategic matter and ought to be treated that way. This becomes particularly important with the sharper division of labor among donors that the CDF promises. At a minimum, the rationale for instrument choice should be made explicit in CASs and effectiveness carefully monitored and evaluated.
- *Multi-country programs.* The *World Development Report 2000/2001* (World Bank 2000a) makes a strong case for the poverty reduction

benefits of increased regional and global programming. Using IDA resources for multi-country programs would require setting up decision processes for determining priorities and could entail setting aside an agreed amount of IDA funds for multi-country use that would not be allocated through the PBA system.

- *The special needs for enhanced capacity building.* As this review has frequently noted, greater development progress could be made by enhanced support for national capacity building in IDA operations. A key question is whether IDA possesses the right instruments for this. Its instruments may need to be broadened to include grants or be linked more effectively with grant resources available elsewhere. Grants will be more attractive to coun-

**Table 7.2** Due Diligence Economic and Sector Work in IDA Countries by Region (FY98-00)

Region	PER		CPFA		CFAA		CPAR	
	98-99	Planned 2000	98-99	Planned 2000	98-99	Planned 2000	98-99	Planned 2000
Africa	20	10	29	–	2	7	7	6
East Asia and Pacific	2	2	2	1	–	–	–	1
Europe and Central Asia	3	2	–	–	2	2	–	1
Latin America and the Caribbean	1	–	–	–	–	1	1	4
Middle East and North Africa	1	–	–	–	–	–	–	1
South Asia	4	2	12	–	–	7	–	4
<b>Total</b>	31	16	43	1	4	17	8	17
Number of IDA borrower countries with item completed	<b>28</b>		<b>33</b>		<b>4</b>		<b>8</b>	

Note: In addition to the number of completed ESW items in this table, there are a number of reports under preparation and listed as "planned" for FY01.

Source: World Bank data.

**Box 7.1****Features of Alternative Lending Instruments**

**Adjustment program lending.** Adjustment lending can support policy changes and reforms economy-wide or at the sectoral level, but only when a critical mass of stakeholders becomes convinced of the need and direction for reform. Conditionality can be effective as an instrument of mutual commitment, shared objectives, and reciprocal obligations, but not as a coercive tool. Cash-strapped poor countries may be coaxed into accepting externally imposed conditions, but policies are likely to be poorly implemented and subsequently reversed. Adjustment lending has traditionally supported “stroke of the pen” reforms involving limited public consultation, but it is increasingly used to support more complex second-generation reforms, involving many stakeholders, as reported in the Bank’s recent adjustment lending retrospective. Bank efforts to use adjustment lending to promote civil service reform have been mostly unsuccessful, but the Bank has begun to experiment with more flexible and consultative programmatic approaches. These new programmatic efforts support a borrower’s medium-term program of reforms, often through a series of single-tranche operations based on agreed actions taken.

**Investment lending.** Investment lending can allow experimentation and joint problem solving of specific development con-

straints and is more appropriate for certain kinds of targeted capacity building. But investment projects are more likely to be hampered by shortfalls in counterpart funds and a weak public sector. The procurement and other due diligence requirements associated with investment lending can strengthen borrower accountability and capacity, but are not always well adapted to borrower procedures. A multiplicity of uncoordinated investment loans in a single sector is a particular problem of IDA countries.

**Instrument mix.** Combining adjustment lending with other instruments—such as analytic and advisory services, technical assistance, and investment loans—may improve the policy environment and, hence, the outcomes. Complementary investments to build capacity, improve service delivery, or develop supportive infrastructure are often necessary to achieve the benefits of policy change. Adaptable program lending may be appropriate for long-term public sector reform, depending on commitment to reform and the quality of the trigger points and evaluation benchmarks selected.

*Source:* Branson and Hanna 2000; Devarajan, Dollar, and Holmgren 2001; Girishankar 1999; Killick, Gunatilaka, and Marr 1998; OED 2000a.

tries reluctant to borrow for this purpose and will enable a needed long-term perspective.<sup>6</sup>

### Monitoring for Results

IDA’s broadened agenda has increased the demandingness of its objectives and interventions and put heavy pressure on human and budget resources, implying both higher risks and potentially higher rewards. Thus, IDA needs improved performance indicators and monitoring and evaluation (M&E)—at project, country, and corporate levels—with a clear focus on results.

The quality of M&E has improved since the late 1990s, but ratings still fall short of expectations: a 1999 assessment found that less than one project in two had adequate M&E in place. Good M&E systems are crucial for systematically assessing progress in meeting core targets and promoting development effectiveness through results-oriented management. Evaluation reports and a 1999 Bank working group on M&E see the main weaknesses at the project level as weak incentives, diffuse accountabilities, and weak capacity—in both Bank and borrower countries.

There are three key elements for development effectiveness and M&E systems. They are: (a) the need to build incentives or demand for M&E data for decisionmaking at all Bank and borrower levels, with a focus on development outcomes and results rather than inputs and deliverables; (b) ownership by governments and other stakeholders, reinforced by evaluation capacity development; and (c) harmonization among external assistance agencies of their M&E requirements as well as coordination in securing adequate funding.

### *Multiple measurement systems in the Bank have created a problem of lack of consistency and coherence in performance measures.*

Multiple measurement systems in the Bank have created a related problem of lack of consistency and coherence in performance measures that limits IDA’s (and its partners’) ability to track and assess results and adjust policies and programs.<sup>7</sup> The Bank is working to har-

monize and strengthen performance measures internally and with partners. PRSPs and supporting programmatic adjustment credits will require an overall approach for selective M&E at the project level, greater M&E at the sector and country levels, and enhanced country capacity for both. Future Replenishment Reports could reinforce these efforts to advance M&E reforms by requesting that management focus more on outcomes and results in reporting on the IDA program.

### **Alignment Between Resources and Strategic Program Priorities**

Cutting across all other issues is how budget resources are deployed. Network and Regional staff are concerned that current budget allocations fall seriously short of the funding needed to meet IDA commitments. Budget processes have changed significantly over the past five years in response to the matrix structure introduced in the mid-1990s, other alterations in the Bank's way of doing business, and the Strategic Compact (FY98–01).<sup>8</sup> The Compact and internal Cost-Effectiveness Review anticipated that improvements in the quality of Bank services and greater resource availability would lead to an increase in lending. However, many of the expected efficiency gains have yet to be achieved. Moreover, resources were allocated for implementation of the CDF, PRSPs, and other new initiatives, including the enhanced HIPC debt relief initiative, within a budget set by the Strategic Compact commitment level. So while the Bank's development agenda expanded, expenditures for lending and ESW continued to decline, in part because of the increased budget requirements of the "knowledge bank" (see table 7.1).

### ***While the Bank's development agenda expanded, expenditures for lending and ESW continued to decline.***

To better align resources with strategic priorities, two sets of key issues are relevant: poverty-efficient budget allocations and the link between programs and budgets.

**Poverty-efficient budget allocations.** Despite the Bank's poverty reduction mission, a country's level of poverty gets relatively minor explicit consideration in budget allocations. Regional and country budget allocations do not distinguish between IDA and IBRD. While corporate and Regional decisions have begun to channel more program funding to poorer countries, consistent with performance, the impact has been small. In FY00, the budget allocation to IDA countries was, on average, \$0.54 per capita, and to IBRD countries, \$0.45.

There are complicating factors in making such a link (for example, the differences in operating costs among countries). However, poverty could be given greater weight in budget allocations by applying the country norm methodology<sup>9</sup>—an approach that, to date, has only marginally influenced budget decisions because of unresolved methodological and policy issues.

**The link between program and budget.** The Bank's programming and budget system lacks adequate mechanisms for reconciling budget allocations and commitments to shareholders, bondholders, donors, partners, and countries. CASs, which generally serve as two- to three-year planning instruments, are approved separately from annual country budgets. CASs are supposed to estimate costs associated with proposed lending scenarios and to present program recommendations that correspond to realistic budget levels. But unanticipated resource demands, including new mandates or crises, can arise over the two- to three-year CAS period, and Regional vice presidents are not committed to the CAS funding levels. A projected CAS program for a particular year may not be adequately funded, and there are current examples of significant budget shortfalls.

A more automated CAS costing tool that has recently been endorsed should facilitate more realistic estimating of indicative costs. But it will not guarantee that a CAS—even after Board review—will be fully funded across all years. A system that combines CAS costing with a bottom-up, zero-based corporate resources allocation process on a multi-year



basis would get closer to full funding. It is a positive step, therefore, that in this year's budget process a three-year rolling budget is being prepared, for the first time, to minimize unexpected movements in Regional funding. This step should be accompanied by reporting to the Board when there are changes in previously discussed CAS programs due to alterations in budget allocations.

IDA commitments should also be costed. Although none of the many IDA10, 11, and 12 replenishment commitments were explicitly costed, many of them intersect ongoing or planned processes, including CASs, sector strategies, and other major initiatives. The cost of recommendations should be presented to IDA Deputies before the conclusion of a replenishment negotiation, and to the Board with the IDA Replenishment Report. Where a replenishment requirement implies actions beyond ongoing or already planned efforts, it should have a separate implementation path, with the necessary policy and budgeting changes.

A related issue is the Bank's heavy dependence on trust funds.<sup>10</sup> Those funds that provide advisory services and technical assistance for specific development-related activities amount to about a third of the Bank's administrative budget, and the percentage is even higher for some countries and sectors.<sup>11</sup> The multiplicity of funds can cause distortions and high transaction costs. A large amount of staff time is spent acquiring and administering these resources, but their impact on country program budgets is not clear. Given these difficulties, there needs to be a significant rationalization of trust fund arrangements, an issue that has been highlighted in the Bank's Strategic Directions planning.

Overall, a sizable implementation agenda lies ahead to ensure effective implementation of the IDA program. Improved accountability systems, instrument choice, and M&E are central. But little of this will be possible without a better alignment of budget resources and program priorities, the major goal of the budget reform currently under way.







# Implications for the Future

**W**hile implementation of replenishment undertakings has moved the IDA program in the right direction, IDA and its partners have not yet fully institutionalized the changes or entirely absorbed the lessons of experience. What is needed now is to deepen and broaden the gains from the existing policy framework by:

- Focusing on implementation in areas of emphasis
- Aligning resources to strategic priorities
- Consolidating the IDA mandates.

For this, IDA will need to further adjust its role at the country and global levels, within the limitations set by resources available for administrative costs, lending, and nonlending services. In its primary role of supporting country-based development efforts, IDA should concentrate on its areas of comparative advantage—most of these are at the strategic level of supporting economy-wide, sector-wide, and government-wide reforms through analytical work and lending—and on capacity building. IDA should also play a more active role at the global level to facilitate the harmonization and coordination of external assistance needed to speed progress toward the overarching goal of poverty reduction.

More specifically, IDA could build on improvements of the past seven years in the following ways.

## **Be More Selective**

Although there is consensus on this point, more needs to be done to increase IDA's country, program, and corporate selectivity.

- *Country selectivity.* IDA's performance-based allocation (PBA) system has brought increased selectivity to the allocation of resources at the country level, based on assessments of the soundness of countries' policies and institutional arrangements. Further advances could be made by continuing to improve the Country Policy and Institutional Assessment (CPIA), rethinking the governance discount, and ensuring consistency with the Poverty Reduction Strategy Paper (PRSP) and Country Assistance Strategy (CAS) processes. Also, broader disclosure of the rating system would improve consistency of treatment and allow the system to benefit from open scrutiny and to serve as a diagnostic tool for strengthening development partnerships.
- *Program selectivity.* Countries' poverty reduction strategies provide a new way of setting

priorities for IDA and other donor country assistance programs. More effective program selectivity, and instrument choice, depends in part on better integration of strengthened sector strategies into CASSs. This should help IDA define the focus of its lending and non-lending services, including where to take a leading or a supporting role with other donors, and its choice of instruments.

- *Corporate selectivity.* IDA needs to clarify priorities and objectives by sectors and themes and identify more precisely what it can (and cannot) commit to do, selecting the highest payoff interventions for advancing poverty reduction, based on its comparative advantage. This corporate-level selectivity needs to be established in concert with the strategic decisions of other agencies as part of a broadened harmonization action plan.

IDA quantitative lending targets for sectors, instruments, or groups of countries serve as disincentives for effective program and country selectivity.

### **Focus on Governance and Capacity Building**

Every area of this review highlights the centrality of good governance. IDA should continue to intensify its support of effective governance and public sector capacity building, increasing its coordination with other external assistance agencies to encourage borrower governments to become more efficient in their provision of public goods and services and more transparent and accountable to their publics.

- Every aspect of IDA's assistance—from analytical work, to design and supervision of operations and monitoring for results—should have a capacity-building dimension. The implications for time, costs, and adjustments in ways of doing business mean that IDA may need to consider options for expanded grant financing for nonlending services and for much greater coordination with grant-giving agencies in support of capacity building.
- The sectoral impacts of systemic governance and institutional weaknesses in borrower

countries suggest the need for institutional development strategies that identify cross-sectoral concerns, prioritize areas of assistance, and create synergies in the handling of problems in different sectoral programs.

- While the governance agenda set out in the IDA10–12 Replenishment Reports remains valid, recent experience suggests that IDA, its borrowers, and other development partners need to make a special commitment to improving countries' public expenditure management and financial accountability. This review recommends that IDA link its future lending to time-bound plans for establishing sound public financial accountability systems. To foster that accountability, IDA should also encourage greater transparency by requiring that agencies and programs supported by IDA issue regular public reports that set performance targets and record progress on achieving them.

### **Commit to Development Partnerships**

IDA should work actively at the country and global levels to move aid coordination processes from ad hoc to structured arrangements.

- The PRSP process provides a concrete way of applying the Comprehensive Development Framework (CDF) principles in support of countries' development strategies. Institutionalizing this support, in coordination with the IMF and other assistance agencies, should define the core of IDA's future program. The phasing-in of the new Poverty Reduction Strategy Credits in step with countries' capacities for effective use and monitoring should be handled with care given its strategic relevance.
- Expanded use of sector-wide approaches (SWAs) should be a building block of IDA support for countries' development efforts, taking into account lessons of recent experience on how to use these results-oriented approaches to support country-owned programs. Even where other agencies are better positioned than IDA to take the lead, IDA analytical work or lending, or both, may still be needed. As necessary, internal project and procurement procedures should be adjusted

to enable flexible participation in structured aid coordination arrangements.

- IDA Deputies should use IDA to achieve greater coherence and harmonization in aid practices, which are so long overdue. This initiative should involve the heads of bilateral and multilateral assistance agencies and should set a clear schedule for achieving results. The global agenda should go beyond procedural issues—as important as they are—to policy and strategic issues of program and country selectivity and the processes for bolstering country-led aid management.

### **Clarify Objectives and Strengthen Accountabilities**

- The process introduced in IDA12 for tracking implementation of IDA commitments should be maintained and strengthened. Clear guidelines on compliance should be provided to staff at the start of the replenishment period, and Regional management should be responsible for tracking country coverage of relevant commitments, taking account of countries' priorities and activities by others.
- Clearer objectives and guidelines are needed in the pursuit of the IDA policy framework, especially for private sector development (PSD) and the mainstreaming of gender and environmental sustainability in IDA activities. Networks need to devise clear and achievable aims and indicators, strengthen their involvement in key sectors, and track mainstreaming in country programs. Regional management needs to ensure adequate treatment in CASs, reflecting appropriate selectivity. QAG and OED reviews ought to give more attention to mainstreaming.
- Recent internal recommendations for M&E processes should be followed up to underpin a focus on results, especially at the country and sector levels, with attention to improving capacities in borrowing countries. Of particular immediate importance is the development of processes for evaluating performance and tracking progress on PRSPs and the supporting PRSCs and wider CAS programs.

### **Better Align Resources with Priorities**

A better deployment of resources relative to IDA commitments is essential to applying the other lessons of the past seven years. The relation between the budget process and the full funding of CASs is of particular importance.

- To make poverty a more prominent factor in the Bank's budget allocation process, a country norm methodology has recently been applied as a supplementary measure. Resolving methodological and policy issues that are holding up the move to full country norm-based budgeting would support the Bank's overall emphasis on poverty and performance.
- Recent efforts toward more realistic costing of CASs should be accompanied by a process for ensuring full funding of Board-discussed CASs across their two- to three-year period. This year's preparation of a three-year rolling budget is a step in this direction.
- Ways need to be found to ensure appropriate levels of due diligence and program-specific ESW and greater attention to capacity building. Options for grant financing for capacity-building activities need to be explored.

*The IDA replenishment process itself might usefully be re-examined to facilitate reforms in the overall development architecture.*

This review also suggests that the IDA replenishment process itself might usefully be re-examined to facilitate reforms in the overall development architecture. The process provides a unique opportunity to discuss, at a global level, past experience and future directions for international development assistance and to mobilize funding in support of key objectives and to evaluate the development effectiveness of the overall aid system. As currently constituted, the process falls short of fully realizing this potential.

Although broadly consistent with an evolving consensus in the international development community, the replenishment undertakings have been both overloaded and overdetermined

(for example, in the specification of lending shares going to individual sectors and countries, and in the number and detail of the recommendations). Undertakings have often been unrealistic about what IDA and its borrowers could reasonably accomplish in three-year periods, have focused more on inputs than results, have neglected to consider IDA budget resources, and have failed to consider the implications for the overall development assistance business.

*The replenishment process has been too disconnected from IDA's development partners, and IDA's comparative advantage has not been sufficiently emphasized.*

Specifically, the replenishment process has been too disconnected from IDA's development partners, both borrowers and other assistance agencies, so that priorities have not always been as relevant as they might have been, and IDA's comparative advantage has not been sufficiently emphasized in the agreed undertakings. Three changes could improve the process, and thus, the impact of future undertakings.

### **Develop a Long-Term Vision, Focused on Results**

As part of the IDA13 negotiations, the IDA Deputies ought to ask management to develop, in consultation with borrowers, a long-term vision for IDA beyond the replenishment period. This vision ought to clarify what is meant by IDA's poverty focus, identify how IDA's resources can best be deployed, set up an internal management system, and consider IDA's global role as a complement to its support for country programs.

