OED IDA REVIEW

REVIEW OF PRIVATE SECTOR DEVELOPMENT IN IDA10-12

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This is one of the series of background papers prepared for the OED IDA Review. In the IDA12 Replenishment Report IDA Deputies requested OED to undertake an independent review of the IDA program during the IDA10-11 period and an interim review of IDA12. The Review concentrates on IDA's development contribution in six *thematic development priorities*: (i) poverty reduction; (ii) social development; (iii) private sector development; (iv) governance; (v) environmentally sustainable development; and (vi) gender. It also addresses four priority *process reform objectives*: (i) performance based allocations; (ii) enhanced CAS design and implementation; (iii) improved aid coordination; and (iv) participation.

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Acronyms

AAA	Analytical and advisory activities
APL	Adaptable program lending
CAE	Country assistance evaluation
CAS	Country assistance strategy
CDF	Comprehensive Development Framework
CGAP	Consultative Group to Assist the Poorest
FDI	Foreign direct investment
FIAS	Foreign Investment Advisory Services
FIL	Financial intermediary loan
FRM	Resource Mobilization Department
IDA	International Development Association
IFC	International Finance Corporation
IFI	International financial institution
IMS	Investment marketing services
LIL	Learning and innovation loan
MIGA	Multilateral Investment Guarantee Agency
NGO	Nongovernmental organization
OD	Operational Directive
OED	Operations Evaluation Department
OEG	Operations Evaluation Group (of IFC)
PPI	Private provision of infrastructure
PPIAF	Public Private Infrastructure Advisory Facility
PPSS	Private provision of social services
PRG	Partial risk guarantee
PSA	Private sector assessment
PSAS	Private Sector Advisory Services
PSD	Private sector development
PSI	Private sector and infrastructure
QAG	Quality Assessment Group
SME	Small and medium enterprise
WBG	World Bank Group

Introduction

1. The IDA deputies asked OED to review the compliance with and effectiveness of implementation of the major undertakings arising from the IDA10–IDA12 replenishments of fiscal 1994–2000. This paper covers the undetakings concerning private sector development (PSD), addressing three main questions:

- What did IDA do? That is, to what extent has IDA complied with the IDA10–IDA12 replenishment undertakings as reflected in both lending and nonlending activities?
- How well did IDA carry out its tasks? That is, how relevant and effective have IDA activities been in implementing the undertakings?
- What lessons can be drawn for the IDA13 replenishment and beyond?

2. While the replenishment undertakings were fairly broad—largely exhortations to do more and do it better—this analysis consolidates them into five objectives:

- Develop a clear PSD strategy by the end of 1999 for the Bank Group, including the International Finance Corporation (IFC) and Multilateral Investment Guarantee Agency (MIGA).
- Improve the enabling business environment for PSD, including through export promotion.
- "Deepen" the financial sector and increase support to small and medium enterprises (SMEs), microenterprises, and rural finance.
- As part of continued support to privatization of public utilities, emphasize improved service delivery, appropriate treatment of labor retrenchment and social protection, environmental considerations, and regulatory reform.
- Promote the private provision of infrastructure (PPI) and social services (PPSS) but proceed cautiously and selectively in the use of IDA's partial risk guarantee.

Scope of Work

3. In a discussion of the private sector it is important to remember its inherent complexity and pervasiveness throughout the economy; it is more a theme than a sector. Only 91 of the approximately 250 credits ($11.4 billion) with a PSD component approved during the review period were managed by the Private Sector Development Department or Private Sector Development and Infrastructure Vice Presidency (PSI), with the rest spread over all other networks.[1] Moreover, PSD covers a wide range of activities, including privatization and intermediate steps toward privatization. This paper focuses on the issues in PSD identified by the IDA replenishment reports, with one exception. Although the financial sector was not mentioned explicitly as a priority area (except in connection with deepening the financial system to facilitate lending to microenterprises and small and medium enterprises), it is included in this review because of its strong linkage with PSD.

4. The report is based on primary materials including Operations Evaluation Department (OED) databases, country assistance evaluations, performance audit reports, sector reports, and others; Quality Assurance Group reports and project databases; policy and strategy papers; special think pieces such as the *Viewpoint* series produced by PSI; interviews with IDA management and staff supplemented by a questionnaire sent to all PSI staff and selected other

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[1] All dollar amounts are in U.S. dollars unless otherwise indicated.

staff; and results of field visits to seven of the eight focus countries as well as attention to another six countries.[2] The work included reviews of a cross-section of lending operations to assess project design issues, in addition to a sample of analytical and advisory activities. Finally, the report made use of the various Resource Mobilization Department reports cataloging the use of IDA resources under the IDA10–IDA12 replenishments.

5. A database was created of all projects approved during fiscal 1994–2000 with at least one PSD component. Of approximately 250 such projects, 78 have closed and 76 have received at least some of the five main OED ratings (outcome, sustainability, institutional development impact, and Bank and borrower performance).[3] For projects that are still active, the Quality Assurance Group provides an aggregate assessment of "projects at risk," based on supervision ratings including both actual and potential problem projects.

What Did IDA Do?

6. Attachment 1 provides an assessment of IDA's compliance with the undertakings of the three replenishment documents. IDA's actions in microfinance and private participation in infrastructure are marked by high levels of compliance; its actions in privatization, preparation of private sector assessments, and development of supportive legal and regulatory frameworks by substantial compliance; its actions in small and medium enterprise development and rural finance by modest compliance; and its preparation of a comprehensive Bank Group strategy paper by the end of 1999 by negligible compliance. IDA's selectivity in the use of the partial risk guarantee receives no rating on the grounds that the sample of two cases was too small for general conclusions. IDA has dealt with a number of institutional issues, though more needs to be done. Annex 19 outlines institutional issues related to implementation of IDA replenishment recommendations. This paper provides evidence on IDA compliance with the recommendations and discusses IDA's performance.

How Well Did IDA Carry Out its Tasks?

7. By the end of the 1980s almost all IDA countries had recognized that their reliance on the public sector as the principal engine of growth and development had not paid off; results simply did not match expectations. Since then, with varying pace, scope, and enthusiasm, IDA countries have attempted to develop their private sectors to reduce inefficiency, staunch inappropriate, ineffective, and wasteful government spending, and tap the potential of private endeavor for growth and job generation.

8. IDA has devoted increasing resources to assisting these developments through operations aimed at:

- Understanding the deficiencies of the previous, more or less statist approach and identifying policies and institutions that obstruct entrepreneurs and investors.
- Creating policy settings in which private initiative can flourish.
- Promoting judicial, legislative, and regulatory frameworks conducive to private business.
- Helping to privatize activities better carried out by private owners.

[2] Focus countries include Bangladesh, Bolivia, Cambodia, Ghana, the Kyrgyz Republic, India, Mozambique and Vietnam. Uganda in-country consultations, conducted as part of an OED CAE also provided input. The other countries reviewed include Azerbaijan, China, India, Nepal, Tanzania, and Yemen. The report encompasses about 20 percent of IDA countries by number and a much larger percentage by population.

[3] One-third of the projects were structural or sectoral adjustment projects.

- Encouraging private participation in infrastructure, with its attendant issues of access, enhancement of competition, and regulation of remaining monopolies.
- Helping poor countries strengthen micro and small and medium enterprises, particularly important for poverty alleviation.
- Adding the post-communist transition countries to the private sector development agenda in the 1990s.

9. Available evidence demonstrates that IDA's efforts have met with considerable success, at least as measured by the outcomes of IDA-funded projects. But at the same time the issue of private sector development in low-income countries is clearly complex and contentious. It is now apparent that all the objectives listed above—particularly developing frameworks conducive to private sector development, encouraging private participation in infrastructure, and including the transition countries in the private sector development agenda—involved building new institutions or renovating old ones to assist, guide, and monitor private activity and protect consumers and citizens from the abuses of economic power. IDA at first underestimated both the importance and the complexity of the institutional underpinnings of privately led development. This has led to a number of situations in which the gains from increased efficiency have not, at least not yet, been widely shared in society. This issue of the distributional impact of private sector development requires more attention.

10. Second, in many IDA countries the growth, production, and job creation effects of these measures have been disappointing or slow. Without knowing the counterfactual—what would have happened in the absence of these reforms—it is impossible to say that these measures have failed. The reforms may have laid the foundation for a future turnaround. Some countries have tried to avoid such reforms, only to find that they eventually were obliged to pursue them and that their late start made the path longer, steeper, and more painful. But some private sector reforms, such as mass privatization in post-communist transition societies, were oversold. Expectations were created that these measures would quickly produce dramatic short-run economic gains. Their inability to do so is now seen to stem from institutional weaknesses, which in turn seem clearly linked to low income. This regrettable result has disappointed many in IDA countries and has provided ammunition to critics of the approach.

11. Third, activities to support private sector development often involve the elimination, reduction, or at least redirection of many public sector functions and established practices, and this causes friction with the government and public sector officials who have long been the chief interlocutors of IDA. Finally, many actions to support the private sector produce macroeconomic benefits only in the medium term—good information and telecommunications systems, reduced budgetary and fiscal burdens on the state, reliable energy supplies. The positive impacts tend to be diffused widely in society, and the ultimate benefits depend on how well the state regulates private behavior and how wisely it uses the resources made available through increased taxes from the corporate sector, privatization revenues, and the like. However, the costs of these actions are fairly immediate and tend to be concentrated on specific, often vocal and well-organized groups such as civil servants and trade unions. It is the rare and exceptional political leader who can manage to champion the cause of the often indifferent majority, who gain a little in the future in the teeth of opposition from the infuriated few who lose a lot today. Thus the quantitative, microeconomic measurements of the results of IDA's private sector development projects have been generally positive, while many principal (public sector) country clients express concern and dissatisfaction about their distributional impact and developmental utility.