### **Engage Developing Countries in Setting and Reviewing Replenishment Commitments**

Opening communication channels that allow for interaction and feedback from country

experiences will help to set IDA priorities and improve implementation. The consultation steps taken in the IDA12 negotiations were a start. The transparent and consultative process planned for the IDA13 negotiation—including consultations with borrower governments and civil society and the posting of papers on an IDA Website—is a solid second step. Following the negotiations, IDA should consider ways to ensure continuous feedback and to engage its partners in M&E of IDA13 performance and results.

### **Define Commitments in Terms of Monitorable and Achievable Objectives and Take Account of Their Realistic Costing**

IDA replenishment undertakings have tended to emphasize inputs and output targets that do not take account of the need for country ownership if reform efforts are to be sustained. It would be better for Replenishment Reports to focus on development goals and on identifying the kinds of activities that IDA should support in advancing those goals, as a matter of priority, taking account of IDA's comparative advantage and realistic costings of replenishment commitments. In addition, Replenishment Reports ought to agree on IDA performance indicators and on objective reporting on progress toward desired outcomes. This process needs to recognize that operating within CDF principles means moving even further away from a direct measure of the link between IDA activities and country development outcomes to new ways of tracking IDA's performance in partnership with others. One way to facilitate this is to strengthen the role of sector strategies in defining IDA's comparative advantage and the objectives to which IDA would commit itself—in terms of program strategy, targets, and deployment of resources—as the basis for commitments agreed to in IDA negotiations, subject to overall resource availabilities.

## ANNEX A1: IDA'S FEATURES

***Established as an integral part of the World***

**Bank:** IDA was established in 1960 to lend to low-income member governments of the World Bank that could not afford to borrow on the Bank's near-market terms. Though a separate legal entity, IDA operates as an integral part of the Bank—sharing the same staff and headquarters; reporting to the same president; and applying the same standards for loan appraisal and approval.

**Lends only to low-income countries:** IDA lends only to countries that have a per capita income (in 1999) of less than \$885 and lack the financial ability to borrow from the Bank. At present, 78 countries are eligible to borrow from IDA. Together, these countries are home to 2.3 billion people, comprising 53 percent of the total population of the developing countries. Today, 1.5 billion of these people survive on incomes of \$2 or less a day. Since 1980, IDA lending has amounted to 12–18 percent of total official development assistance to eligible borrower countries.

Some countries, such as India and Indonesia, are eligible to borrow from IDA due to their low GNP per capita, but they are also creditworthy for some IBRD borrowing. These countries are known as “blend” borrowers. Countries that once borrowed from IDA but are now too prosperous to qualify include Chile, China, Costa Rica, and Egypt.

**Provides loans on concessional terms:** IDA loans (called credits) have maturities of 35–40 years with a 10-year grace period on repayment of principal. There is no interest charge, but credits carry a small service charge, currently 0.75 percent on disbursed balances. Since 1960, IDA has lent \$120 billion to 106 countries. It lends,

on average, about \$5–6 billion a year for different types of projects. Though the major proportion of its lending has always been investment lending, IDA also provides forms of quick-disbursing adjustment and program loans conditioned on agreed macroeconomic, sectoral, or public management reforms. In recent years it has also provided, on a pilot basis, partial risk guarantees in support of private investments. Though its Articles of Agreement permit IDA to provide funding on a grant basis, it has done so only in a limited number of special circumstances, in support of particular global programs, certain post-conflict situations, and debt relief efforts.

IDA funds are allocated to borrowing countries in relation to their population size, level of income, and record of success in managing their economies and their ongoing IDA projects. Over time, IDA has made modifications in its allocation policies: for example, putting a ceiling on lending to its two largest borrowers, India and China, and giving increased weight to countries' policy and institutional performance. In FY00, 47 percent of new commitments went to Sub-Saharan Africa, 27 percent went to South Asia, 11 percent to East Asia and the Pacific, 7 percent to Eastern Europe and Central Asia, and the remainder to poor countries in the Middle East and Latin America.

***Funded largely by government contribu-***

**tions:** Whereas the Bank raises most of its funds on the world's financial markets, IDA is funded primarily by contributions from member countries. Their cumulative contribution since the start of IDA totals US\$96 billion equivalent. Additional funds come from transfers of Bank income and from IDA borrowers' repayments of earlier IDA credits.

Donors agree on a three-year cycle on the replenishment of IDA funds. The 12th replenishment will finance projects over the three years starting July 1, 1999, and will allow IDA to lend about \$20 billion, of which donor contributions will provide a little over half. Today there are 37 IDA donors, two of which were once IDA borrowers.



## ANNEX A2: EVOLUTION OF IDA'S PROGRAM

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Throughout its 40-year history, the purpose of IDA's assistance has remained the same: to support low-income-country economic development and poverty reduction. However, its policies and programs have evolved continuously in response to changes in the challenges its borrowers have faced and in thinking about development.

***The 1960s focus on infrastructure:*** In its earliest days, IDA followed the lead of the IBRD and concentrated on financing roads, ports, and other infrastructure projects. The approach reflected economic thinking in the 1950s and 1960s, which emphasized the accumulation of capital as the engine of growth, and growth as the key to poverty reduction. As food deficits and payment imbalances increased in developing countries, it became clear that both sets of assumptions were too simplistic. In response, in the mid-1960s, IDA increased its agriculture lending and began lending for education.

***The 1970s decade of expansion:*** IDA underwent a decade-long period of transformation and growth in the 1970s. Despite improved rates of economic growth, millions of people in developing countries were still living in poverty, and growing inequities were increasingly evident. As a result, confidence in the prevailing broad "trickle-down" approach to development had waned, and attention then turned to more direct efforts at poverty alleviation, including rural activities aimed at increasing the productivity of the rural poor as well as increased lending for human development. In support of this evolving agenda, development research and ESW were expanded and IDA lending increased from an annual average level of commitments of \$229

million in 1961–68 to \$3.8 billion in 1980. Although a part of this growth reflects inflation, in constant dollars annual commitments more than doubled from 1970 to 1980, as did the number of projects.

***The 1980s advent of policy-based lending:*** By the end of the 1970s, it had become clear that development progress and IDA project performance were being seriously constrained by problems in the policy and institutional environments in many borrower countries. But IDA's main instrument of project lending was unable to provide adequate support for the economic policy and structural adjustment reforms deemed necessary. The onset of the debt crisis in the early 1980s lent urgency to this situation, creating the circumstances for the introduction and rapid expansion of adjustment lending conditioned on borrowers' commitments to undertake specified policy reforms. Focused initially on distortions in the macroeconomy, adjustment lending became a major feature of IDA lending in support of both structural and sectoral reforms and continues to account for roughly one-quarter (\$1.5 billion) of IDA lending today. Structural reform underscored the importance of two main points: (a) along with renewed growth, explicit pro-poor policies and programs were needed in the many countries where poverty remained pervasive and deep; and (b) sustainable reform could be supported but not induced by external assistance. Both lessons became central to further changes in IDA's program in the 1990s.

***The 1990s broadened agenda of development concerns:*** From the 1990s onward, IDA's efforts have been marked by an expanding policy agenda along with a drive for increased

development effectiveness. Environmental sustainability, gender equity, and the improvement of governance became core policy priorities in support of the overarching objective of poverty reduction. At the same time, IDA was confronted with increasingly diverse and complex borrower circumstances as China and the newly independent countries of Central Asia joined its ranks and numbers of IDA countries experi-

enced serious internal conflicts that called for new forms of post-conflict assistance. IDA undertook several key reforms during the decade to “change the way it does business,” shifting its focus from individual projects to the country as the main unit of account; strengthening and diversifying its analytical work; and placing greater emphasis on stakeholder participation, transparency, and aid coordination.

## ANNEX B: POVERTY AND SOCIAL INDICATORS

<b>Table B.1</b>		<b>Poverty in IDA Countries, 1987–98 (\$1/day PPP)</b>				
<b>Category</b>	<b>1987</b>	<b>1990</b>	<b>1993</b>	<b>1996</b>	<b>1998 (est.)</b>	
<b>Percentage below \$1/day PPP 1993 prices (%)</b>						
IDA-only countries	33.86	39.28	39.92	38.22	33.60	
IDA-only countries, less Bangladesh	38.34	41.34	41.37	41.44	37.70	
Blend countries	37.06	37.74	36.17	30.82	30.03	
All IDA/blend countries	36.59	37.97	36.75	31.96	30.59	
All IDA/blend countries, less China	43.09	42.60	41.87	41.63	39.43	
<b>Absolute number below \$1/day PPP 1993 prices (million)</b>						
IDA-only					278	
IDA-eligible					1,063	
China					290	

Note: PPP = Purchasing power parity.

Source: Institutional Business Warehouse.

<b>Table B.2</b>		<b>IDA Countries—Social Indicators</b>				
<b>Indicator</b>	<b>1980</b>	<b>1990</b>	<b>1997</b>	<b>1980–90 (%)</b>	<b>1990–97 (%)</b>	
<b>Life expectancy (years)</b>						
All IDA	58	61	63	6	3	
IDA without China	53	57	60	8	5	
Africa	47	48	50	3	3	
<b>Infant mortality rate (%)</b>						
All IDA	86	65	59	-24	-11	
IDA without China	112	85	74	-24	-12	
Africa	117	101	92	-14	-9	
<b>Primary school enrollment (%)</b>						
All IDA	66	86	98	30	14	
IDA without China	66	60	69	-9	15	
Africa	55	47	48	-15	2	
<b>Female illiteracy (%)</b>						
All IDA	62	50	44	-18	-13	
IDA without China	71	62	56	-12	-10	
Africa	76	64	54	-17	-15	

All indicators are population weighted.

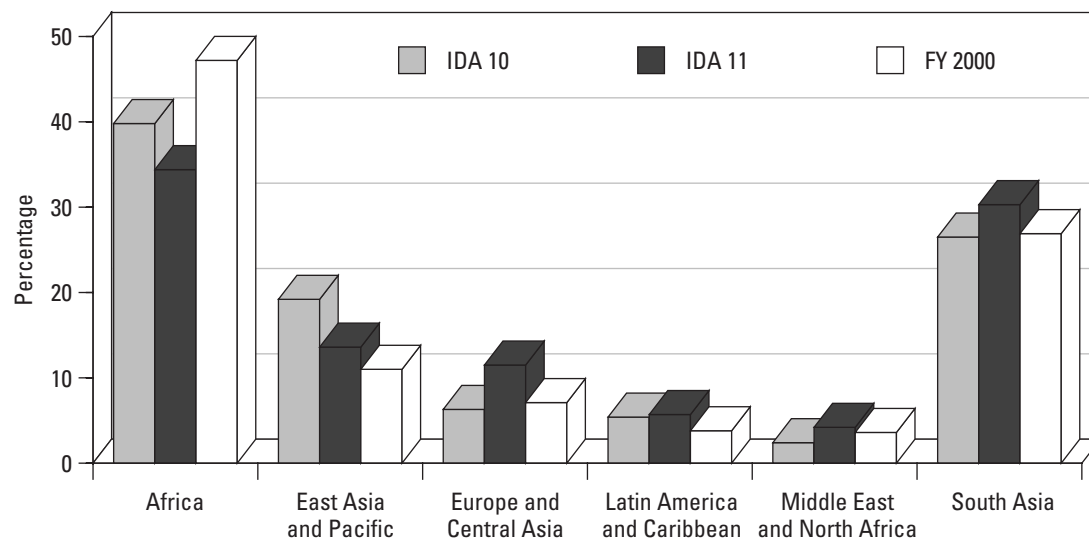
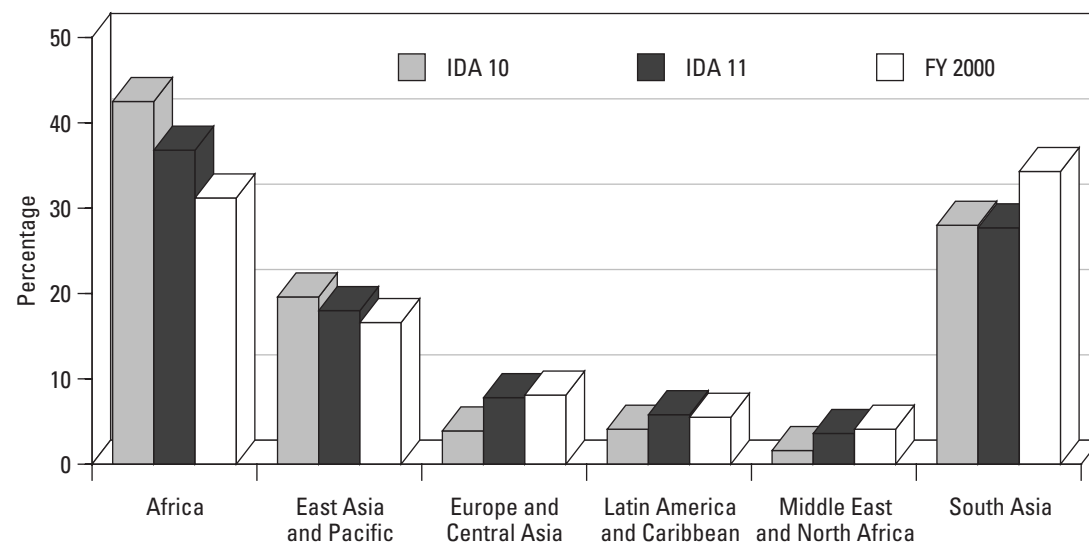
Source: World Bank data.

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**ANNEX C1: IDA COMMITMENTS AND DISBURSEMENTS BY REGION**

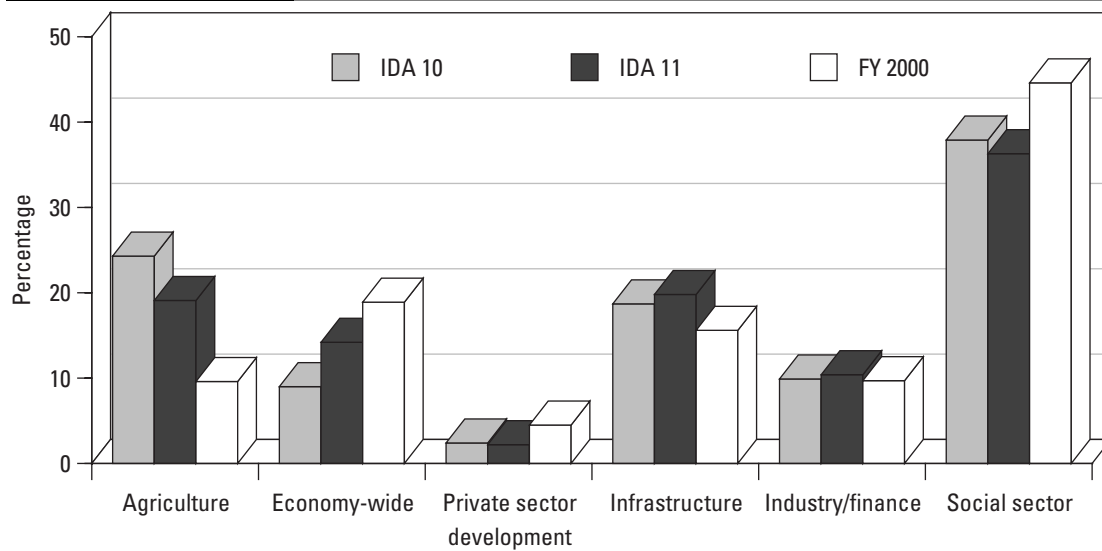
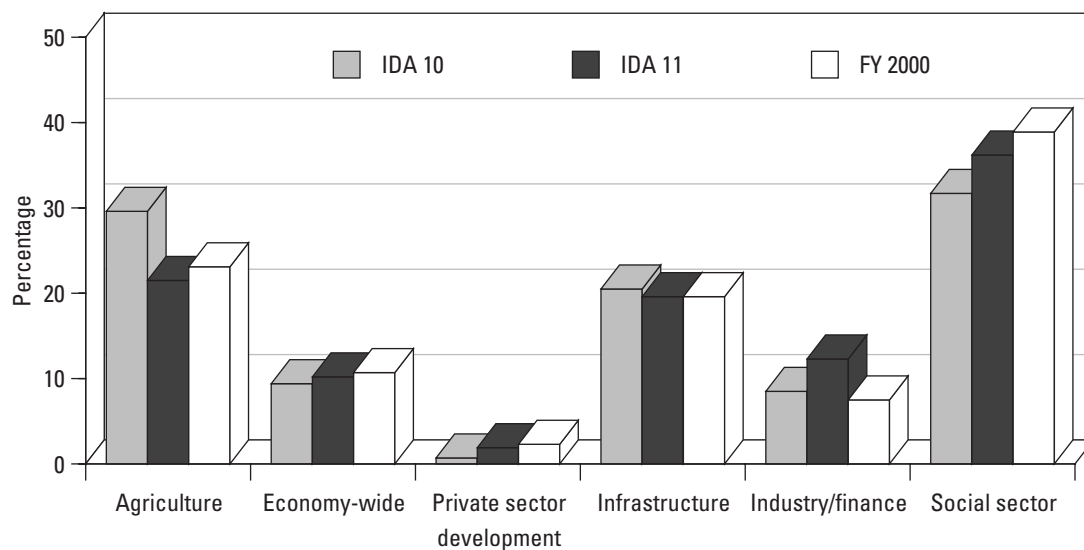

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<b>Table C1.1</b>	<b>IDA Commitments and Disbursements by Region—IDA10 TO FY00 (percentage and total, US\$ million)</b>					
	<b>IDA10</b>		<b>IDA11</b>		<b>FY 2000</b>	
<b>Region</b>	<b>Commitment</b>	<b>Disbursement</b>	<b>Commitment</b>	<b>Disbursement</b>	<b>Commitment</b>	<b>Disbursement</b>
Africa (%)	39.8	44.0	34.4	37.1	47.2	34.2
East Asia and Pacific (%)	19.2	19.5	13.6	19.0	11.0	16.7
Europe and Central Asia (%)	6.3	3.5	11.5	6.4	7.1	9.9
Latin America and Caribbean (%)	5.4	4.6	5.7	6.3	3.8	4.9
Middle East and North Africa (%)	2.4	1.9	4.2	3.3	3.6	3.5
South Asia (%)	26.5	26.2	30.3	27.5	26.9	30.5
<b>Total (%)</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Total (US\$ million)</b>	<b>19,136</b>	<b>14,355</b>	<b>18,946</b>	<b>14,072</b>	<b>4,366</b>	<b>3,942</b>