12. The rest of this paper presents the findings on IDA's compliance and effectiveness in carrying out each of the IDA10–IDA12 undertakings. For recommendations of this review see "Recommendations" section later in this report.

Developing a World Bank Group Private Sector Development Strategy with a Poverty Reduction Focus

13. In 1995 the World Bank produced the report *Private Sector Development in Low-Income Countries*, which assessed the progress of PSD in IDA countries from 1987 on and highlighted the main elements of a private sector-led strategy for accelerated growth to reduce poverty. The document outlined the efforts needed to improve the business environment and enhance competitive forces, to reduce the weight and inefficiency of public economic activities through privatization and private participation in infrastructure, and to accelerate financial sector reforms. It was discussed with finance ministers of IDA countries in Vienna in 1996 and favorably received. The report focused on what policies and practices low- income countries should adopt to promote private sector development; how the World Bank Group should approach the issue was mentioned but of secondary concern. This was followed over the next few years by several aborted efforts to provide an integrated World Bank Group PSD strategy, due in part, to the fragmentation of PSD activities (i.e. between the Bank, the IFC and MIGA).

14. The IDA12 replenishment document called for a more elaborate PSD strategy for the entire World Bank Group, including IDA, the International Bank for Reconstruction and Development (IBRD), the International Finance Corporation (IFC) and MIGA. A World Bank Group Private Sector Development Strategy paper of October 1999 dealt with coordination questions and sought approval for a major reorganization of PSD work in the Bank and IFC. But did not set out a strategy for the PSD work itself. Subsequently, a Small and Medium Enterprises Sub-Sector Strategy and Financial Sector Strategy were prepared in 2000. And, the newly constituted Private Sector Advisory Services Department is preparing a comprehensive PSD strategy paper to be completed in 2001. A major focus of the comprehensive strategy will be the special circumstances of low-income countries.

Aggregate Ratings of Private Sector Development in Projects and Country Programs

15. The internal assessment and evaluation mechanisms of the Bank reveal generally satisfactory progress on operations involving PSD approved since fiscal 1994. Of the 76 projects with PSD components that have closed and been rated, 87 percent had satisfactory outcomes, compared with 86 percent for all IDA projects (see annex 2).[4] But only 55 percent had likely sustainability, and only 37 percent had at least substantial institutional development impact.[5] While the same as for all IDA projects, the low ratings on institutional development impact are particularly worrisome, as recent analysis has stressed the importance of well-functioning institutions and the institutional environment for the efficacy and distributional impact of PSD. Ratings of both Bank and borrower performance were high: 89 percent satisfactory for the Bank

[4] "Satisfactory" includes outcome ratings of highly satisfactory, satisfactory, and marginally satisfactory. Relevance of project objectives is taken into account in the outcome rating; projects in which relevance was rated were almost all rated substantial or high. However, projects often were not rated on their poverty reduction impact, because this impact could be expected to emerge only over a longer time period. The short-run impact of greater market orientation is often a reduction in employment in order to improve the longer-run health of the assets. Projects increasingly include safety net components to counteract these effects in the short run, and the outcome of these components is included in the project rating.

[5] Possible ratings for institutional development impact are high, substantial, modest, and negligible.

and 82 percent for borrowers. Of the 140 active projects as of December 2000, 87 percent are rated nonrisky, compared with only 62 percent for all IDA projects.[6] Quality Assurance Group assessment of the quality at entry of some 32 projects with PSD components found all projects satisfactory, compared with 81 percent of IDA projects.[7]

16. Sixty of the 76 evaluated projects were in the Africa and Europe and Central Asia Regions. All 24 projects in Europe and Central Asia and 28 of the 36 Africa projects were given satisfactory outcome ratings. Sustainability was considered likely for two-thirds of the Europe and Central Asia projects and one-half of the Africa projects, while institutional development impact was substantial in only one-third of the Europe and Central Asia projects and 39 percent of the Africa ones. The rates of satisfactory performance by the Bank (100 percent) and borrower (96 percent) were particularly high in Europe and Central Asia.

17. The projects with business environment components had the highest rate of satisfactory outcomes, followed by projects with components for financial sector development; private participation in infrastructure and microfinance, small and medium enterprise development and rural finance; privatization; and export promotion.[8] The private participation in infrastructure projects were most likely to be sustainable and had the highest rate of substantial institutional development impact.

18. Despite these relatively high project ratings, a selection of country assistance evaluations gives relatively low ratings to the effectiveness of PSD work by IDA and IBRD.[9] Based on a sample of 15 country assistance evaluations, of which 7 were for IBRD countries, and 8 for IDA or blend countries the importance of PSD to the country was rated higher for the IDA countries (3.9 on a scale of 1–4) than for IBRD countries (3.4), but the relevance of the Bank's strategy was rated higher for the IBRD countries (2.6) than for the IDA countries (2.3). Effectiveness was low for both sets of countries, but lower for IDA (1.4) than for IBRD (1.7). Because the sample is small, and the rating methodology is not yet mature, the results are only indicative, but they display revealing patterns. Of the 13 development objectives, PSD ranked in the top three for importance, along with macroeconomic stabilization and promotion of growth, but lowest for effectiveness (stabilization rated highest for effectiveness, at 2.7).[10]

19. A number of CAEs – from low income countries in particular – expressed concern regarding the lack of a coherent strategy for private sector development. But the "outcome gap" also may reflect the political and institutional issues in the Bank's approach.[11] Country assistance evaluations for Burkina Faso (June 2000), Tanzania (September 2000), and Yemen (March 1999)

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[6] The nonrisky category excludes projects identified as actually at risk or potentially risky. Of 70 IDA and IBRD projects in the PSI portfolio (excluding projects in other sectors with PSD components) in fiscal 2000, 85 percent were rated as nonrisky, a substantial improvement over the 78 percent in fiscal 1999.

[7] The IDA project rating is an average over the 1997–99.

[8] The ratings pertain to the entire project; individual components are not explicitly rated. A project could have a satisfactory outcome with some components rated not satisfactory. However, a detailed examination of 52 of the projects revealed only 5 in which any of the components had apparent outcome ratings that differed in direction (i.e. satisfactory instead of unsatisfactory or the reverse) from the rating for the project as a whole. In none of these cases did the ratings differ for more than one component.

[9] See Operations Evaluation Department, *Annual Review of Development Effectiveness — From Strategy to Results*, (Washington, D.C.: World Bank, 2001), Chapter 3 and Annex A.

[10] These include in addition to private sector development: reducing poverty, macro stabilization, promoting growth, rural development/agriculture, infrastructure, financial sector, public sector management, financial management, human development, social safety net, gender equity, and environmental sustainability.

[11] See Operations Evaluation Department, *Annual Review of Development Effectiveness — From Strategy to Results*, (Washington, D.C.: World Bank, 2001).

found that IDA focused too narrowly on projects and did not tackle such fundamental constraints to PSD as the appropriate role of the state, financial sector reforms, institutional, legal, and regulatory bottlenecks, and the policy environment.[12] Moreover, while most country assistance evaluations stated that macro stability had benefited the overall business climate, some suggested that an overly narrow focus on stabilization had distracted IDA from promoting urgent structural reforms. Several country assistance evaluations stressed the linkages between financial sector reform, governance, judicial reform, and privatization. For example, the country assistance evaluation for Ghana (April 2000) maintained that inattention to governance limited the relevance of IDA's country strategy. As a pilot CDF country with a field based IDA Country Director, a much broader consultation process with civil society on governance issues has begun to emerge in Ghana.

Improving the Business Environment

20. The business environment is a function of many factors, including governance, the density and sensibility of regulation, macroeconomic stability, the quality and quantity of infrastructure and human capital, and trade and competition policy. Strong PSD may require action in many of these areas. However, this evaluation focuses more narrowly on the specific undertakings arising from the IDA10–IDA12 replenishments.

21. For the period under review IDA approved 98 operations that had business environment components related to development of competition law and policy, a framework for intellectual property rights, legal reforms, regulatory reform, support for export development, and training (box 1). Over half were in the Africa Region, and more than a quarter in the Europe and Central Asia Region. Few were in the South Asia Region, reflecting its more modest efforts to support PSD (as in Bangladesh) or a preference by the borrowers for IDA to concentrate its efforts elsewhere. Of the 40 projects that have closed, 93 percent had satisfactory outcomes; 63 percent were likely to be sustainable; and 30 percent had substantial institutional development impact. Of active projects, 88 percent are rated nonrisky.

22. Among analytical and advisory activities a few products stand out. Private sector assessments encompassed a broad review of the structure and constraints of the private sector, along with strategic recommendations for the World Bank and the government for addressing the constraints and enhancing PSD. The recommendations were mandated for selected countries by the Board and by IDA deputies in 1991 to add a private sector perspective to that of the Bank, which was seen as dominated by the perspective of central government policymakers. The involvement of the IFC was required, as it was considered to be in closer touch with the private sector, and private sector consultation and surveys were recommended to capture the views of a broad cross-section of the private sector. During fiscal 1994–2000 12 private sector assessments (PSAs) were produced in IDA countries, in addition to the 5 produced earlier. At their best, PSAs deepened IDA staff and government policymaker understanding of PSD issues and enhanced the dialogue between business and government. They also contributed to country strategy and led to follow up through projects or policy conditionality. However, some knowledgeable staff argue that some PSAs were superficial exercises that failed to provide substantially new insights into the problems of the private sector or to identify strategic priorities and actionable recommendations for promoting PSD. As a market-oriented perspective on economic development became more mainstream, the necessity and cost effectiveness of PSAs as separate exercises were increasingly questioned.