**Figure C1.1 Commitments by Region****Figure C1.2 Disbursements by Region**

## ANNEX C2: IDA COMMITMENTS AND DISBURSEMENTS BY SECTOR

Sector	IDA10		IDA11		FY 2000	
	Commitment	Disbursement	Commitment	Disbursement	Commitment	Disbursement
Agriculture (%)	24.3	29.6	19.1	21.5	9.6	23.1
Economy-wide (%)	9.0	9.4	14.2	10.2	18.9	10.7
w/o Environment (%)	4.1	3.7	4.0	4.0	1.6	3.7
Private sector development (%)	2.4	0.7	2.2	1.9	4.5	2.3
Infrastructure (%)	18.7	20.5	19.8	19.6	15.6	19.6
w/o Transportation (%)	12.1	12.6	15.3	13.3	13.9	13.8
Industry/finance (%)	9.9	8.5	10.4	12.3	9.7	7.5
Social sector (%)	37.9	31.7	36.3	36.2	44.6	38.9
w/o Education (%)	12.9	12.7	12.5	14.8	12.7	13.8
Health, nutrition, population (%)	14.2	8.9	15.3	10.6	15.7	15.2
Total investment (US\$ million)	14,390	10,632	15,252	12,264	3,685	3,548
Total adjustment (US\$ million)	4,746	3,723	3,694	1,809	681	395
<b>Total (US\$ million)</b>	<b>19,136</b>	<b>14,355</b>	<b>18,946</b>	<b>14,072</b>	<b>4,366</b>	<b>3,942</b>

**Figure C2.1 Commitments by Sector****Figure C2.2 Disbursements by Sector**



## ANNEX D: IDA PORTFOLIO PERFORMANCE

Table D.1

**Outcome, Sustainability, Institutional Development (ID) Impact, and Aggregate Ratings by Sector, Network, Region, and Lending Type/Source by Exit Years 1991-93, 1994-96, 1997-00 (by Project)**

	IDA 9 (1991-93)					IDA 10 (1994-96)					IDA 11+ (1997-00) <sup>a</sup>				
	Projects #	Share %	Out % Sat	Sust % likely or better	ID impact % sub. or better	Projects #	Share %	Out % Sat	Sust % likely or better	ID impact % sub. or better	Projects #	Share %	Out % Sat	Sust % likely or better	ID impact % sub. or better
<b>Sector Group</b>															
Agriculture	115	36	55	29	25	101	28	64	36	34	107	23	65	45	39
Economic-wide	39	12	56	31	13	74	20	66	38	20	96	21	76	54	25
Human-resource related	51	16	78	45	34	72	21	58	29	21	123	27	73	44	32
Industry	34	11	50	26	29	20	6	45	30	25	38	8	61	46	42
Infrastructure	81	25	67	37	35	89	25	63	39	27	97	21	71	44	44
<b>Network</b>															
Environmentally & Socially Sustainable Development	115	36	55	29	25	101	28	64	36	34	122	26	66	45	39
Finance, Private Sector & Infrastructure	126	39	63	33	34	120	34	58	37	27	156	34	65	41	41
Human Development	40	13	78	50	33	61	17	61	30	20	102	22	78	50	33
Poverty Reduction & Economic Management	39	12	56	31	13	74	21	66	38	20	81	18	77	56	24
<b>Lending Type</b>															
Adjustment	37	12	65	38	22	63	18	75	49	24	70	15	80	54	29
Investment	283	88	61	33	29	293	82	59	32	27	391	85	69	45	37
<b>Region</b>															
Africa	180	56	52	29	26	209	59	55	27	22	236	51	61	36	32
East Asia and Pacific	33	10	79	61	42	32	9	84	69	28	47	10	89	72	62
Europe and Central Asia	n/a	n/a	n/a	n/a	n/a	8	2	100	88	50	41	9	95	70	39
Latin America and Caribbean	14	4	79	50	36	18	5	72	44	50	37	8	73	40	35
Middle East and North Africa	21	7	57	33	25	13	4	69	31	46	12	3	75	33	17
South Asia	72	23	74	28	26	76	21	64	28	26	88	19	74	56	32
<b>Lending Source</b>															
IDA	303	46	61	33	28	332	46	62	34	27	421	48	71	46	36
IBRD	341	52	70	58	35	368	51	71	53	32	408	47	76	63	44
Blend	17	2	59	35	24	24	3	58	54	21	40	5	68	50	33
<b>Grand Total (IDA &amp; Blend)</b>	<b>320</b>	<b>100</b>	<b>61</b>	<b>33</b>	<b>27</b>	<b>356</b>	<b>100</b>	<b>62</b>	<b>35</b>	<b>26</b>	<b>461</b>	<b>100</b>	<b>71</b>	<b>46</b>	<b>35</b>

Note: Percentages exclude projects not rated. Sectors represent IDA Replenishment Report groupings as of the end of FY00.

a. The data for FY00 exits represent a partial sample (120 out of 269) and reflect the processing of all ICRs received through August 2000. The processing of the remainder of the FY00 sample is ongoing, expected to be completed by spring 2001.

Table D.2

**Outcome, Sustainability, Institutional Development (ID) Impact, and Aggregate by Sector, Network, Region, and Lending Type/Source by Exit Years 1991-93, 1994-96, 1997-00 (by Real Disbursements, FY96US\$)**

	IDA 9 (1991-93)					IDA 10 (1994-96)					IDA 11+ (1997-00) <sup>a</sup>				
	Disburse \$ millions	Share %	Out % Sat	Sust % likely or better	ID impact % sub. or better	Disburse \$ millions	Share %	Out % Sat	Sust % likely or better	ID impact % sub. or better	Disburse \$ millions	Share %	Out % Sat	Sust % likely or better	ID impact % sub. or better
<b>Sector Group</b>															
Agriculture	4,882	35	62	31	28	4,440	26	79	42	42	5,389	26	73	59	48
Economic-wide	2,199	16	65	29	30	4,153	24	81	42	21	4,532	22	83	55	24
Human-resource related	1,829	13	93	56	50	2,880	17	63	41	20	4,908	23	77	52	36
Industry	2,078	15	56	39	28	1,336	8	55	36	37	1,489	7	75	58	57
Infrastructure	3,155	22	75	52	36	4,163	25	73	45	18	4,696	22	76	57	42
<b>Network</b>															
Environmentally & Socially Sustainable Development	4,882	35	62	31	28	4,440	26	79	42	42	6,075	29	72	57	46
Finance, Private Sector & Infrastructure	5,570	39	69	46	33	6,056	36	68	44	24	7,249	34	70	52	43
Human Development	1,491	11	94	61	51	2,322	14	65	38	16	3,844	18	87	59	38
Poverty Reduction & Economic Management	2,199	16	65	29	30	4,153	24	81	42	21	3,847	18	86	58	23
<b>Lending Type</b>															
Adjustment	3,357	24	66	32	33	6,403	38	78	46	25	4,871	23	88	60	35
Investment	10,785	76	69	42	33	10,569	62	71	40	28	16,144	77	74	55	41
<b>Region</b>															
Africa	5,323	38	54	30	25	7,867	46	72	33	29	7,892	38	69	44	32
East Asia and Pacific	2,408	17	88	75	45	2,215	13	90	85	16	4,503	21	92	80	71
Europe and Central Asia	n/a	n/a	n/a	n/a	n/a	427	3	100	90	43	1,085	5	95	66	34
Latin America and Caribbean	385	3	84	73	41	649	4	73	34	51	869	4	85	39	36
Middle East and North Africa	615	4	84	57	10	187	1	88	19	36	358	2	91	35	43
South Asia	5,413	38	72	30	37	5,627	33	66	36	25	6,308	30	70	56	27
<b>Lending Source</b>															
IDA	11,692	22	68	40	34	13,317	24	76	40	28	17,228	25	78	56	40
IBRD	37,903	73	74	65	40	39,531	70	76	60	34	48,771	70	82	70	51
Blend	2,451	5	71	39	29	3,655	6	64	51	24	3,787	5	70	55	38
<b>Grand Total (IDA &amp; Blend)</b>	<b>14,143</b>	<b>100</b>	<b>69</b>	<b>40</b>	<b>33</b>	<b>16,972</b>	<b>100</b>	<b>73</b>	<b>42</b>	<b>27</b>	<b>21,015</b>	<b>100</b>	<b>77</b>	<b>56</b>	<b>39</b>

Note: Percentages exclude projects not rated. Sectors represent IDA Replenishment Report groupings as of the end of FY00.

a. The data for FY00 exits represent a partial sample (120 out of 269) and reflect the processing of all ICRs received through August 2000. The processing of the remainder of the sample FY00 is expected to be completed by spring 2001. Active portfolio data reflects projects active as of July 1, 2000, and it is taken from QAG materials.

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**ANNEX E: LENDING FOR POVERTY-TARGETED INTERVENTIONS (PTIs)**


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<b>Table E.1</b>		<b>DA/Blend Poverty-Targeted Lending (percentage PTI)</b>		
<b>Category</b>	<b>Lending</b>	<b>Year(s)</b>	<b>Number of projects</b>	<b>Volume of commitments (%)</b>
IDA	Investment	1992–93	37	43
		1994–96	45	53
		1997–99	41	48
		2000	28	48
Blend	Investment	1992–93	21	19
		1994–96	14	41
		1997–99	43	68
		2000	33	4

## ANNEX F: LENDING BY INSTRUMENT

IDA employs a range of lending instruments, but specific investment loans dominate IDA commitments. Moreover, their relative share has increased over time, while sector adjustment loans and sector investment/maintenance

loans have declined in importance. Structural adjustment loans show a marginal increase in terms of the distribution of amount of commitment. APLs and LILs started in IDA11.

Instrument	IDA10		IDA11		FY2000	
	Amount of lending, US\$ million	Percent total IDA commitments	Amount of lending, US\$ million	Percent total IDA commitments	Amount of lending, US\$ million	Percent total IDA commitments
Adaptable Program						
Loan	0	0	515	3	568	13
Debt Reduction Loan	0	0	85	0	0	0
Emergency Recovery Loan	359	2	843	4	81	2
Financial Intermediary						
Loan	248	1	137	1	5	0
Learning and Innovation						
Loan	0	0	113	1	76	2
Program Structural						
Adjustment Loan	0	0	0	0	0	0
Rehabilitation Loan	283	1	60	0	0	0
Sector Adjustment Loan	2,281	12	980	5	73	2
Sector Investment/						
Maintenance Loan	1,312	7	699	4	110	3
Specific Investment Loan	11,784	62	12,540	66	2,588	59
Structural Adjustment						
Loan	2,183	11	2,571	14	608	14
Technical Assistance Loan	688	4	409	2	257	6
<b>Total</b>	<b>19,138</b>	<b>100</b>	<b>18,952</b>	<b>100</b>	<b>4,366</b>	<b>100</b>

**Table F.2****Distribution of IDA Commitments by Number of Loans by Intervention**

Instrument	IDA10		IDA11		FY2000	
	Number of IDA credits	Percent of total number	Number of IDA credits	Percent of total number	Number of IDA credits	Percent of total number
Adaptable Program Loan	0	0	19	5	14	11
Debt Reduction Loan	0	0	2	1	0	0
Emergency Recovery Loan	6	2	20	5	3	2
Financial Intermediary Loan	3	1	4	1	1	1
Learning and Innovation Loan	0	0	26	7	18	14
Program Structural Adjustment Loan	0	0	0	0	0	0
Rehabilitation Loan	5	1	2	1		0
Sector Adjustment Loan	19	6	11	3	2	2
Sector Investment/Maintenance Loan	22	6	13	3	1	1
Specific Investment Loan	219	65	220	58	64	51
Structural Adjustment Loan	28	8	35	9	7	6
Technical Assistance Loan	37	11	28	7	16	13
<b>Total</b>	<b>339</b>	<b>100</b>	<b>380</b>	<b>100</b>	<b>126</b>	<b>100</b>

The distribution of commitments by number of loans by type of intervention presented above indicates a larger percentage share of APLs and LILs compared to their share in the amount of lending. This highlights the relatively small average size of these interventions.

While the relative share of Specific Investment Loans by amount was increasing, there was a decline in terms of the relative share by number of loans, which indicates a declining average size of commitment for Specific Investment Loans.

## ANNEX G: METHODOLOGICAL NOTE: RATING IDA'S DEVELOPMENT PERFORMANCE

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OED evaluates development interventions by assessing how their results stack up against their own stated objectives.<sup>1</sup> From an accountability perspective, this goal-based approach is attractive because it relates results to objectives agreed to by the Board of Executive Directors.<sup>2</sup>

Specifically, OED evaluates outcomes by considering three factors:

- *Relevance* of the intervention's objectives in relation to country needs and institutional priorities.
- *Efficacy*, the extent to which the developmental objectives have been (or are expected to be) achieved.
- *Efficiency*, the extent to which the objectives have been (or are expected to be) achieved without using more resources than necessary.

The assessment of relevance is especially critical. When done well, it nets out excessively or inadequately ambitious objectives. Combining these three factors, overall outcome is rated on a six-point scale, ranging from *highly satisfactory* to *highly unsatisfactory*. (See box G.1 for details.) Outcome is not a simple average of the factors, because the factors interact: they are cumulative and interdependent (for example, satisfactory relevance is useless if efficacy is poor).

### How Did OED Evaluate IDA10–12?

*Compliance.* The review concentrated on IDA's compliance with replenishment undertakings and development contributions in *six thematic development priorities*: poverty reduction, social sector development, private sector development, governance, environmentally sustainable development, and gender. It also addressed *four priority process reform objectives*: PBAs, enhanced

CAS design and implementation, aid coordination, and participation.

*Outcomes.* OED assessed the extent to which IDA-supported projects, programs, and other activities were relevant to these concerns, the degree to which they have been or are expected to be achieved (efficacy), and at what cost (efficiency).

*Design.* OED's review used a multifaceted evaluation design, including:

- Desk reviews of Bank documents and working papers, project operations databases, extant studies, and OED CAEs
- Staff surveys, with more than 200 respondents
- In-country and international consultations with representatives of government, civil society, the private sector, and other assistance agencies in nine focus countries involving more than 680 participants
- Two international workshops bringing together nearly 60 experts from both borrower and donor countries
- Wide-ranging interviews with relevant Bank managers and staff
- Where the evidence allowed, results-based analyses tracing IDA inputs (policies, alignment of resources), outputs (volume and composition of lending and nonlending services), and reach (stakeholder participation, coordination with other donors) to outcomes and results.

This work was done with the support of an advisory group of six prominent international development experts, three each from developing and developed countries, including a number with experience in high-level government, private sector, civil society, and multilateral development bank positions.

**Box G.1****OED's Outcome Rating Scale**

**Highly satisfactory:** All relevant developmental objectives are (or are expected to be) achieved and/or exceeded efficiently, with no shortcomings.

**Satisfactory:** Most of the relevant development objectives are (or are expected to be) achieved efficiently with only minor shortcomings.

**Partially satisfactory:** Significant shortcomings are observed, even though most of the major relevant objectives, on balance, are (or are expected to be) met.

**Partially unsatisfactory:** Many of the major relevant objectives are not (or are not expected to be) met; major shortcomings are observed.

**Unsatisfactory:** Most major, relevant objectives are not (or are not expected to be) met and/or most objectives are not relevant.

**Highly unsatisfactory:** None of the relevant objectives is (or is expected to be) met or is not relevant.

Because few activities initiated under IDA10, 11, and 12 are complete, the evaluation had to consider a number of proxies for assessing IDA's performance: the quality of the analysis underlying the program, its coherence at the country and sector (or thematic) levels, the responsiveness of lending and nonlending services to the country context, the selectivity of resource allocations and choice of instruments, and, where possible, IDA's impact on country policies, institutions, and actions. Box G.2 highlights the methodological challenges.

### How Well Did IDA Meet Agreed Undertakings?

Overall, IDA's compliance with the replenishment undertakings has been satisfactory, with important qualifications. During the IDA10–12 period,

IDA made significant advances in sharpening the poverty focus of investment and adjustment lending and analytical work, established a strong presence in the social sectors, brought governance issues to the fore, and enhanced processes related to Country Assistance Strategies, PBAs, participation, and aid coordination. Compliance was uneven across and within areas of program and process emphasis. With regard to undertakings on social sector development and CAS enhancement, IDA did very well. Though recently accelerating, IDA's implementation of undertakings related to gender, environment, and PSD was modest in depth and pace in relation to the replenishment agreements.

The compliance rating is based on the findings of IDA review background studies, which identified the extent and pace of implementa-

**Box G.2****What Were the Main Challenges of the IDA Evaluation?**

Conducting evaluations is almost always complicated, but this evaluation was especially demanding and complex.

First, neither the Replenishment Reports nor management instructions provided specific benchmarks against which compliance or outcomes could be measured. OED, therefore, looked at the extent to which IDA took actions to change its processes and programs and to institutionalize those changes.

Second, the temporal scope of the evaluation was limited. At the request of the IDA Deputies, the evaluation focused on performance under IDA replenishments 10 and 11 and the first year of IDA12. Many of the programs supported during this period are still under way, and their development outcomes are not fully known.

Finally, since many factors affect country program outcomes in a country context, attributing success or failure to IDA's

actions posed a particular difficulty. To deal with this, OED took account of external factors that might have affected IDA's development performance, such as fluctuations in the world economy, borrowers' and partners' performance, war and civil disturbances, and natural disasters.