[12] There have, however, been encouraging reports of progress on PSD issues in Tanzania where utility privatization and financial sector reform are progressing and comprehensive legal sector reform is also gaining momentum.

23. Elements of the PSA have become routine in Bank Group work. Enterprise surveys are widely used, and efforts to standardize them to build up comparative data have received broad support (the most successful effort, the World Business Environment Survey, collected data from a core questionnaire for enterprises in 80 member countries). These surveys are potentially more cost effective in a resource-constrained environment. Development of the country assistance strategy and Comprehensive Development Framework consultations frequently bring private businesses to the table to discuss PSD strategy. PSAs were a useful way to involve the Bank and its clients in an increasingly important area that had previously been neglected but they have been superceded by more specialized and operational tools. The recent Small and Medium Enterprise Department country mapping exercises closely parallel the model of PSAs, although they focus only on small and medium enterprises and in a more synoptic format. The country mapping work is also intended to be a much lighter and less costly exercise, focusing more on identifying gaps and mobilizing program activities in collaboration with other partners and stakeholders, rather than an in-depth analysis exercise.

Box 1. Côte d'Ivoire, Guyana, and Mauritania: Improving the Business Environment

Three projects illustrate IDA-approved operations with business environment components:

Côte D'Ivoire: Private Sector Development Adjustment Credit (C2843). The objectives of this project were to support the government's private sector development (PSD) program, increase external and internal competitiveness, and promote investment and exports. Specific components included reforming the overall legal and regulatory framework; reducing specific operating costs and improving the quality of the business infrastructure; privately providing essential business support services and simplifying procedures; and increasing private sector confidence in the government through reducing public arrears to the private sector. While the objectives of the legal and regulatory reform were only partially achieved, efforts to reduce operating costs and improve infrastructure quality were successful; the telecommunications company was privatized. An investment promotion agency established in 1995 as a one-stop window for investors contributed to a much shorter processing time for approving benefits under the investment codes and registering companies. The arrears reduction program was successful, but dialogue with the private sector did not improve because of the failure to establish the dialogue mechanisms during the preparation of the program.

Guyana: Private Sector Development Adjustment Credit (C2746). This program supported macroeconomic stability, improved regulation of the financial sector and merger or restructuring of key public sector banks, a comprehensive privatization program, streamlined trade procedures and harmonized tariffs in the Caribbean regional system, updated laws governing corporate activity, creation of an agency to foster foreign investment, reform of business taxation, and elimination of discretionary investment incentives. The operation helped establish the legal, policy, and regulatory framework for private sector-led development in an economy formerly dominated by state ownership and intervention. Privatization of state-owned enterprises exceeded targets. Public sector ownership of financial sector assets was reduced. A new act for regulation and supervision of financial institutions was presented to parliament. Tariffs were brought into line with regional common market requirements, and import and export licensing requirements were reduced. Tax laws were improved.

Mauritania: Private Sector Development Credit (C2726). This project's objectives included promoting private sector development through improving the investment incentive structure, improving the foreign exchange and trade regime, restructuring the banking sector and strengthening financial sector regulations, and developing financial markets and institutions. Many of the objectives were met despite the project's demanding and complex nature. Project objectives were fully achieved in liberalizing the foreign exchange system, reforming the banking sector, and developing financial markets and institutions. Active government participation in preparation and ownership of the program were key to the program's success.

24. Foreign direct investment (FDI) is a key ingredient for successful economic growth in developing countries. It promotes the rapid and efficient transfer and adoption of best practice

across borders and translates it into broad-based growth, not least by upgrading human capital. It has other potentially desirable features that affect the quality of growth and assist with poverty reduction. First, it helps reduce adverse shocks to the poor that result from financial instability, as happened during the recent Asian crisis. Second, relative to other forms of promoting private investment, FDI helps improve corporate governance—it is not easily subject to asset stripping that may render property rights distribution more unequal. Third, FDI can help improve environmental and labor standards because foreign investors tend to be concerned about reputation in markets where high standards are seen as desirable. FDI generates taxes that support the development of a safety net for the poor, and foreign investors also invest substantially in community development in areas where they operate. Finally, FDI can help improve the management of the social safety net, particularly service delivery to the poor—for example, through the provision of water supply.[13]