In addressing this last issue, OED conducted in-country consultations in nine focus countries, chosen according to the following criteria: size of IDA program, inclusion of blend and IDA-only countries, regional diversity, country performance ratings (that is, countries across the CPIA spectrum, excluding the very lowest, where the IDA program was small because of very low performance), availability of an OED CAE, and special circumstances (for example, post-conflict).



tion to date of more than 150 separate IDA10–12 undertakings. The rating reflects *the overall extent of substantive compliance*, rather than the effectiveness or outcomes of IDA’s actions. The number and scope of undertakings made this an ambitious challenge. The individual replenishment undertakings varied widely, ranging from broad redirections in operations to calls for specific reports. Findings on the degree of IDA’s compliance made use of a system of ratings on individual undertakings, which was reviewed with management. This system also served as input into the substantive discussion of implementation summarized in the background paper entitled *IDA10–12 Replenishment Undertakings Implementation Matrix* (IDA Review 2001f).

### What Were the Development Outcomes?

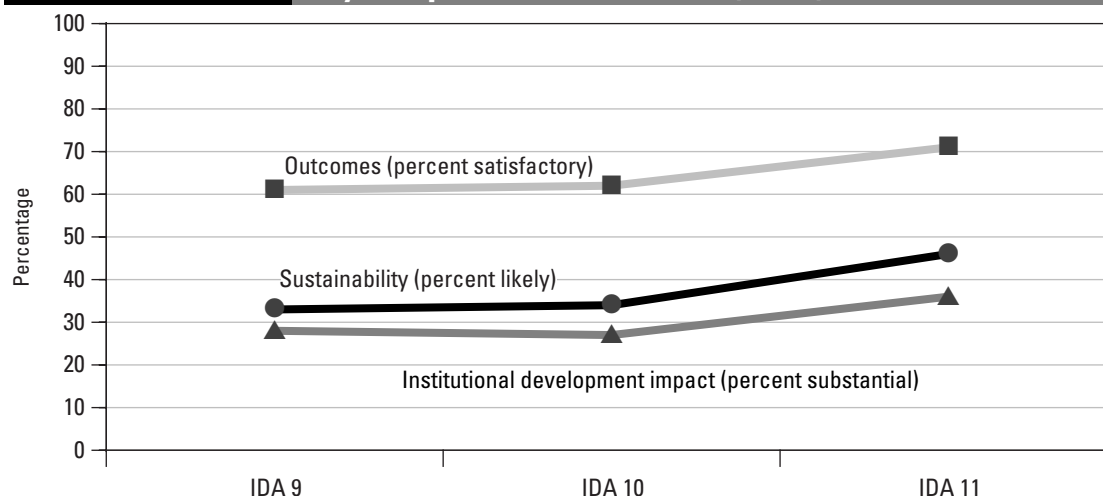
OED finds the development outcomes of IDA programs—influenced by exogenous factors and borrower and partner performance, as well as IDA performance—to be partially satisfactory, with notable improvements over the period. Much progress can be seen in project-level outcomes as well as in quality indicators compiled by QAG. For example, as the figure shows, projects completed in the IDA11 period (mostly initiated in earlier periods) are significantly more likely than

those completed in IDA9 or 10 to be rated by OED as having satisfactory outcomes, likely sustainability, and substantial institutional development impact. (Too few cases are available from the IDA12 exiting year for analysis.) This is a welcome development, and the hypothesis of increasingly satisfactory outcomes is well supported by other evidence displayed throughout the IDA review. In particular, QAG active portfolio data show substantial improvement in project quality.

Project-level performance is an important indicator, but does not tell the full story of IDA’s contribution to development outcomes. In recent years, IDA has shifted its focus to the “higher plane” of country programs. The results from OED’s CAEs for 23 IDA and IDA blend countries (adjusted to match the rating scale in box G.1) found that 13 of these country programs were rated partially satisfactory, compared to 8 that were rated fully satisfactory.<sup>3</sup> (Two others were rated unsatisfactory.) While CAEs cover a longer period than the IDA review (about 40 percent cover periods through 1999 or later and another 30 percent through 1998), most make use of up-to-date QAG data, assess efficiency using country budget coefficients, and draw lessons for improving program performance. These results support the finding that the development outcomes of IDA programs, which also reflect

**Figure G.1**

### Trends in Performance of IDA Projects Closing in the Years Covered by Replenishments 9, 10, and 11



factors outside of IDA's control, have been partially satisfactory.

An important indicator of performance across countries is the allocation of aid. Recent work by DEC (box G.3) suggests that the allocation of IDA resources across countries is highly aligned with ratings on poverty reduction and policy performance.

Given the terms of reference of the review, of particular importance to this assessment is performance against the objectives embedded in the replenishment undertakings. The results of that analysis are shown in table G.1 in terms of their relevance, efficacy, and efficiency.

To assess *relevance*, OED evaluated the corporate strategies in each of the priority areas and their translation in country assistance programs. Overall, the relevance of IDA's efforts in most areas targeted by IDA undertakings has been satisfactory or highly satisfactory.

The bottom line on development, however, is what happens on the ground and this calls for an assessment of the *efficacy* of IDA's activities. To this end, OED asked the extent to which, given the corporate strategy, implementation is likely to achieve program objectives. As table G.1 shows, in 6 of the 10 priority areas likely progress against objectives is only partially satisfactory, while aggregate efficiency has fallen short of the targets set forth in the Strategic Compact, although not specifically measured against IDA programs.

On the most important dimension—poverty reduction—evaluations of IDA's performance at

the country level point to a generally positive record in assisting countries to lay the foundations for economic growth and poverty reduction. Yet the record of IDA countries in sustaining growth high enough and long enough to benefit the majority of the poor has been disappointing in most IDA countries due in large part to many factors beyond IDA's control. The review found that IDA's efforts to foster private sector development, enhance opportunities for women, promote environmentally sustainable development, use its resources more selectively at the country level, and promote aid coordination fell short of admittedly demanding objectives.

As noted earlier, since many IDA-supported projects and programs from the period under review are still ongoing and their results not fully known, OED considered a number of proxies for performance that informed its assessment. This analysis found many areas of progress, but some significant shortcomings as well:

- *Quality of analysis underlying the program.* IDA's analytical work is one its strengths, highly regarded by borrowers and other development partners. The increase in the quantity of data and analysis, especially on poverty, is a major achievement. But the quality of the data and in-country capacity building on data collection and analysis (for example, on poverty and gender) remain important challenges (as borne out in the PRSP progress reports), often because country ownership is lacking.

### Box G.3

## Evaluating Aid Effectiveness Across Countries

**A major methodological difficulty is distinguishing the contribution of IDA from all other activities. OED's approach is to assess CASs down to the project level and see whether the results of lending and nonlending operations were satisfactory. This approach has limitations because of fungibility.**

**An additional approach, which has different limitations, is the aid effectiveness analysis that has been done in the Bank's research department ("Aid Allocation and Poverty Reduction," forthcoming in *European Economic Review*). It estimates the contribution of aid to poverty reduction econometrically across countries. This approach evaluates major aid programs—bilaterals and**

**IDA—for its allocation across countries, but cannot distinguish different effects of "rival" aid programs within a country. This is complementary to OED's approach, which is much better in-country than cross-country. Specifically, DEC finds that IDA's allocation is superior to any of the bilateral programs and, indeed, that its allocation rule is good in absolute terms. IDA deviates from the poverty-policy rule (direct aid to low-income countries with reasonable policies) on an ad hoc basis, but not systematically. Its deviations usually reflect additional knowledge.**

*Source:* Development Research Group.

Table G.1

## Compliance and Outcomes Related to IDA Undertakings

Development objective	Compliance	Outcomes	
		Relevance	Efficacy/efficiency
Poverty reduction	Satisfactory	Highly satisfactory	Partially satisfactory
Social sector development	Highly satisfactory	Highly satisfactory	Satisfactory
Private sector development	Partially satisfactory	Partially satisfactory	Partially satisfactory
Governance	Satisfactory	Satisfactory	Satisfactory
Environmentally sustainable development	Partially satisfactory	Partially satisfactory	Partially satisfactory
Gender	Partially satisfactory	Satisfactory	Partially satisfactory
<b>Process reform objective</b>			
CAS enhancement	Highly satisfactory	Highly satisfactory	Satisfactory
Performance-based allocations	Satisfactory	Highly satisfactory	Partially satisfactory
Aid coordination	Satisfactory	Satisfactory	Partially satisfactory
Participation	Satisfactory	Satisfactory	Satisfactory

- *Coherence at country and sector (or thematic) levels.* Although IDA has strengthened its poverty orientation, more needs to be done to integrate that orientation into macro-economic and sectoral priorities and policies. While CASs have shown substantial improvement in their coverage of poverty during the past seven years, with most occurring since 1997, they have made less improvement in setting priorities and identifying country-specific, poverty-focused assistance strategies.
- *Responsiveness of lending and nonlending services to country context.* While the innovations in lending instruments are an important feature of the period, there also has been a decline in support for ESW, and continuing weakness in M&E, which denies IDA and its partners adequate knowledge on cost-effective interventions in support of core objectives.
- *Strategic selectivity.* OED found—and management agrees—that strategic selectivity remains a challenge for IDA and its partners.
- *Impact on country policies, institutions, and action.* Portfolio performance shows improvements on outcomes, and QAG ratings—which are useful leading indicators—are improving. But institutional development impact, though improving, still remains too low. In addition, the

*Annual Review of Development Effectiveness* for 1999 and 2000 (OED 1999a, 2000a) and many OED evaluations stress weaknesses in institutional analysis and capacity development.

## Conclusions

Overall, then, OED finds that IDA has complied satisfactorily with the replenishment undertakings, which were ambitious. Development outcomes were partially satisfactory, in part because of factors outside IDA's control. These ratings reflect accelerating improvements in IDA and country performance, but still limited progress in achieving the overarching goal of poverty reduction.

Recent shortcomings remain, but implementation trends augur positively for the future. To realize this potential, however, the next IDA replenishment discussion should develop a long-term vision focused on results, engage developing countries in setting replenishment conditions, and define those commitments in terms of monitorable and achievable objectives with realistic costing. More immediately, to deepen and broaden the gains from the existing policy framework IDA needs to:

- Focus on implementation in areas of emphasis
- Align resources to strategic priorities
- Consolidate the IDA mandates.

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## ANNEX H: CHAIRMAN'S SUMMING-UP—MEETING OF THE EXECUTIVE DIRECTORS (MAY 29, 2001)

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The Board of Executive Directors welcomed OED's review of IDA. They found it both timely and important, as well as a signal of the significance that both the Executive Board and Management attach to independent evaluation. Directors generally agreed with the findings and recommendations. They viewed it as a useful input into the IDA13 replenishment. Directors congratulated OED on a comprehensive and well-written review and noted, in the context of the first such evaluation, the challenges OED faced in undertaking this exercise. They congratulated IDA Management on its performance, as documented by OED. They also appreciated the guidance provided by the Board's Committee on Development Effectiveness (CODE) as embodied in the statement of its chairman.

Directors welcomed the finding that IDA performance was satisfactory, with qualifications, with regard to compliance with IDA undertakings. They observed that this performance was especially noteworthy because of the breadth and complexity of these undertakings. They also agreed with OED that IDA performance has improved over the period, recognizing that IDA today is very different from IDA in 1994.

With respect to overall development outcomes, most Directors accepted OED's rating of partially satisfactory, while stressing that the glass was more than half full with respect to IDA's contribution. Directors stressed that IDA's bottom line is poverty reduction, and that poverty is still rampant in IDA countries. They discussed the many factors that affect development outcomes in IDA countries, including, of course, the actions of the countries themselves; the role of development partners, including IDA; and exogenous factors such as trade and price movements. In this context, they discussed the difficulty of isolating

IDA's specific contribution to outcomes, noting the divergence of views between Management and OED on the outcome rating. Directors agreed that the focus on outcomes reinforced the importance of the development community's redoubling its efforts under IDA13 to promote poverty reduction, to develop better indicators of development effectiveness, to enhance its evaluation methods, and to build evaluation capacity in IDA countries.

Directors welcomed IDA's work on performance-based lending allocations. They noted that, as with any system of this kind, additional improvements were possible, and they welcomed OED's recommendations for further strengthening. They suggested that IDA continue to work to refine the system and the underlying methodology, especially with respect to the treatment of governance, transparency, and links to the CAS and PRSP processes. They discussed the issue of weak performers and the need to assist these countries in building capacity.

Looking ahead, Directors welcomed the broad agreement between Management and OED on priorities, especially the focus on implementation, consolidation, alignment of resources to strategic priorities, and the related costing of IDA mandates. They stressed the importance of building on the CDF/PRSP process in IDA countries, notably with regard to ownership, participation, partnership, and harmonization of operational policies and procedures. Many Directors called for a strengthening of the ESW program to underpin the CAS and as a basis for lending, including programmatic lending, and as a tool for capacity building, notably in the areas of public financial accountability and fiduciary management. Directors agreed with OED and Management that more needed to be done to

incorporate gender, environment, and PSD into IDA programs and welcomed the steps that Management was taking to do so. With regard to private sector development, they specifically noted the need for the IFC to work in a more integrated fashion with IDA, and asked that specific modalities and instruments be explored.

Directors agreed that the OED review and background documents should be made available publicly, together with the Management Response and OED's supplementary note on rating methods. Directors also agreed that this summing up of today's discussion be included in the OED review.

## ANNEX I: MANAGEMENT RESPONSE

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### I. Introduction

Created in 1960 to provide financing to address the development needs of the poorest countries, IDA has long been a vehicle for articulating the development agenda, gaining global consensus around it, and supporting its implementation. IDA9 (1990–93) set out much of today's development agenda—with its focus on poverty reduction, gender, participation, private sector development, and environmental protection. Subsequent IDA agreements have extended and deepened the framework. The IDA10 period, 1993–96, emphasized country performance, support for the social sectors, and assistance to Sub-Saharan Africa. The IDA11 period, 1996–99, focused on promoting the sustainability of reforms by strengthening institutions, improving governance and addressing corruption, and building ownership at national and local levels. IDA12, which began in 2000, built on these emphases, giving increased attention to addressing the effects of conflict; helping countries build and implement comprehensive, long-term, and monitorable poverty reduction strategies; empowering the poor; and strengthening IDA's PBA system.

**IDA Performance.** Throughout the period of the review by the OED, Management has focused on operationalizing the IDA framework through continuous learning, which in turn has translated into steady improvement in the quality of IDA activities, especially its country focus and poverty reduction strategy. But, of course, there is still much room for improvement in a number of areas, as indicated in the OED review and in self-evaluations, including the recent Strategic Compact Assessment, which is now being reflected in Management follow-up actions. Indeed, the IDA evolution reflects a strong commitment to

independent evaluation and self-evaluation, designed to understand and improve IDA's development effectiveness. The Bank has used a variety of self-evaluation vehicles, most notably project and ESW reviews by the Bank's QAG, as well as retrospectives of Country Assistance Strategies (CASs), ESW, and lending volumes and instruments. Systematic self-evaluation has increasingly underpinned and complemented the evaluations carried out by OED. Management has used self-evaluation and internalized the results of independent evaluation to learn, to change, and to improve its assistance to low-income countries.

**Management Perspective.** In this spirit of learning and evaluation, Management very much welcomes the OED IDA review. Management appreciates the comprehensive nature of the review—and the work of OED management and staff—and agrees with the broad thrust of most of the recommendations. Management is particularly pleased that the OED review confirms and validates many of the conclusions IDA itself has drawn and the actions it has taken—actions that have already made a difference, notably in terms of poverty focus, greater selectivity both within and across countries, and substantial improvements in the quality of lending and ESW. At the same time, Management acknowledges that there have been shortcomings in certain aspects of the Bank's performance over the period of the OED review, particularly in the early part of the IDA10–12 period, and that important challenges remain. However, Management is concerned with the “partially satisfactory” rating OED gives IDA for development outcomes, as it does not adequately capture IDA's dynamic progression over the period. IDA

in 2001 is clearly very different from IDA in 1993. We believe that more explicit attention to this critical time dimension would provide a more resonant assessment of IDA's achievements to date, and remaining challenges.

**Organization of This Note.** This note discusses IDA from three perspectives: poverty and country focus; key thematic and sectoral priorities; and selectivity and replenishment issues.

## II. IDA's Poverty and Country Focus

IDA's performance in both doing the right things and doing them right has improved over the review period, as indeed is acknowledged by the OED review. Strategically, the emergence of the low-income-country business model grounded in the PRSP and the CAS is a seminal achievement of recent years, providing a strong basis for country ownership, partnership, and selectivity in the pursuit of poverty reduction. This approach has built on the lessons from research on poverty and development assistance, from the 1990 World Development Report on poverty to the 1998 policy research report *Assessing Aid*, and the *World Development Report (WDR) 2000/2001: Attacking Poverty*.<sup>1</sup> IDA's performance also has changed dramatically, improving across a broad front over the period—in CASSs, whose quality and poverty focus have improved sharply; in lending; in policy implementation; and in ESW. Country selectivity has improved too, reflecting significant enhancements to IDA's PBA system. While, as noted by OED, further progress in strengthening the links between CASSs and poverty outcomes is still needed, the work of recent years has enhanced IDA's development effectiveness.

### A. IDA FY94

It is worth recalling the IDA of 1994 ("50 years is enough"). The CAS, a relatively new instrument, was evolving from the purely internal document that it had been initially. IDA CASSs were not disclosed and were not participatory—we were only beginning to share them with clients. The first in-depth review of CASSs was four years away. Client surveys were not yet in IDA's toolkit. OED evaluations showed that project quality was low, and there were few signs of improve-

ment. QAG did not exist. Nor did the Heavily Indebted Poor Countries (HIPC) initiative. Concern about compliance with operational policies had just led to the creation of the Inspection Panel. The Bank often over-promised—including on IDA commitments—and thus, even with the best of efforts, frequently under-delivered relative to its ambitious undertakings. Even so, Bank research shows that the poverty reduction impact of IDA was far higher than the impact of official development assistance on average and that IDA's impact improved in the 1990s.