25. Foreign Investment Advisory Services (FIAS) has led the work to promote foreign direct investment. Working only at the invitation of governments, generally for a fee, FIAS carried out 105 activities in IDA countries during fiscal 1995–2000. Products include diagnostic assessments of the business environment; reviews of laws, policies, and regulations; assessments of administrative barriers; analyses of investment incentives; investment promotion measures; analysis of sectoral linkages; foreign investment in infrastructure; and foreign investment in data systems. A joint review by the Bank's OED and the IFC's Operations Evaluation Group in 1998 found the quality of FIAS' work to be high. MIGA's Investment Marketing Services undertook 109 activities in IDA countries to support direct investment promotion, dissemination of information, and capacity building and training. The proper division of labor between FIAS (now part of Private Sector Advisory Services) and Investment Marketing Services needs to be explored further as part of a revised Bank Group strategy paper for PSD.

26. In legal, regulatory, and incentive frameworks, priority in IDA countries has been given to debureaucratization, financial sector reform, improvement of foreign investment regulations, and trade reform. Where the local private sector was—or is—small and embryonic, it was appropriate to concentrate on key matters to unleash private activity. Efforts to promote consumer protection, corporate governance, insolvency or bankruptcy reform, and property rights have tended to be concentrated in IBRD or blend countries, mainly because they have the modicum of legal and institutional foundations needed for these activities to take root. Greater capacity will be needed in these areas to deliver support to IDA countries, and more thought is required on what IDA can and should do on these matters where institutions are especially weak. An operational inventory of what is being done in these areas Bankwide would facilitate cross-fertilization.

27. While efforts to reform producer incentives, for example, through trade policy reform, have been a major factor in promoting exports, the number of projects with explicit export development support has been modest. Of the 98 operations with business environment components, 15 included explicit measures to promote exports. Of the 8 projects that have closed, 6 had satisfactory outcomes. The Bolivia and Malawi country assistance evaluations cite good examples of IDA-supported diversification of agricultural commodities and processing in the early 1990s. While the government's role should not be so extensive as to compromise exporters' needs to avoid subsidies, limited intervention focused on institutional reforms of marketing bureaus and customs facilities should be explored in more cases (box 2).

28. IDA can use its analytical and advisory activities to address the analytical underpinnings of cross-border problems related to PSD, particularly in small economies. Examples include the harmonization of business laws for 15 francophone West African and Central African countries,

[13] Foreign Investment Advisory Services, *Foreign Direct Investment and Poverty Reduction*, October 12, 2000, p. 2.

the development of transport corridors such as that in Maputo in southern Africa, and energy sector cooperation in Southeast Asia.

Box 2. Bangladesh and Ghana: Approaches to Export Development

Bangladesh Export Diversification Project, fiscal 1999 (C32290). This well-designed operation provides market and product development support through a matching grant facility, support for administration and advisory services, and a trade management capacity building component focused on customs modernization.

Ghana Trade and Investment Promotion Gateway Project (C31140). Launched in 1998, this project envisages Ghana as a trade and investment gateway to Africa. It seeks to achieve this goal by upgrading the physical infrastructure available to investors, including rapidly developing a new export processing zone and inland free zone, and transforming institutional arrangements and service quality of the front-line public agencies. Each of these agencies is expected to achieve breakthrough service improvements, through private participation where applicable, that will contribute significantly to export promotion and attract private investments in the export processing zone and in the country.

Deepening the Financial Sector and Supporting Small and Medium Enterprises

29. While the financial sector as a whole was not included directly in the IDA10, 11 and 12 replenishment undertakings, it is closely linked to PSD issues.[14] A sound and well-functioning financial system is essential for private sector-led growth, providing an opportunity for new and existing entrepreneurs and investors who can play an important role in poverty reduction. Moreover, by increasing access to a wider range of clients, including women, the financial sector can empower groups that have been historically underserved. Finally, by avoiding financial shocks to the system that often result in bankruptcy of financial institutions, reform of the financial sector can provide some security to borrowers and depositors.[15] Avoidance of financial shocks can also protect the poor, who may be hardest hit by the slowdown in economic growth such shocks can generate. Intermediate objectives to pursue these goals are:

- Strengthening banking systems at institutional and regulatory levels, including through privatization and greater competition from foreign investment.[16]
- Building a framework for better financial services through improvements in the legal and judicial environment, accounting practices, clearing and payments systems, and the like.
- Increasing diversity in the financial system through developing capital markets and nonbank financial institutions that can act as "spare tires" when banking crises occur.
- Developing approaches to increase access to financial services for small and medium enterprises and the poor.

30. The Financial Sector Assessment program (FSAP) was launched in May 1999 by the World Bank and IMF to identify strengths, risks, and vulnerabilities in the financial sector and the

[14] The IDA recommendations covered small and medium enterprises and microenterprises. Rural finance is also included here, since it is often a distinct component in projects.

[15] World Bank Group, *Strategy for the Financial Sector*, August 16, 2000.

[16] Country assistance evaluations for Ethiopia, Nepal, Sri Lanka, and Uganda emphasized that state-owned banks were a major constraint to financial sector reform. Privatization of banks in Burkina Faso and Mozambique was cited as a solution to problems that had not been successfully dealt with through other measures to strengthen the sector.

appropriate policy responses. Priority was given to countries facing systematic problems with potential cross-border syndrome effects. Two of the first 12 pilots were in IDA countries (Cameroon and India). In some smaller IDA countries that face systematic financial crises (though not with cross-border implications), an FSAP response or its equivalent could be very advantageous.

31. Since fiscal 1994 IDA has approved 70 operations with significant financial sector development components, most of them in the Africa and Europe and Central Asia Regions. Of the 24 projects that have closed, 22 had satisfactory outcomes, and two-thirds were likely to be sustained, but only one-fifth had substantial institutional development impact. This again points to the need for IDA to expend more thought and resources on how to lay the institutional foundations for a robust and just market economy. Moreover, an OED review of Bank Group work on the financial sector found that individual project ratings did not capture trends in the financial sector as a whole. It found that the relevance of Bank support was high: lending operations strongly targeted sectoral reforms, especially policies to remove distortions and strengthen financial institutions. Efficacy, however, was mixed, with more success at reforms to develop banking laws and regulations and to remove distortions and much less success in reforms to strengthen individual institutions or increase competition. Overall the report concluded that the Bank's assistance for financial sector reform had not been strong.[17]

Small and Medium Enterprises

32. Until 1988 the traditional approach of IDA and other donors to supporting small and medium enterprises was to provide directed and often subsidized credit along with nonfinancial services through public institutions. The credit undermined the sustainability of financial institutions, and the supply-driven, low-quality nonfinancial services achieved low cost recovery. Following the publication of a 1989 Bank report on financial intermediary lending and the follow-up Operational Directive 8.30, financial lending was to focus on allocating and pricing market-based credit, upgrading the capacity of local institutions, and reforming the financial system.

33. Since fiscal 1994 IDA has supported 38 operations with small and medium enterprise components, over half of them in Africa.[18] Assistance included policy and institutional reforms to improve the business environment facing these enterprises; strategies to reduce the risks and transactions costs associated with lending to them and strengthen the capacity of the formal financial system to serve this segment of the market; development of markets for the private provision of a diverse set of nonfinancial services; and improved performance of publicly provided services to small and medium enterprises. Only five of the projects have closed. The outcomes of all of these were rated satisfactory, although two were only marginally so, but only two had likely sustainability, and only one had substantial institutional development impact. Among the active projects, 89 percent were rated nonrisky.

34. Lessons from small and medium enterprise projects include the importance of improving the policy and regulatory environment; using strong financial institutions to implement credit lines; allowing financial intermediaries to determine for themselves the terms and conditions of their loans; and using private providers of technical assistance. Other areas needing attention are gender issues and how to augment sources of local currency financing. It is still too early to judge the impact of the new Global Small and Medium Enterprise Department, which combines units of

[17] *Financial Sector Reform: A Review of World Bank Assistance*, Report 17454, March 6, 1998. The study covered 23 countries, 10 of them IDA.

[18] The IFC also has a substantial SME program in IDA countries, but mainly targets enterprises at the larger end of the scale.

the Bank and IDA and IFC, and the small and medium enterprises strategy paper issued in 2000. However, this Sub-Sector Strategy – building on past experience and lessons learned by both the IFC and the World bank in the SME sector – has a particular focus on “meso-level” initiatives aimed at creating sustainable and local capacity building for SME development encompassing enterprise level support, financial sector strengthening and improvements to the enabling environment for SMEs. The capacity building orientation of the Strategy is clearly a PSD priority in light of the institutional development impact scores referred to previously.

Microfinance

35. IDA and the Bank as a whole have made considerable progress over the past seven years in developing and globally disseminating best practice in the design and implementation of microfinance operations. IDA has financed 49 operations with microfinance components in 29 countries, nearly half of them in Africa. Efforts in microfinance (and rural finance) can be grouped into three categories: development of the policy, legal, and regulatory frameworks that allow innovative financial institutions to develop and operate effectively; institution and capacity building; and provision of funding through financial intermediaries (box 3). Only five projects have closed and been rated; all had satisfactory outcomes, two marginally so. Only two had likely sustainability, and two had substantial institutional development impact. Of 33 ongoing projects with microfinance components, 29 are rated nonrisky.