### B. IDA Today

Today IDA has become significantly more poverty-focused and effective. This is not to say we are—or should be—satisfied. Much work remains to be done, especially in getting actual results measured in terms of reduced poverty and progress toward the other international development goals. Drawing on lessons from evaluation (including early work by OED on this review) and research, Management has developed a strategy for making IDA more effective in the future. In September 2000 in Prague, the Development Committee reviewed the paper "Supporting Country Development: World Bank Role in Low- and Middle-Income Countries."<sup>2</sup> With the overarching goal of poverty reduction as the starting point, the paper set out IDA's country programming cycle, elaborating on the relationship between the PRSP and the CAS, reinforcing the emphasis on country ownership, and highlighting and clarifying the role and selectivity of IDA. The report recognized the importance of support for country capacity development, strong diagnostic and analytic work, and M&E. Subsequently, these same issues figured prominently in the Bank's Strategic Framework Paper, discussed by the Bank's Executive Board in January. This way of doing business in IDA countries, endorsed again at the Spring Meeting of the Development Committee, consists of four components: vision, diagnosis, programming, and results.

#### 1. Country Vision

The most important lesson the development community has learned during the 40 years



since IDA was created is that development cannot be done *to* a country; if it is to be successful, it must be done *by* the country. The foundation of IDA's work thus has to be a country-led and country-owned policy framework covering the range of structural, social, environmental, institutional, and macroeconomic policies that make for successful development; country commitment is essential. In IDA-eligible countries, the associated program to implement the policy framework is articulated in a PRSP.

**Poverty Reduction Strategy Papers.** Building on the lesson of the central importance of country ownership, early in IDA12 the Bank and IMF introduced the PRSP<sup>3</sup> approach to the provision of concessional assistance and debt relief under the Enhanced HIPC Initiative. The PRSP approach is an important step in operationalizing the principles of the CDF,<sup>4</sup> building on the emerging findings of the WDR, and sharpening IDA's poverty focus. The PRSP approach has been extended to other (non-HIPC) IDA countries, gaining wide acceptance by these countries and by other donors as a basis for improving country strategy formulation and aid coordination. Although it is too soon to expect development impacts, implementation of the PRSP approach has accelerated rapidly. By the end of March 2001, 32 countries had presented Interim PRSPs (most in connection with a HIPC Decision Point), and four countries had presented their first full PRSPs.

## 2. Diagnosis

IDA's assessment of a country's policies, institutions, and private sector strength provides the basis for determining both how best, and by how much, IDA should support the country's efforts. Indeed, while the country must "own" its vision and program, IDA must "own" and be accountable to shareholders for its diagnosis and the programs it supports. In most cases, the country's vision, priorities, and analysis and the Bank's diagnosis are mutually interactive, supporting and complementing each other. ESW, prepared and shared with clients and partners, provides key inputs and an analytic basis that the country can use in developing its vision and its own diag-

nosis. In addition, ESW underpins CAS preparation, the overall dialogue with client countries, and the lending program.

**Rebuilding ESW.** The OED review stresses the critical importance of IDA's ESW and the need to ensure adequate resources for it. Management agrees. While the quality of ESW has been rising, budget pressures have contributed to a depletion of the stock of this important basis for the policy dialogue. In the period FY96–01, only about 60 percent of active IDA borrowers (excluding the smallest countries) were covered by PERs and 20 percent by ESW on procurement and financial management systems. Recent Bank-Fund analysis reinforces the need for such ESW, especially in HIPC countries, where major gaps have been identified in systems for tracking budgetary expenditure and for measuring outcomes. But stronger fiduciary ESW also is needed more broadly, including to underpin both the IMF-Bank Joint Staff Assessments (JSAs) of PRSPs and lending. Going forward, Management is preparing an ESW implementation note, focusing on filling the gaps in ESW coverage in core areas (including poverty analysis) and continuing the improvement in quality, especially in poorly performing countries, where lending has tended to be less effective; rebuilding the pipeline of CAS-based ESW to underpin future lending and the policy dialogue; and improving participation in and dissemination of ESW in client countries.

## 3. Country Programming

The Bank's diagnostic work, in turn, provides the basis for its country business strategy, in which—as a committed long-term partner—it aims to help the country carry out its vision for growth and poverty reduction. Within this strategy, set out in the CAS, IDA's program of lending and nonlending assistance reflects country priorities, needs, performance, and institutional capacity. The specifics of the program take into account IDA's track record, its comparative advantage, the actual and potential contributions of other partners, and, where relevant, Bank efforts in the provision of global public goods.



**Country Assistance Strategy.** In 1990, when the CAS was first adopted, it was exclusively a document for Board discussion of IDA country programs, with country authorities having access to the CAS only when their Executive Director shared it with them. Since then, the CAS and the CAS process have evolved. All CASs are now prepared in consultation with the government, which has resulted in a more comprehensive country diagnosis, closer alignment between the IDA program and government priorities, and a better assessment of implementation capabilities. There also has been improved treatment of participation, governance, poverty reduction, human development, selectivity, and partnership. In line with IDA agreements, all IDA CASs are now disclosed. Going forward, the CAS country vision will come increasingly from the PRSP, with the CAS itself becoming more of a business plan setting out IDA's comparative advantage vis-à-vis its partners.

**HIPC Initiative.** For many IDA countries, HIPC has become an important element of the country program; however, the OED review mentions it only briefly. Launched by the World Bank and the IMF in the fall of 1996, the HIPC initiative was the first comprehensive approach to reducing the external debt of the world's poorest countries.<sup>5</sup> A major review of the program in 1999 resulted in a significant enhancement of the original framework to provide broader and faster debt relief. As of February 2001, 22 IDA countries had begun benefiting from HIPC assistance that will provide some US\$34 billion in debt relief over time. To date, the Bank has delivered some US\$1.5 billion in debt relief, including US\$225 million in IDA grants, underpinning the policy dialogue in a major way in a number of countries.

**Lending Instruments and Mix.** As part of the discussion of the Bank's country programming cycle, *Supporting Country Development* [Development Committee 2000] suggested adapting IDA lending instruments to better support country-led poverty reduction strategies, with the particular instrument mix reflecting country conditions. Under this approach, investment lending (including through SWAs) is expected to

remain a substantial share of IDA financial support in most country programs. But over time, for countries with strong programs, the poverty reduction support credit (PRSC) is also expected to become an important vehicle of IDA financial support and the policy dialogue. In most cases, the resources and conditionalities associated with the PRSC will complement those of the Fund's Poverty Reduction and Growth Facility (PRGF), with IDA supporting the policy dialogue on the social and structural agenda and the Fund supporting the policy dialogue on macroeconomic issues.

**Fiduciary Policies.** IDA is required to ensure that its funds are used for the purposes intended, and its financial management and procurement policies are designed to this end.<sup>6</sup> But with the increasing recognition of the fungibility of aid (see Dollar and Pritchett 1992) and of the importance of good governance, IDA also has sharpened its attention to countries' public expenditure, procurement, and financial management systems as a development issue, focusing on the overall use of public resources and supporting policy and institutional development as needed. Mindful of the fact that it will take considerable time and effort to show results in this critical area, IDA encourages borrowers to develop efficient and transparent systems for the allocation, execution, reporting, and auditing of budgetary resources, working with them and other development partners through institutional development grants, credits, and fiduciary ESW.

**Safeguard Policies.** OED recommends accelerated work on the effort to recast Bank and IDA social and environmental safeguard policies, with specific attention to building country capacity. Management agrees that this is a priority, and preparatory work is under way. But at the same time, Management also accords priority to implementation issues, to which we have progressively devoted increased resources and attention. Over the past year, for example, Management has adopted several measures to enhance the implementation of safeguard policies, including by strengthening systems for management of safeguard policies at the central and Regional levels.

Actions entailed clearly assigning accountabilities for safeguard implementation, ensuring that safeguard clearance has independent funding, providing clear and timely guidance to task teams, and strengthening training activities. The centrally based safeguard quality assurance unit is now providing special advisory support and training for headquarters and field staff to improve their knowledge of safeguard policies. Similar activities are being taken with government counterparts, with expansion proposed for the next fiscal year—with the understanding, however, that building safeguard expertise along with broader regulatory infrastructure in client countries will take time.

#### **4. Results**

At the end of the day, it is results on the ground that matter. This means that governments must set clear targets, monitor and evaluate performance against those targets, and use the results to shape current and future programs. This CDF principle is embedded in the PRSP, which includes country performance benchmarks and outcomes as central elements. But judging Bank performance is also essential; thus, work to strengthen the M&E of the Bank's contribution to poverty reduction and other country development objectives is very much a part of efforts to improve the CAS process.

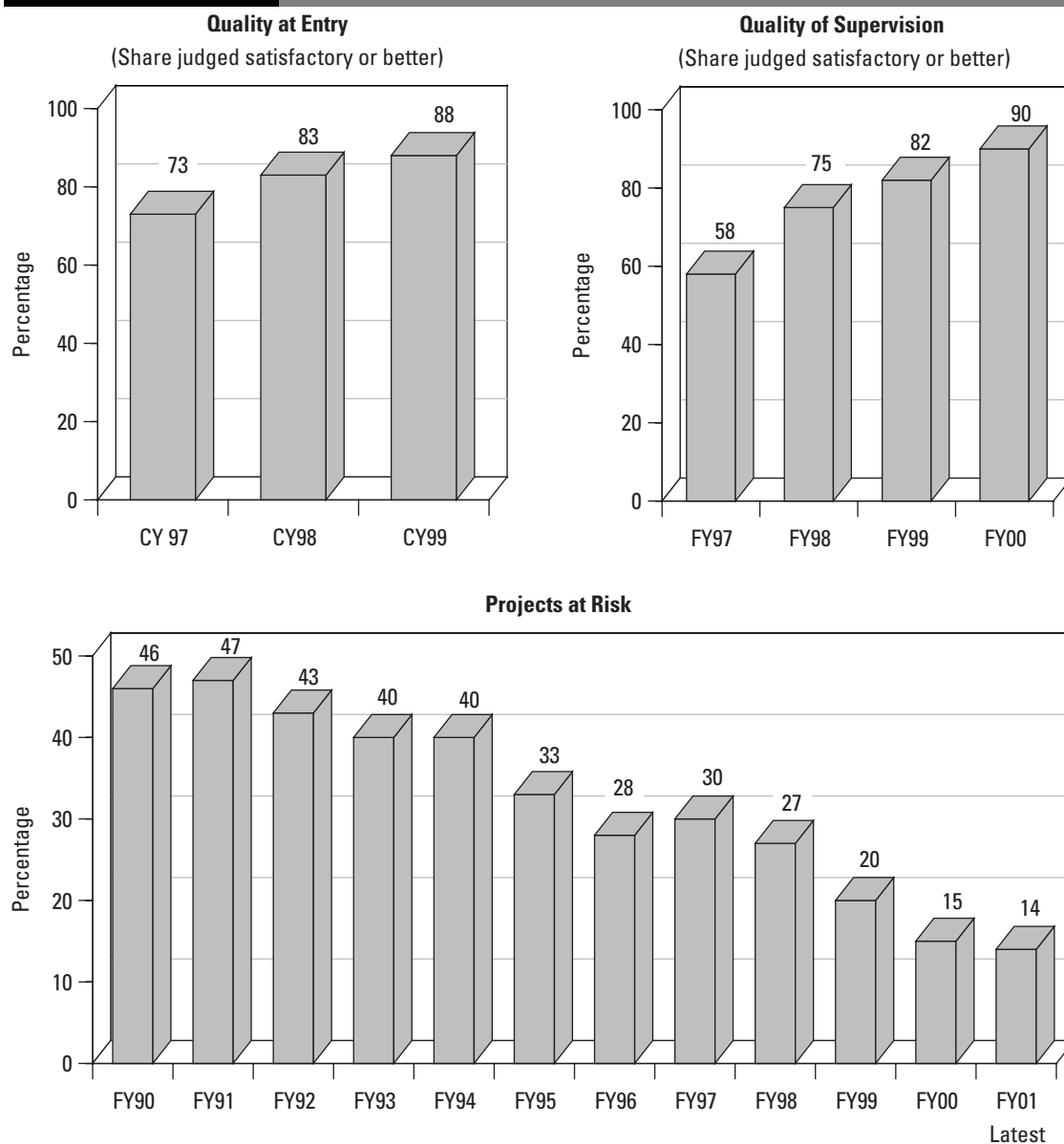
**Monitoring Progress.** OED draws attention to the need to continue improving the quality of IDA M&E and strengthening borrower capacity in this area. This is clearly a very important issue. A three-year program to promote effective use of results-based M&E practices was endorsed by the Board's Committee on Development Effectiveness (CODE) in September 2000 and was subsequently launched. The program has two strategic thrusts. Capacity is being built both in country and in the Bank to strengthen the understanding and use of performance-based M&E through an integrated program that puts country- and sector-level M&E as a central focus, supported by relevant project-level M&E. The first year of implementation has focused on five country pilots (three of them IDA countries) and internal capacity building. In the

pilots, the foundations for sustainable, results-based M&E are being tested for possible replication in other countries. This includes demonstrating how M&E can be used to support the CDF/PRSP process and CASSs. The second year of the program will see the addition of three more pilot countries. Meanwhile, capacity-building activities within the Bank have included workshops, development and dissemination of tools, good practice examples, and advisory services to task teams.

**Portfolio Quality.** IDA also has paid considerable attention to improving the quality of its portfolio, looking to improve results measured in terms of development outcomes. OED and QAG indicators show how these efforts have made a difference. The OED results show strongly improving trends (see figure 1.1 in the OED Review); however, they cover projects that are exiting the portfolio, with a majority approved by the Board prior to FY95. QAG's assessments, which cover the active portfolio (by definition, projects of a younger vintage), show an even stronger uptick (see figure I.1). As QAG ratings have been found to be a good predictor of development outcomes as later measured by OED, this suggests that OED ratings may rise as the portfolio matures and these projects also exit. In the meantime, Management attention to the implementation of IDA's fiduciary and safeguard policies also has produced significant results. QAG indicators of the quality of the supervision of fiduciary/safeguard aspects of IDA lending have increased substantially, from 82 percent satisfactory or better in FY97 to 92 percent in FY00.

### **III. Thematic and Sectoral Issues**

OED raised several thematic and sectoral issues in its review. Management is using strategy development, implementation, and monitoring as one of the tools to address these issues. Since the launch of the Networks to link staff across Regional units working in the same sector or in the same thematic area, the Bank has used Sector and Thematic Strategy Papers (SSPs) as a tool to clarify the Bank's role in these areas. In principle, the SSP is to a sector or theme what the CAS is for a country—it reviews the lessons of

**Figure I.1 QAG Data on IDA Project Quality**

experience (notably drawing on self-evaluation and OED evaluation), identifies issues, defines strategic directions, and recommends actions. In practice, the first SSP was issued in 1997, and a total of nine have been prepared to date.<sup>7</sup> Management has now initiated an evaluation of the strategic relevance, analytic quality, business implications, and process efficiency of SSPs; this

stocktaking is expected to be discussed at CODE in early FY02. The early results of this SSP self-evaluation are already helping to shape the design of new ones. SSPs have been prepared or are under preparation for all of the major sectoral and thematic areas raised by OED. They help to respond to the issues that OED posed, starting with institutions and governance.

### A. Governance and Capacity Building

Management believes that weak governance and ineffective institutions undermine development effectiveness across the board, hence the importance it attaches to public sector reform and capacity building. This also was highlighted in *Supporting Country Development* [Development Committee 2000], which called on the Bank and the countries' other partners to work to strengthen local capacity and institutions. OED calls for a broader country-wide or sector-wide approach, rather than a project-by-project approach, to address such problems. Management supports this OED finding, which is also in line with the conclusions of the Bank's recent SSP, *Reforming Public Institutions and Strengthening Governance*. The latter emphasizes the importance of institutional reform and provides a plan of action for working with client countries to strengthen public institutions.<sup>8</sup> Indeed, the Poverty Reduction and Economic Management Network (PREM) and sector families in other Networks are increasingly working together to mainstream institutional concerns in Bank work and integrate them in country settings as appropriate. Overall, IDA's work on governance translates OED's general recommendation into specific actions tailored to country needs.

**Capacity-Building Work.** IDA has been increasingly active in capacity building in support of good governance. During the last three years, 31 IDA countries have received or have begun to prepare loans with significant public expenditure or financial management components. As noted earlier, the coverage of PERs, Country Financial Accountability Assessments (CFAAs), and Country Procurement Assessment Reports (CPARs) in IDA countries, while less than desirable, is significant. The Bank's Legal Department and PREM have taken the lead in supporting legal and judicial reform operations under preparation or execution in more than a dozen IDA countries. The Legal Department is building up its legal and judicial reform unit and, in wide collaboration with other units, is developing a law and justice network. Both PREM and the Legal Department have worked closely with the World Bank Institute on anticorruption assistance to IDA

countries, and IDA has implemented in-country workshops or surveys on anticorruption approaches in some 23 client countries. Although Management agrees that more needs to be done, it cautions that the complexity of institutional change requires an adaptable, sustained, and medium-term approach. In that context, the introduction of PRSCs gives the Bank another useful tool to support broad reforms for better governance and stronger institutions. Other lending and nonlending efforts, based on country needs, will build domestic capacity to support the detailed implementation of the country's medium-term program of policy and institutional reforms, in areas ranging from civil employment practices to judicial reform to local government strengthening. Fiduciary assessments, and the underlying work on public expenditure management, financial accountability, and procurement, will help to identify where support for capacity building is most crucial.

### B. Gender Mainstreaming

OED confirms IDA's substantial support for gender actions in health and education, especially in maternal health and girls' education. However, OED concludes that during the review period, IDA did not make sufficient progress in incorporating gender into its other activities, particularly those supportive of women's economic advancement. Management agrees and has made gender mainstreaming one of its corporate priorities. The Bank and IDA have moved to develop the analytic basis for gender mainstreaming and put together a practical strategy, recently endorsed by CODE.

**Gender Strategy.** In early 2001 the World Bank completed a policy research report that explored the links among gender issues, public policy, and development (see World Bank 2001a). This report has served as an important building block in the preparation of the updated strategy for the Bank and IDA. The draft gender strategy, *Integrating Gender into the World Bank's Work: A Strategy for Action*, is designed to clarify the accountabilities and responsibilities for gender mainstreaming and to direct resources to main-

streaming efforts in the Regions. The draft SSP also calls for establishing an effective system for tracking and assessing gender mainstreaming, including developing new indicators to monitor implementation. It proposes a proactive effort over the next three to five years to ensure that analysis of the impact of gender in poverty reduction is available for countries with an active Bank program; and that policy consultations (for instance, on PRSPs and CASSs) benefit from the input of women's groups in client countries and systematically incorporate the gender variable. Demonstrating the purposeful nature of the strategy, it is fully costed.

### C. Environmental Mainstreaming

OED calls for a corporate program to better mainstream environment into IDA country programs, clarify accountability, and track progress. IDA has made real progress in environmental mainstreaming, but more is needed. The Bank's draft SSP, *Making Sustainable Commitments: An Environment Strategy for the World Bank*, discussed at CODE on May 2, takes up all of the issues raised by OED and sets out tangible steps to address them operationally.

**Environment Strategy.** The draft SSP focuses on encouraging a stronger country dialogue on key environmental issues, linking environment with poverty issues more explicitly—for example, the long-term sustainability of natural resource use and the impacts of pollution and environmental degradation on poor people and on the prospects for economic growth and development. In fact, *Making Sustainable Commitments* proposes measures to improve the quality of life (addressing today the environmental issues that affect the health and productive assets of poor people), the quality of growth (ensuring sustainable use of natural resources to assure that future generations will be able to enjoy these assets), and the quality of the global commons (by proposing incentives for country programs to incorporate global concerns appropriately)—requiring, as in the case of gender, strengthened analytic work and clearer incentives and accountabilities in the Bank. The SSP recommends introducing into the CAS indi-

cators and targets based on country priorities. It notes the importance of building country capacity for environmental management. The environment strategy, like the gender strategy, costs out its recommendations, estimating the resources needed to implement the strategy over the next three years and beyond. However, it is important to note that during the review period IDA had already increasingly mainstreamed environmental activities across sectors, particularly in areas such as natural resource management and urban development. This progress is documented in IDA's Environmental Mainstreaming Report (World Bank 2001e). Altogether, the portfolio of core environmental projects and projects in other sectors with environmental components has grown considerably. There are about 250 projects under implementation, representing about \$6 billion in IDA financing.

### D. Private Sector Development

OED notes that PSD activities have increased in the 1990s, and cites its project reviews showing that, in general, these projects have had successful outcomes. OED's criticism in the IDA review is really at the country level, where it has identified problems with the integration of private sector activities and noted insufficient attention to institutional development. Management believes that IDA, like other development assistance agencies and governments, has had difficulty in finding solutions to the weakness of the private sector and market institutions in poor countries. However, the Bank and IDA have had an active agenda of work to draw lessons of experience as a basis for building an effective strategy.

**Strengthening IDA Support for Private Sector Development.** The Bank's strategic framework for the fight against poverty is based on two pillars: building the climate for investment, jobs, and sustainable growth; and investing in people and empowering them to participate in development. The private sector is one of the central features in the life of poor people across the world, and must figure prominently in economic growth and development. Empowerment

means expanding private sector activity and thus creating opportunities for poor or less powerful people—in particular by fostering a market-friendly investment climate that encourages growth of enterprises, whether small or large—in part by making credit more widely available. Management has moved to strengthen the integration of the PSD agenda into IDA programs, while doing the preparatory work in support of a renewed strategy. A key step has been better coordination of IDA and IFC/MIGA activities in IDA CASSs, including ten joint IDA/IFC/MIGA CASSs since the beginning of FY2000. The outline of the Bank Group's new PSD strategy was discussed by the CODE subcommittee on March 26, and there was a technical briefing for Executive Directors on May 23 on the basis of a note on issues and options for the strategy and two comprehensive background papers. Extensive internal and external consultations on these documents will soon begin. The final SSP will be discussed by Executive Directors in December. The strategy will focus on actions that enhance the attractiveness of the investment climate—to promote faster “catch-up” growth—and apply private sector incentives and marketplace solutions to better delivery of basic services (infrastructure, education, health) to poor people. Also, over the next few years, the work program of the Bank's research group, Development Economics, will include efforts to answer questions about what works in improving the investment climate, notably in low-income countries.

### **E. Rural Development**

OED calls for renewed attention to agriculture and the rural sector, citing the downturn in IDA lending in these areas. Because so many of the world's poor people live in rural areas, Management believes that broad-based growth must include support for rural development. However, addressing rural poverty raises real dilemmas. The right balance must be struck between lending to agriculture and investment in the broader rural sector, for example, in rural education or infrastructure, including roads and electricity. Similarly problematic is the balance between project lending and indirect support through more economy-wide market- and trade-

enhancing reforms. Both of these balances have to be struck at the country level and will be addressed in an updated rural strategy.

**Updated Strategy.** An update to the Bank's 1996–97 rural SSP, now under preparation, is benefiting from the compilation of “bottom-up” Regional analyses and from donor and client consultation.<sup>9</sup> The exercise analyzes the downturn in rural/agriculture lending but also looks at other sector operations and adjustment lending that have had important impacts on rural areas. It is worth noting, for instance, that if the areas of education, health, nutrition, and community infrastructure are included, about 33 percent of total FY99–00 lending for Africa directly supported activities in rural areas.<sup>10</sup> The strategy also reviews another difficult issue—the poor performance in many past rural operations, also documented by OED reports. The past few years have brought substantial improvements in the performance of the rural portfolio across Regions, as QAG reviews have confirmed. This is the result of a systematic closure of failing projects (beginning in 1996) and greater attention to new project design and implementation.<sup>11</sup> In particular, the introduction of community development projects has provided a new model—a more participatory approach to address rural needs. Now nearly all rural projects in Africa, for example, are designed with much more participation of beneficiaries and emphasis on decentralization than in the past. All of this points to the inadequacy of focusing on a narrow definition of the rural sector and new lending numbers as the sole metric. The challenge is to rebuild the rural portfolio in a way that learns from past experience, using recently successful models, especially community-based participatory approaches, while recognizing that these efforts will still be very difficult and resource-intensive. At the working level, this means ensuring a multi-disciplinary focus and cross-sector teamwork in expanding economic opportunities in rural areas, rural input into PAs, and continued support for participatory activities. In addition, PRSCs may be used to support rural action in countries that have developed strong rural strategies and articulated them in PRSPs. The



upcoming rural SSP will set out the options for an expansion of lending for rural development, broadly defined (including development of non-farm activities), but with better targeting of the poor. It will suggest targets and indicators for continued work in improving the quality and performance of rural operations. The new SSP will also speak to the importance of greater attention to women's needs in agriculture, expanded support for rural education and infrastructure, trade liberalization (with countries in the Organisation for Economic Co-operation and Development [OECD] and also regional trade and market integration in Africa), and adaptive research—in addition to direct support for agriculture.

#### **IV. Selectivity and Replenishment Issues**

OED calls for greater selectivity. Management agrees that this is a priority; it has provided significant attention to this issue in recent months. The Strategic Framework Paper notes that greater selectivity in what we do will result in better leverage of the Bank's and IDA's scarce resources. IDA is tackling selectivity across three dimensions: within countries through the CAS, across countries, and at the regional or global level. A framework of corporate priorities is now in place as a guide to selectivity.

##### **A. Balancing Country and Sector Priorities**

In the context of country vision and partnership with the client country and other donors, IDA intends to focus on key social and structural reforms, with an emphasis on capacity building. OED recommends strengthening the role of sector strategies and integrating them better into the CAS process. Management agrees. As noted earlier, Management is now taking stock of experience with SSPs since 1997, aiming to strengthen their design and implementation. The goal is to increase their impact on country programs. However, this should not happen at the expense of country ownership and country focus. We recognize the natural tension between bottom-up country-driven priorities and sector goals, and we are working to enhance the effectiveness of sector strategies to meet corporate priorities and to sharpen selectivity, while retaining country focus.

**Linkages between SSPs and CASs.** To enhance the linkages between SSPs and CASs, SSPs will aim to provide clearer guidance on country and intrasector emphases, and look more closely at instruments—which ones are most effective and under what circumstances. There has already been progress in linking the sector and country foci. SSPs are increasingly building on work done by Regional units and country teams themselves. A good example is the draft rural SSP, cited above, which factors in the demands and constraints faced at the country level, based on bottom-up Regional rural development strategies. In the other direction, sector teams already provide inputs into CASs, drawing on SSPs, and Management is looking at how best to move this sector participation more upstream in the CAS process. The enhanced two-way exchange will increase the usefulness and implementability of SSPs and the rigor of the choices made in the CAS process.

##### **B. Selectivity among Countries— Performance-Based Allocations**

The OED review gave extraordinary attention to the PBA system. Management agrees with the report's conclusion that "IDA's PBA system has brought increased selectivity in the allocation of resources at the country level" (para. 8.3). Management has actions under way with regard to a number of OED's recommendations: (a) further strengthening the CPIA; (b) tightening the link between the PBA system and the CAS process; and (c) establishing a more complete record of the rating process to the extent possible, given task managers' budget and time constraints.

**Quality of the IDA Allocation Process.** Management has launched a review of the CPIA process, drawing on internal evaluations and staff feedback as well as OED's review. Overall, however, Management finds that much of the review's discussion of the CPIA and, by extension, the basis for IDA's country allocations, is more critical than warranted. IDA's allocation system has been a pioneering activity—one that is a demonstrated success and is widely seen in the development community and in research studies as

a model for linking aid to performance. It seems shortsighted to fault this approach simply because there are still ways to improve it, as is continually happening in any event.

**Governance Discount.** Management notes that the workings of the governance discount, introduced in 1998, need to be kept under review and fine-tuned with experience. However, Management finds OED's suggestion of "rethinking" it, which seems to go further, counterproductive. Management believes that the governance discount serves two important purposes. It sharply reduces lending to countries with very serious governance concerns, where resources might well be wasted. And the fact that it exists brings attention to the governance indicators in the CPIA and highlights governance weaknesses in countries that do not receive a discount. The PBA system, including specifically the governance dimension, was discussed with the IDA Deputies at their Paris meeting in February; our sense from that meeting is that the donors broadly agree with the concept, but would value further discussion of the mechanism.

**Link with Budget.** OED recommends a stronger link between IDA's poverty reduction mandates and country unit budget allocations, pointing to an expansion of mandates without explicit resourcing. Management notes that the Strategic Directions Paper, which provides the framework for the budget, discusses the expanded activities in IDA countries over the past three years—including PRSP activities, the Enhanced HIPC Initiative, and post-conflict assistance—and calls for increased budgetary resources for these activities, as well as work to close ESW gaps as noted above. The Strategy Directions Paper also introduces a three-year rolling budget framework to help ensure the consistency of country programs and available budget resources over the CAS period.

### C. Partnership

Aid partnerships are fundamental to the PRSP approach. IDA is already working to strengthen country-based, government-led aid coordination with explicit division of roles, based on comparative advantage, among external partners.

Ghana and Vietnam, for example, have recently put this into practice in PRSP exercises. But equally, Management believes that the donor community as a whole must address the issues of harmonization and coordination on a broad front, including through the Development Assistance Committee of the OECD (OECD/DAC) and the regional development banks.

**Partnership at the Country Level.** The PRSP is becoming the basis for better-structured aid partnerships at the country level. It provides enhanced arrangements for the Bank and the Fund to take responsibility for distinct aspects of the policy dialogue with borrowers, and set a common framework in which the two institutions jointly and separately assess and monitor progress. An important context is the IMF's desire to focus more on its core macroeconomic and related structural areas of responsibility, looking to the Bank to take the lead in the dialogue on social, structural, and sectoral issues. The complementary but distinct roles of the PRSC and the Fund's PRGF are expected to be a significant element in enhancing this partnership. The PRSP also provides a vehicle for structuring partnerships with other multilateral development banks (MDBs) and bilateral donors, thus aiding selectivity. There is increasing cooperation with MDBs on analytic and diagnostic work, for example, with the Asian Development Bank on fiduciary work.

**Coordination and Harmonization.** Several initiatives to improve coordination among multilateral institutions and with bilateral donors are under way. The Bank has been very active in all major initiatives on harmonization of policies and procedures, selectivity, and aid management, and is also engaged with MDBs and others in discussions of broader institutional coordination and reform. The Bank also participates in the work of the recently established OECD/DAC Task Force on Donor Practices, which focuses on harmonization among bilateral agencies, with the Bank acting as the representative of MDBs in this work. In addition, the Bank has proposed a prioritized agenda for harmonization work at the agency, country, and global



levels, covering procurement, financial management, and environmental assessments, which was endorsed by the Development Committee at its meeting on April 30, 2001.<sup>12</sup>

**Regional and Global Partnerships.** Selectivity has also motivated a recent Bank review of partnerships to focus on those in which IBRD's or IDA's participation reflects the institution's comparative advantage, and those in which other institutions should be looked to for leadership. A new governance structure for partnerships, discussed with Executive Directors in January, is now in place.

#### **D. Replenishment Issues**

OED highlights the value of borrower views in the replenishment process. At the request of the IDA Deputies, IDA has moved in recent years to incorporate more borrower views. In IDA13, the June 2001 IDA Deputies' meeting will be held in Ethiopia to allow for borrower consultations organized and led by the Economic Commission for Africa. Beyond this, the Deputies have invited borrowing countries to nominate six representatives to join the IDA13 replenishment meetings—a significant broadening of the IDA process. Replenishment documents are also being made publicly available for the first time. The Bank's Resource Mobilization Department has compiled a survey that seeks feedback from borrowers on IDA's policy framework and operations. The survey has been returned by over 200 respondents in ten countries, and its results will be shared with IDA Deputies in June. External Affairs and the Africa Regional Office also conduct periodic IDA-country client surveys, which are inputs to the IDA13 process.

**Outreach and Nongovernmental Organizations.** Individual donors consult quite closely with their own nongovernmental organizations (NGOs). But Management has been trying to reach out to NGOs in the South. During IDA12 negotiations, for example, the Deputies held consultations with a number of southern NGOs, and in the current replenishment that process will be continued. Work is under way in External Affairs to identify southern NGO representa-

tives to participate at the third IDA13 meeting (in early October).

**Grant Funding.** OED proposes that IDA expand its use of grant funding and forge better partnerships with other donors to support capacity-building activities. The issues of IDA's comparative advantage vis-à-vis other partners and expanded grant funding are part of a broader consideration of IDA terms in which the IDA Deputies are already engaged in the IDA13 replenishment discussions.

**Replenishment Focus on Results.** OED observes that there is a mismatch between IDA's long-term development goals (and the importance of tracking outcomes) and the periodic replenishments that are politically and financially necessary for donor governments. During replenishments, donors are focused on establishing the framework for the upcoming replenishment period under which their governments can take decisions to commit resources. They are typically less focused at this time on implementation and long-term results. To address this, in the IDA13 replenishment the IDA Deputies are looking at two key long-term issues—debt sustainability and growth prospects in IDA countries.

**Midterm Reviews.** The IDA Deputies may also want to consider using future midterm reviews—meetings held between replenishment years—to focus explicitly on IDA's results and progress toward outcomes, looking at country programs and follow-up to PRSPs, recently closed projects, and projects under implementation. Management will raise this suggestion with the IDA Deputies, building on the experience of the successful review in Lisbon last year.

**Consolidation of Mandates.** OED recommends that replenishment mandates be consolidated because they have become overloaded and overdetermined. It does not provide detailed guidance on how to consolidate, other than cautioning against specification of sector and country/Regional shares. This is an issue the IDA Deputies may want to take up.

**Costing.** OED proposes costing of IDA mandates. Management believes that the costing of mandates would provide the Deputies with an understanding of what the costs of implementation would entail and inform their views on the cost-benefit tradeoffs. This would also provide a basis for assessing whether IDA was adequately resourced and for examining tradeoffs and the implications for the budget process. This is a complex and staff-intensive exercise, but exploratory work along these lines is already under way.

## V. Conclusion

The OED review has provided an important opportunity for the development community to step back and assess IDA's effectiveness in the large, and to draw conclusions and lessons for future action. On this basis, Management concludes that the impact of the IDA replenishment agreements on IDA's policies, strategies, and development outcomes has been highly significant. The overall IDA program during the period under review has been big, complex, and challenging. Although not without implementation problems, false starts, and disappoint-

ments, it has been increasingly successful. Conceived during the debates about the Wapenhans Task Force Report in 1992 and born before the 1994 Annual Meetings in Madrid, the IDA10–12 era has witnessed a major turnaround—in strategy and partnership, in portfolio performance and development effectiveness, and in institutional credibility and leadership. Meanwhile, the face of development assistance has changed, in no small measure because of IDA. But the turnaround is very much a work in progress, and fragile; and the unfinished agenda is large. We must nurture the critical drivers that have sustained the turnaround to date, including accountability, selectivity, and transparency. These have spurred IDA's institutional renewal and must underpin the replenishment process going forward. More important, these same drivers must also be applied to our country and sectoral programs. Clearly the challenge ahead is to focus our renewed institutional energies on achieving results measured in terms of progress toward reduced poverty and the other international development goals. These are the benchmarks by which we must measure IDA's performance in the future.

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# ENDNOTES

## Overview

1. Management does not agree with OED's assessment of the development outcomes of IDA's work as "partially satisfactory." This difference in judgment appears to come from two factors. First, the OED rating is an average for the whole FY94–00 period and, as such, does not give sufficient attention to the strong improvement in IDA performance on all fronts in recent years (although these improvements are highlighted in the OED review). For example, using independent and self-evaluation as a basis for action, IDA has significantly improved the quality of CASs, lending, implementation of policies, and economic and sector work (ESW). OED puts heavy weight on a sample of 24 IDA-country CAEs. By far the majority of years covered by these CAEs fall before or in the first half of the review period. The second factor is the lack of clarity on what OED is measuring in terms of IDA's impact on development outcomes. While OED cites a long list of factors outside the scope and control of IDA programs—including the fact that IDA accounts for substantially less than 20 percent of total development assistance going to IDA countries and far less as a share of overall investment in IDA countries—OED appears not to have given these factors sufficient weight in determining its rating. Independent research by the Bank's Development Economics Department shows that the poverty reduction impact of IDA was far higher on average than that of official development assistance and that IDA's impact improved in the 1990s. That said, there is clearly room for IDA to do better. Indeed, many of the "weaknesses" identified by OED (for example, funding for ESW, monitoring and evaluation, further work on governance, and institutional development and capacity building) are precisely the issues that management itself has identified through self-evaluation and launched actions to further enhance IDA's development effectiveness.

2. Management questions the analytic underpinnings to the OED conclusions and notes that the facts in the review and in the background paper support a conclusion that IDA's allocation system has consistently functioned effectively, achieving an allocation that is significantly more performance-based than concessional assistance as a whole. While it notes there is no room for complacency, management points out that the system has improved over time and fulfills the donor mandate specified in IDA12. In particular, management believes that the governance discount has served a very useful function. Lending has been reduced sharply in countries with very weak governance. In addition, the process has served to high-

light governance weaknesses in countries that do not actually receive a governance discount. While all parts of the performance-based allocation system are reviewed systematically for possible improvements, including the governance discount, management does not believe it needs to be substantially altered. Management will continue to work to refine the system, in consultation with IDA Deputies and others, including donors that have adopted similar systems.

## Chapter 1

1. See Annex A for a description of IDA's basic features and the evolution in its program.

2. IDA depends for most of its financial resources on contributions from its wealthier member countries, usually provided on a three-year cycle referred to as a replenishment period. At each funding interval, IDA's management and donor countries (represented by their IDA Deputies) agree on a set of terms and conditions, which are set out in a Replenishment Report. Once endorsed by the World Bank's Board of Executive Directors and adopted by its Board of Governors, the recommendations become formal commitments of the institution. The current IDA12 agreement was endorsed by the Board in January 1999.

3. A matrix summarizing IDA's undertakings related to the key recommendations in the three Replenishment Reports is available on request.

4. Other replenishment recommendations pertaining to administrative, financial, and membership issues are not covered.

5. OED defines *borrower performance* as the extent to which the borrower assumed ownership and responsibility to ensure quality of preparation and implementation, and complied with covenants and agreements, toward the achievement of development objectives and sustainability; and *Bank performance* as the extent to which services provided by the Bank ensured quality at entry and supported implementation through appropriate supervision (including ensuring adequate transition arrangements for regular operation of the project). Portfolio cleanup efforts may have initially contributed to declining IDA portfolio performance in FY98–99, as problem projects exited the portfolio.

6. Established in 1997, QAG conducts yearly reviews of the quality of project preparation (quality at entry) and supervision, based on a random sample of projects and using standards it developed.

7. The percentage of IDA projects at risk of not meeting their development objectives—an indicator of subsequent OED ratings—has declined from 1990

to 1999. Two major findings emerge from annual QAG assessments of quality at entry and quality of project supervision. First, both quality at entry and quality of supervision have improved markedly for IDA projects from 1997 to 1999. Quality at entry for IDA projects improved from 73 percent satisfactory to 88 percent, and quality of supervision increased from 61 percent satisfactory to 84 percent. Moreover, while IDA projects initially rated lower for both these indicators, the quality gap between IDA and IBRD projects appears to have been eliminated, based on the 1999 cohort.

8. *Institutional development impact* (IDI) is defined as the extent to which a project improves the ability of a country or region to make more efficient, equitable, and sustainable use of its human, financial, and natural resources through: (a) better definition, stability, transparency, enforceability, and predictability of institutional arrangements or (b) better alignment of the mission and capacity of an organization with its mandate, which derives from these institutional arrangements, or both (a) and (b). IDI includes both intended and unintended effects of a project.

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

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

9. Of the 24 OED IDA Country Assistance Evaluations, most of which cover assistance over the decade of the 1990s, about 33 percent were rated fully satisfactory, 60 percent moderately satisfactory, and 8 percent unsatisfactory.

10. Management does not agree with OED's assessment of the development outcomes of IDA's work as "partially satisfactory." This difference in judgment appears to come from two factors. First, the OED rating is an average for the whole FY94–00 period and, as such, does not give sufficient attention to the strong improvement in IDA performance on all fronts

in recent years (although these improvements are highlighted in the OED review). For example, using independent and self-evaluation as a basis for action, IDA has significantly improved the quality of CASs, lending, policy implementation, and ESW. OED puts heavy weight on a sample of 24 IDA-country CAEs. By far the majority of years covered by these CAEs fall before or in the first half of the review period. The second factor is the lack of clarity on what OED is measuring in terms of IDA's impact on development outcomes. While OED cites a long list of factors outside its scope and control—including the fact that IDA accounts for substantially less than 20 percent of total development assistance going to IDA countries and far less as a share of overall investment in IDA countries—OED appears not to have given these factors sufficient weight in coming to its rating. Independent research by the Bank's Development Economics Department shows that the poverty reduction impact of IDA was far higher than that of official development assistance on average and that IDA's impact improved in the 1990s. That said, there is clearly room for IDA to do better. Indeed, many of the "weaknesses" identified by OED (for example, funding for ESW, monitoring and evaluation, further work on governance, and institutional development and capacity building) are precisely the issues that management itself has identified through self-evaluation and launched actions to further enhance IDA's development effectiveness.

11. See World Bank 1997c. In addition, the Bank published an IDA retrospective in the early 1980s: see World Bank 1982.

12. Following the IDA10 negotiations, IDA management brought the report to the attention of Regional managers, but it issued no explicit staff guidelines on how to implement the requirements. After the IDA11 negotiations, management circulated a note to staff summarizing the commitments in a selective rather than in a comprehensive way; the note included the statement that "Regions are responsible for ensuring that our Country Assistance Strategies take explicit account of these commitments." In mid-FY00, IDA management prepared a matrix to track implementation of the IDA12 agreement—a useful innovation for raising staff awareness, particularly considering that staff surveys undertaken for this review revealed that few staff were familiar with most IDA commitments.

13. By July 2000, the portfolio cutoff date for this review, less than a third of expected IDA12 commitments were made and less than 5 percent were disbursed; of IDA11 commitments, 34 percent were

disbursed; and of IDA10 commitments, 70 percent were disbursed. The number of projects that have closed and have completed reports are even fewer.

14. The major thematic studies and reports of country and international consultations are listed in the references and are available on request. The analysis of gender and participation was undertaken as part of a concurrent OED evaluation, with IDA-specific information disaggregated from the broader Bank-wide assessment. The nine focus countries are Bangladesh, Bolivia, Cambodia, Ghana, India, the Kyrgyz Republic, Mozambique, Uganda, and Vietnam. The selection of a subset of countries was designed to: (a) deepen the analysis of the program and process reviews, (b) test the findings of those assessments against perceptions in the countries, and (c) gain a sense of IDA's overall role and performance by taking into account the performance of the borrowing country and its other development partners. The global consultations took place in two workshops, in Bonn in December 1999 and in Washington in November 2000.

15. These included both self-evaluations undertaken by management and independent evaluations by OED, as well as references to literature published outside the Bank.

## Chapter 2

1. Based on the 1990 *World Development Report on Poverty*, the Bank's strategy advocated a two-pronged approach: (a) economic policy reform and productive investment aimed at increasing the incomes of the poor through labor-intensive growth; and (b) expansion of their access to basic social services and social safety nets.

2. This section on sharpening IDA's focus on poverty reduction draws on the background study, *Review of Poverty Reduction in IDA10–12* (IDA Review 2001b), which is available on request, and *Poverty Reduction in the 1990s: An Evaluation of Strategy and Performance* (OED 2000d).

3. As noted further on, shortfalls in the strategy content of such analytical work have limited its impact on country policies and programs.

4. OED 2000d. To encourage increased attention to these concerns, management has devised more stringent criteria for evaluating the poverty focus of CASs. These criteria include whether poverty is at the center of the policy dialogue, whether the CAS assesses the impact on poverty of Bank-supported programs, and whether the CAS includes benchmarks and monitoring indicators. Further efforts to improve this performance is under way in the context of the Poverty Reduction Strategy Paper (PRSP) process.

5. This new feature of CASs lists objectives, the related diagnoses and actions to be taken, and benchmarks for tracking country and IDA performance.

6. Two notable examples of best practice in this regard are the FY00 CASs for Honduras and Mozambique, both of which identify clear monitorable poverty reduction targets.

7. See OED 2000c, which found many PAs wanting as an aid to country strategies. Nearly half did not adequately address the individual elements of broad-based growth, social service provision, and safety nets. Nor did they explain what worked and why and provide adequate justification for the priority rankings contained in strategy recommendations. Treatment of governance issues was patchy, including the responsiveness of institutions to the poor. The lesson drawn was that PAs are much more influential when demand for data is linked directly to domestic policy formulation.

8. On PERs, the most recent evaluation from 1998 concluded that quality had improved since the mid-1990s. However, analyses of spending policies were often still too dated to have more than a modest impact on IDA lending, country policy, or aid coordination. It recommended a stronger demand orientation, use of more selective and sequenced analyses, and sharper focus on service delivery. Recent PERs show many of these features. It is important to note, however, that the total average cost of four key due diligence products—PAs, PERs, Country Economic Memoranda, and Social and Structural Reviews—is approximately \$650,000 per country. Also see IDA Review 2001b.

9. According to a recent OED review of PAs, in Tanzania, for example, despite a fairly extensive participatory PA exercise in 1996 the dissemination of the PA within the government was limited and its implications for policy are only now—some four years later—being discussed in the context of the PRSP. See OED 2000c.

10. Important examples of where participatory PAs have worked well are noted in Robb 1999.

11. The PRMPO (Poverty Division) thematic group has recently produced a handbook on impact evaluation, with guidance on poverty monitoring and evaluation and a monitoring and evaluation technical note for the PRSP sourcebook. See Prennushi, Rubio, and Subbaro *Poverty Net* (available at [www.worldbank.org/poverty/strategies/srcbook/m&e0925.pdf](http://www.worldbank.org/poverty/strategies/srcbook/m&e0925.pdf)).

12. Investment projects are classified under the Program of Targeted Interventions if they include specific targeting mechanisms for reaching the poor,



such as a food security component or public works scheme.

13. As reported in the OED study of the Bank's implementation of its poverty strategy, poverty-targeted interventions have been neither a particularly reliable indicator of the poverty orientation of Bank lending nor a particularly accurate measure of who benefits from project investments. See OED 2000d.

14. See OED 1999a and 2000a. It should be noted, however, that the 2000 review points out that increased attention to these matters by the Human Development Network may not yet be captured in the most recent figures.

15. India Second Technician Education Project, Credit Number IDA 22230.

16. OED's HNP (health, nutrition, and population) study (OED 1999d), for example, found that few project documents presented a coherent analysis of how project interventions would be translated into improved health outcomes for the poor, despite often being classified as poverty targeted interventions. An even smaller percentage of projects were able, on closing, to demonstrate clear results for the poor. While this does not mean that such interventions did not reach their target groups, it does mean that adequate processes are not in place to assess the extent of project impact and cost-effectiveness in reaching the poor. Similarly, the OED review of education assistance in Bangladesh noted that 11 of 12 projects lacked benchmarks or monitoring indicators.

17. Project portfolio ratings that show greater increase in the demandingness and complexity of IDA projects compared with IBRD projects underscore this point (see Annex D).

18. In FY98–99, these two new types of loans accounted for 23 percent, 22 percent, and 21 percent, respectively, of all Bank lending in HNP, education, and social protection.

19. LILs and APLs, which together are called "adaptable lending instruments," were introduced in 1997. LILs support small-scale, innovative projects that have the potential to lead to larger projects and are used to test new approaches, often in start-up situations and with new borrowers. APLs provide phased support for long-term development programs and are used when sustained changes in institutions, organizations, or behavior are key to successfully implementing a program.

20. The government was simply unable to monitor this large number of projects. In addition, there were serious inequities under the projects in resource allocations to schools, provinces, and districts. The numerous project implementation units and inde-

pendent, parallel activities such as audits and supervisions drew heavily on limited government capacity. This was compounded by the donors' use of different procedures and financial management systems in parallel operations. For a discussion of the experience with sector-wide programs as implemented in Africa, see Johannson and Adams 1998; Schacter 2001.

21. World Bank 2000a. In particular, see Chapter 11, "Reforming Development Cooperation to Attack Poverty." The importance of SWAPs as mechanisms of country-led enhanced aid coordination is further discussed in Part III.

### Chapter 3

1. See OED 2000d. The classification of operations as "poverty focused" has been used since 1992 and relates to adjustment operations that support government efforts to reallocate public expenditures in favor of the poor, eliminate distortions and regulations that disadvantage the poor, and support safety nets to protect the most vulnerable.

2. According to the QAG's 1999 quality at entry review, 64 percent of a sample of Bank and IDA adjustment operations gave adequate treatment to poverty issues. In addition, only 22 percent of the surveyed FY98–00 operations included poverty and social indicators, though many of those operations covered poverty issues.

3. See Meerman 1997. In addition, an OED review of adjustment lending showed that two-thirds of a sample of countries that implemented reforms achieved per capita income growth and reductions in the incidence of poverty of some 1 percent in most cases. Also see Jayarajah, Branson, and Sen 1996.

4. The retrospective points out, however, that there are still too many and too complex conditions.

5. According to IFAD, between 1988 and 1998, total ODA to agriculture fell by almost two-thirds in real terms (IFAD 2001, p. 229).

6. The reasons underlying this decline are currently being assessed as part of a review and updating of the Bank's rural sector strategy, which should feed into a heightened emphasis on broad-based growth in IDA13. OED CAEs tell a mixed story, with a number noting significant IDA contributions to improved agricultural growth through adjustment lending and others noting the lack of a country-specific strategy for promoting agricultural productivity. OED CAEs for Albania, Bangladesh, Togo, and Uganda found that IDA helped to increase agricultural productivity and rural incomes by supporting improvements in the countries' macroeconomic conditions during the 1990s. Several other

CAEs noted, however, that IDA had been less active and effective in supporting specific investments and sector strategies in agriculture. For example, CAEs for Ethiopia, Cameroon, Tanzania, and the CFA countries concluded that IDA's development effectiveness had been hindered by the lack of an adequate country rural development strategy.

7. See World Bank 2000b, p. 187. Based on its findings, this report proposes a "business plan" that focuses on the huge investments required by both the private and public sectors to capitalize African agriculture, increase its competitiveness, and harness the potential of agricultural growth and rural development.

8. This section draws on the background study *Review of Private Sector Development in IDA10–12* (IDA Review 2001g), which is available on request.

9. This new strategy, along with the new department (Bank/IFC) for small and medium-size enterprises, both recently launched, promises a more dynamic response, and an ongoing rural finance study could provide needed guidance.

10. Several CAEs have noted, in particular, that while stabilization and liberalization support had important effects, more attention should have been paid to linkages among financial sector reform, privatization, and judicial reforms as well as underlying constraints due to poor corporate governance.

11. A joint CAS program between IDA and IFC was introduced in FY97 to foster closer coordination and cooperation between the organizations. See box 5.2 in this volume.

12. An OED review of Bank Group work on the financial sector found that individual project ratings did not capture what was actually happening in the sector as a whole. While the relevance of Bank support was high, with lending operations strongly targeted on sector reforms, efficacy was mixed and overall the assistance was said not to be strong. The study (World Bank 1998b) covered 23 countries, 10 of them IDA borrowers.

## Chapter 4

1. This section draws on a two-part OED evaluation of the integration of gender in Bank assistance, including 12 in-depth country analyses, 9 of which were IDA countries, and the disaggregation of data related to IDA provided specifically for this review.

2. Two recent research reports have, however, given particular attention to the links between growth, poverty, and gender. See Blagden and Bhanu 1999; World Bank 2001a.

3. For example, the Bangladesh Fourth Population and Health project (Credit No. 2259) required the gov-

ernment to fill 4,500 out of 5,000 health assistant jobs with women because experience had shown that when assistants were women, family planning and other services were delivered more effectively.

4. Evaluation findings also show that the potential adverse impact of gender-blind projects was averted in countries with strong policies or with comparatively greater gender equality. However, in countries with large gender disparities, women were usually unable to access project benefits equitably and the project impact on men and women was different.

5. In particular, IDA has worked primarily through sector ministries in supporting education and health; it has not sought to engage the gender agencies or ministries that now exist in most countries.

6. A review points to the absence of Regional gender units other than Latin America and the Caribbean as a particular impediment to fuller integration of gender in country programs, especially where collaborative diagnostic work and dialogue are needed to build national consensus.

7. *The Beijing Platform for Action*, the main document adopted by the Fourth World Conference on Women, seeks to promote the advancement of women. The document is available at <http://www.un.org/womenwatch/daw/beijing/platform>.

8. This section draws on the background study *Review of Environmental Sustainability Issues in IDA 10–12, 2001* (IDA Review 2001h), which is available on request, and the *OED Review of the Bank's Performance on the Environment* (OED 2001d). These two reports were prepared in conjunction with one another and share a set of recommendations.

9. See Hamilton and Shyamsundar (2000) for a review of 51 CASs from 1993 to 2000. Using a priority-based standard, the 1998–99 CAS retrospective rated closer to 67 percent satisfactory or above. Management's 2000 CAS review also finds that the number of Bank-wide CASs with unsatisfactory treatment has declined to 16 percent, although the IDA management report on environmental mainstreaming, discussed below, finds treatment of environment in IDA CASs "moderately satisfactory."

10. Based on its recent study of Bank-wide ESW, management has indicated that the Bank needs to be diligent in ensuring that environment issues are analyzed for all countries and that ESW-based knowledge should be current where environment is an important development issue. For this purpose, management proposes broadening the due diligence category to incorporate environmental reviews as the first step.

11. From 1996 to 1999, China accounted for about 41 percent of environment component lending. With



China no longer a concessional borrower in IDA12, the aggregate IDA lending level can be expected to decline.

12. This finding is based on reviews in the 15 selected countries of IDA's environmental projects completed during the period under review, and of supervision reports of projects under implementation. The focus countries for the IDA review included: Azerbaijan, Bangladesh, Bolivia, Cambodia, China, Côte d'Ivoire, Ghana, India, the Kyrgyz Republic, Mozambique, Nepal, Tanzania, Uganda, Vietnam, and Yemen.

13. See Part IV of this report for a broader discussion of design and implementation of safeguard policies.

14. One of the more valuable follow-ups to NEAPs has been the establishment by individual countries of their own environmental assessment procedures; however, this is happening slowly. For example, less than half of the IDA borrowers in Africa have adopted any such procedures and in many, the procedures have yet to become effective.

15. GEF projects, which are grant-financed and carry their own preparation funding, have often proven to be critical instruments used by environmental staff to convince country directors and countries to include environment projects. Unfortunately, these projects address only a limited number of issues and often substitute for, rather than complement, IDA's environment lending in support of country development.

16. Among IDA members, only China and India are significant contributors to greenhouse gas emissions, but nearly all IDA countries will be affected by some combination of rising temperatures, rising sea levels, and more-violent weather patterns.

17. The Bank and IDA supported several projects to help countries minimize damage from the last El Niño, and IDA is working with countries to take anticipatory actions to changes in rainfall, sea level, and other expected effects of climate change.

18. Most countries have by now established environmental agencies or ministries, often after completing a NEAP and usually with IDA or other donor support. However, many of these agencies remain weak, environmental regulations are often not well enforced, and the ministries lack input in their countries' overall development strategy and planning.

19. GEF projects are funded by grants and carry their own funds for preparation and supervision, so they do not use IDA credits or budget resources.

20. DfID's recent (2000) paper, *Achieving Sustainability, Poverty Elimination and the Environment*, makes a strong case for this linkage as essential

for achieving the 2015 International Development Targets.

21. Consistent with this and other independent evaluations, along with some self-evaluations, the Bank's 2000 CAS retrospective has recently proposed a set of "next steps" that include better integration of environmental considerations into economic and sector work, a strengthened link between environmental considerations and poverty reduction measures, and better incorporation of environmental indicators and trends in CAS diagnoses.

22. Compare, for example, the experiences in China, which is making an effort, and in Bangladesh, where rent-seeking activities in the ministry responsible for the environment are an obstacle to any progress.

23. Two early papers include the 1983 *World Development Report (WDR): Managing Development* (World Bank 1983) and *From Crisis to Sustainable Growth—Sub-Saharan Africa: A Long-term Perspective Study* (World Bank 1989), which was the first Bank report to raise issues of governance explicitly. The Bank's first policy on governance work was set out in a 1992 report entitled *Governance and Development* (World Bank 1992b), which was updated in 1994 as *Development in Practice: Governance—the World Bank's Experience* (World Bank 1994). Since the start of IDA10, further guidance was provided in a policy paper entitled *Helping Countries Combat Corruption: The Role of the World Bank* (World Bank 1997b), which was updated in April 2000. The 1997 WDR on the role of the state (World Bank 1997d) was a major effort to bring institutional economics into the Bank's country analysis.

24. See World Bank 2000b, in which a central theme is "improving governance, managing conflict and rebuilding states."

25. Notably, WDR 2000 (World Bank 2000e) and WDR 2001 (World Bank 2001d) are both heavily oriented to the task of institution building. This year's focus is on institutions to tackle poverty; next year's is on nurturing market institutions.

26. Key WBI inputs have included skills development for staff in the Bank and in borrower governments (on governance generally and in the preparation of anti-corruption action plans specifically), pioneering the use of corruption perception surveys and public service delivery surveys, and improving the measurement of the impact of corruption on development.

27. For example, OED's CAEs for Bangladesh, India, and Indonesia and Country Assistance Note for Kenya underscore the issue of public financial accountability.

28. This includes public sector reform components only in public sector management and multi-sector projects.

29. The Uganda Poverty Reduction Strategy Credit (PRSC) is expected to be the first in a series of program loans to support public sector reform. In India, a program credit has supported the first phase of a comprehensive public sector reform program in Uttar Pradesh. In Tanzania, a Programmatic Structural Adjustment Credit (PSAC) supports the government's medium-term strategy for policy and institutional reform aimed at bolstering private sector development in the country. And in Indonesia, the Bank has helped to establish a governance partnership involving civil society, the government, the private sector, and the development partners.

30. For example, it has provided technical assistance, investment credits, and included elements in adjustment loans to a variety of countries for such things as regulatory reform and privatization, development of legal and regulatory frameworks related to energy and water reform projects, banking, and telecommunications.

31. For example, the African Region collaborated with the African Executive Directors to launch a capacity-building initiative (Partnership for Capacity Building in Africa, or PACT, 1996). Its evolution was protracted, but the outcome, which includes integration with the Africa Capacity Building Foundation, seems promising.

## Chapter 5

1. Replenishment Report comments about the CAS, and later about the PRSP, are really about the underlying strategy IDA is following in each country.

2. Prior to that decision, the Bank had routinely prepared Country Strategy Papers (CSPs), but these were confidential documents that were shared neither with the Board nor, in most cases, with the borrower governments. From 1991 to 1994, CASs were prepared for Board discussion on a parallel track with CSP preparation for management. Thereafter, the CAS became the single strategy document for both management and Board review.

3. This assessment is based primarily on the first two CAS retrospectives undertaken by the Bank. In addition, IDA Review team members conducted reviews of CAS coverage in specific program areas of emphasis as part of thematic background reports. A third retrospective has recently been completed.

4. See Bank Procedure (BP) 2.11 Annex A, *Content of Country Assistance Strategy Document*, January 1995.

5. The improvement noted here refers to the CAS document in particular; many of these practices previously occurred in the Country Strategy Papers that did not go to the Board or the countries.

6. An internal review found that even as recently as the first half of FY99, only 40 percent of CASs had "extensive" civil society consultation.

7. For that purpose, the IDA Review Team examined the CAS documents and the actual lending programs for nine focus countries in order to identify differences between the programs as proposed in the CASs and the actual approvals of lending operations in subsequent years.

8. There is an important distinction to be made here between areas of IDA involvement in underlying strategic work, on which not only its own but other lending often depends, and its involvement at a major level in lending. IDA tends to be needed in all critical areas because other agencies are not equipped or willing to do the sharp analytical work needed to map out a sector strategy, but it need not follow that IDA play a major financing role in all of the sectors. This, however, raises budget resources issues, discussed in Part IV.

9. A later review further confirms that this remains an issue that needs greater attention.

10. The recent OPS CAS retrospective found that only 38 percent of CASs cited donor involvement as the reason for no Bank activity in a given area. This has in some cases reflected the express preference of clients that IDA stay involved, in other cases it reflected competing sectoral perspectives, and in still others it resulted from the failure of a partner agency to deliver in an area of assumed leadership.

11. Management questions the analytic underpinnings of the OED's conclusions and notes that the facts in the review and in the background paper support a conclusion that IDA's allocation system has consistently functioned effectively, achieving an allocation that is significantly more performance-based than concessional assistance as a whole. While there is no room for complacency, the system has improved over time and fulfills the donor mandate specified in IDA12. Management believes, in particular, that the governance discount has served a very useful function. Lending has been reduced sharply in countries with very weak governance. In addition, the process has highlighted governance weaknesses in countries that do not actually receive a governance discount. While all parts of the performance-based allocation system are reviewed systematically for possible improvements, including the governance discount, management does not believe the system needs to be substantially altered. Management will continue to

work to refine the system, in consultation with IDA Deputies and others, including donors that have adopted similar systems.

12. This section draws on the background study *Review of the Performance-Based Allocation System, IDA10–12* (IDA Review 2001a), which is available on request.

13. Some recent Bank research has indicated the totality of official development assistance (ODA) has moved considerably toward better performance. According to this work, IDA's efforts in 1990 to link aid to performance were essentially undermined by other aid flows that did not appear to make that linkage. By 1997–98, however, the situation had changed markedly for the better: an increase of \$1 million of aid allocated on total ODA terms would have lifted an estimated 284 more people out of poverty, while the corresponding number for IDA was 434. While indicating that the numbers need to be used with caution, the work suggests that the differentials are quite robust. See Collier and Dollar 1999.

14. Included here are suggestions of broadest implication; the background report also recommends more detailed adjustments and a discussion of some additional issues that might usefully be considered that would provide for: (1) alternative allocation mechanisms and (2) ideas on how the PBA might need to be adapted in light of the PRSP process now being introduced for all IDA borrowers.

15. Moreover, it is impossible to claim that the system is transparent (a goal urged by the Replenishment Reports); in disclosing the PBA process, as discussed below, IDA would be exposed to a credibility risk in the absence of such records. Though this suggestion was not formally costed, a rough estimate indicates that implementation of the system costs about \$700,000 per year—a reasonable figure for a system that allocates some \$20 billion annually—and establishing a written record might add 50–100 percent to that amount.

16. IDA management intends to undertake a major review of CPIA design in the coming year. This report recommends that close involvement of IDA's partners might usefully be built into that review.

17. Triggers define the specific conditions for moving to higher or lower lending scenarios. Most commonly stated triggers are macrofiscal performance, structural reform, and portfolio triggers.

18. There are legitimate obstacles to fuller disclosure, including the need for a written record and the IBRD borrowers' concern that disclosure of their ratings could negatively affect their financial market ratings, but these considerations could and should be

addressed in the review of the system planned by management in the coming year.

## Chapter 6

1. An OED review of IDA-specific participation issues is reported here.

2. The PRSP process represents a new and significant departure, including as one of five “core principles” a broad-based participatory process in formulation, implementation, and outcome-based monitoring.

3. Governments bear most of the costs, often financing them with resources from the project loan. Communities also bear significant costs for project participation, contributing labor, materials, cash, and time.

4. This section draws on the background study *Review of Aid Coordination in an Era of Poverty Reduction Strategies, IDA10–12* (IDA Review 2001c) and *The Drive to Partnership: Aid Coordination and the World Bank* (OED 2001a).

5. With other multilaterals, improvements, though limited, have come at the headquarters level, while results in the field have been mixed.

6. This informal forum was originally known as the “Special Program of Assistance for Africa” and largely involved discussions among donors, but both purposes and processes have changed over time. See OED 1998b.

7. OED 1998b, para. 59–64. New SWAp initiatives being pursued by IDA in Cambodia and Vietnam are explicitly justified by expectations that they will simultaneously result in enhanced country capacity and ownership, more coherent donor support to country sector strategies, and, once established, greatly reduce aid delivery transaction costs.

## Chapter 7

1. In-country consultations conducted for this review strongly commended the increased representation in the field, especially noting improvements in the content and timeliness of policy analysis and dialogue as well as enhanced coordination with other agencies.

2. Under the revised system, the Regions will retain responsibility and accountability for safeguard certification and compliance for most (“normal risk”) projects; the responsibility will be shared between the ESSD Networks and the Regions, with outstanding issues to be resolved by the relevant managing director for “special risk” projects; and a quality assurance role is exercised by the central Quality Assurance and Compliance Unit in ESSD. These arrangements offer

some improvement, but still face three problems: the lack of defined criteria to identify “special risk” projects; the absence of a provision for above-Regional resolution of unresolved issues for “normal risk” projects; and only partial resolution of the potential conflict of interest in funding and dual reporting arrangements; the Regional safeguards compliance teams will still depend on cross-support from project task managers for a substantial portion of their work.

3. The value of IDA’s ESW was emphasized in country consultations both by borrowers and by other assistance agencies.

4. “Due diligence” ESW has been identified by management as a core set of underlying analyses that need to be kept up-to-date for work in borrowing countries, including: Poverty Assessments, Public Expenditure Reviews, Country Economic Memoranda, Country Profile of Financial Assessments, Country Financial Accountability Assessments, Country Procurement Assessment Reviews, Social and Structural Reviews.

5. A specific concern, as noted in Part III, is the low allocation of resources and low quality of economic and sector work in poorly performing countries. If lending to weak-performing countries is to be limited and good-quality ESW does not fill in, it is hard to see what role IDA can claim in these countries.

6. The Bank’s support for the African-led Partnership for Capacity Building (PACT) aims, over the next five years, to mobilize \$1.0 billion for a capacity-building trust fund. The further step proposed here is to make a portion of IDA resources available on a grant basis for use in mainstreaming capacity building in IDA operations where needed and/or to pool bilateral trust funds for capacity building.

7. Among regions and sectors, between QAG and OED, and among country-level assessments for the CDF, PRSPs, performance-based resource allocation, and Country Assistance Evaluations.

8. The Compact’s objectives were to be financed through savings and redeployments as well as through additional budgetary resources of \$250 million over FY98–00, with the administrative budget returning (in real terms) in FY01 to its FY97 level—as it has now done.

9. In the country norm methodology, three main variables—population, poverty, and performance (CPIA index)—are used in a regression analysis against the historical trend of budget allocations by country, to derive a formula that yields a “country norm budget” to which additional resources are

added to ensure funding for portfolio supervision. Management can choose to place greater weight on poverty, or on performance, by adjusting the formula’s coefficients for these variables. The average budget dollars per capita (with GNP per capita in parentheses) are as follows: Africa \$1.96 (\$491), East Asia \$0.57 (\$737), ECA \$0.90 (\$819), LAC \$0.70 (\$1,772), MNA \$0.23 (\$731), and South Asia \$0.23 (\$467).

10. The relevant Bank Operational Policy (OP14.40) defines a trust fund as “a fund administered by the Bank in accordance with the terms of agreement with a donor.” Not all “supplementary funds” are, strictly speaking, trust funds in this sense. The Bank acts as a fiscal agent for some funds, channeling them to other entities to administer. There is also “complementary funding” that supports cofinancing of loans and credits, and debt-service funds. Discussed here are those arrangements under which the Bank administers donor-entrusted funds that provide *advisory services and technical assistance* for a specific, development-related activity or activities.

11. For work in certain sectors or themes, the dependence on trust funds to deliver core lending and ESW is now particularly strong. Notably, if averaged over the entire health, nutrition, and population portfolio for FY97–00, trust funds financed about 45 percent of the total cost of loan preparation and appraisal.

## Annex G

1. The results may represent substantial progress relative to the status quo ante (or what would have happened in the absence of Bank/IDA intervention) but still lead to less than fully satisfactory outcomes if they had not met their stated objectives or had done so inefficiently. This is especially likely when the objectives are particularly demanding, as was the case with the IDA replenishments.

2. The alternative—goal-free evaluation—is used by OED whenever it is feasible to weigh the net benefits of the intervention in relation to the opportunity cost of the resources used. Thus, economic and financial rates of returns are routinely used to assess the justification of projects where appropriate data can be obtained. Unfortunately, cash flow analysis is not practical for the complex programs funded by IDA. Even for projects, the implementation of policy and capacity-building objectives (which are often the most crucial) cannot be quantified precisely enough to allow cash flow analysis.

3. The methodology used in the CAEs has not been agreed with management.

## Annex I

1. See World Bank 1990, 2000a; Dollar and Pritchett, 1998.

2. "Supporting Country Development: World Bank Role and Instruments in Low- and Middle-Income Countries" (DC/2000-19).

3. See *Poverty Reduction Strategy Papers: Operational Issues*, Joint IMF/World Bank Paper (R99-241), December 10, 1999, available at <http://www.worldbank.org/poverty/>.

4. For information on the Comprehensive Development Framework, access <http://cdf.worldbank.org/>.

5. See *The Initiative for Heavily Indebted Poor Countries—Review and Outlook* (DC/98-15), September 2, 1998. It is important to note, too, that starting in the late 1980s, the World Bank established a number of mechanisms for reducing IDA countries' debt levels, including the Debt Reduction Facility for IDA-Only Countries, which has now extinguished \$6 billion in commercial debt, and the Fifth Dimension Program, which has allocated resources totaling \$1 billion to offset IBRD interest payments owed by IDA-only countries.

6. Article V, Section 1(g) of IDA's Articles of Agreement states: "The Association shall make arrangements to ensure that the proceeds of any financing are used only for the purposes for which the financing was provided, with due attention to considerations of economy, efficiency and competitive international trade and without regard to political or other non-economic influences or considerations."

7. The SSPs are as follows: *Reforming Public Institutions and Strengthening Governance: A World Bank Strategy* (R2000-91), July 11, 2000; *Rural Development: From Vision to Action* (R97-25), March 11, 1997; *Fuel for Thought: Environmental Strategy for the Energy*

*Sector* (R99-131), July 20, 1999; *Health, Nutrition, and Population* (R97-168), July 22, 1997; *Population and the World Bank: Adapting to Change* (SecM2000-154), March 24, 2000; *Education Sector Strategy* (R99-68), May 18, 1999; *Social Protection Sector Strategy: From Safety Net to Springboard* (R2000-160), September 7, 2000; *Strategy for the Financial Sector* (R2000-169), October 19, 2000; *Cities in Transition: A Strategic View of Urban and Local Government* (R99-191), November 2, 1999; *World Bank Group Private Sector Development Strategy* (R99-175), December 14, 1999; *Corporate Governance: A Framework for Implementation* (SecM99-590), September 13, 1999; and *Small and Medium Enterprises: Sub-Sector Strategy* (R2000-67), May 25, 2000. See <http://www.worldbank.org/>, search term: Sector Strategy Papers.

8. See *Reforming Public Institutions*, note 7.

9. See "Reaching the Rural Poor: The Rural Development Strategy of the World Bank," forthcoming.

10. South Asia provides another Regional example. While the portfolio of the rural unit has declined, estimates of rural commitments by other sector units (including health, education, etc.) suggest an almost 40 percent increase in lending for the rural areas over the decade.

11. In 1990, for example, 64 percent of rural development projects under implementation in Africa were at risk; by 1999–2000, that measure was reduced to about 21 percent. Actual problem projects dropped from 33 percent to 17 percent. The quality of projects at entry and during supervision has also improved, the latter rising from 50 percent in 1997 to 80 percent in 1999.

12. See Development Committee Communiqué, April 30, 2001, at [http://wbln0018.worldbank.org/DCS/devcom.nsf/\(communiquessm\)/6FF3986EFC7595BD85256A3E006A6411?OpenDocument](http://wbln0018.worldbank.org/DCS/devcom.nsf/(communiquessm)/6FF3986EFC7595BD85256A3E006A6411?OpenDocument).



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