Box 3. Bangladesh: Poverty Alleviation through Microfinance

Poverty Alleviation Microfinance Project (C2922). This project supports an ambitious expansion of microcredit activities in Bangladesh that has increased the outreach of the 171 participating nongovernmental organizations (NGOs) from 440,000 clients in 1996 to 1.8 million by mid-1999. Women make up 90 percent of the clients. Loan recovery stood at 98.4 percent in June 2000. The program is executed by a not-for-profit organization operating at arm’s length from the government and governed by a general assembly of about 50 people representing all the main stakeholders concerned with poverty alleviation and social mobilization issues in the country.

Today 8 million households—60 percent of Bangladesh’s poor—have been reached by microcredit. An ongoing impact study finds that microcredit has increased borrower incomes and asset accumulation, improved the acceptance of health, education, and sanitation facilities, and enhanced mobility and efficient time use. Bangladesh’s microcredit industry was born of, and nurtured by, the local initiative of NGOs, supported by donor funding. Through the Poverty Alleviation Microfinance Project, now almost fully disbursed, 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.

36. OED evaluated the entire Bank and IDA microfinance portfolio in 1999, focusing on 15 completed projects (10 of them in IDA countries) in addition to examining the design of a more recent cohort of operations through fiscal 1997.[19] Aside from suggesting greater use of new products such as learning and innovation loans and adaptable program loans— as IDA did in the subsequent three years—the report concluded mainly that the Bank Group had not given

[19] “The World Bank and Microenterprise Finance: From Concept to Practice,” July 6, 1999.

sufficient attention to commercial viability as an institution building objective.[20] A Quality Assurance Group review of social fund projects found that the successful microfinance programs demonstrate the importance of offering a range of financial services at full cost.[21] Most social fund projects approved up to the end of fiscal 1996 did not meet the good practice guidelines for providing sustainable financial services to the poor. While there may be some tension between reaching the poor and commercial viability, recent microfinance operations reflect the strictures of Operational Directive 8.30. Revised in 1998, this directive laid out the institutional criteria (interest rates, eligibility) for all financial intermediary loans. The emphasis has generally shifted from primary reliance on credit lines with high-performing microfinance systems (as in Bangladesh) to local savings mobilization and intermediation coupled with capacity building and policy and regulatory reform (box 4). The result has been improved quality at entry. A set of monitorable performance indicators, particularly with respect to client impact and subsidy dependence, will be important.

Box 4. Honduras and Albania: Social Funds in Microfinance

Social funds have on balance proven effective at reaching the poor. Two good models are Honduras' *Social Investment Fund* and Albania's *Rural Poverty Alleviation project (C26800)*. Both have highly successful credit components with high repayment rates, in part due to meticulous planning as regards delivery mechanisms, eligibility criteria and repayment mechanisms. Both projects also put considerable emphasis on institutional capacity building; Honduras by providing grants for technical assistance and training to improve institutional skills in micro-finance management, and Albania by creating and fostering the development of village credit committees to ensure local ownership.

Five conditions appear to make social funds effective in delivering financing to micro-finance institutions:
- Define eligibility criteria carefully and apply them strictly
- Appoint appropriately qualified staff
- Separate accounting and MIS systems for micro-finance operations
- Provide capacity-building support for implementing organizations
- Provide financing that fosters quality financial services and financial self-sufficiency

Source: Sarah Forster, "Are Social Funds an Effective Mechanism to Deliver Credit for Microenterprise Development?" World Bank, January 1996.

37. IDA has supported major nonlending services in support of microenterprises. The Bank's Sustainable Banking for the Poor Project produced a microfinance handbook. The Consultative Group to Assist the Poorest (CGAP) founded in 1995 is supported by 27 donor agencies, with its secretariat in the Bank. It serves as a center of knowledge on microfinance and best practices in the field. CGAP supports the development of innovative financial products and services such as insurance, savings, and pension or remittance services that meet the needs of the poorest households. It advises donors on developing strategies and conducting portfolio reviews, vetting and developing project ideas, and identifying co-funding opportunities, technical resources, and staff training needs. Several courses have been developed to train donor staff on microfinance. CGAP also serves the microfinance industry, contributing to the research and policy dialogue on topics such as regulation and supervision, product development, and poverty outreach. It has developed and disseminated technical tools for practitioners and donors on appraising microfinance institutions, business planning, conducting external audits, audit

[20] This was exemplified by the use of a CAMELS (Capital, Assets, Management, Earnings, and Liquidity, with the "s" signifying efficiency of outreach to the poor) analysis to show that microfinance operations were performing at a level below the Bank average and that many were unlikely to be sustainable.

[21] "Portfolio Improvement Program: Review of the Social Funds Portfolio," 1997.

guidelines, and management information systems. CGAP has funded more than 35 microfinance institutions, most of whose clients are very poor women. An active rural and microfinance thematic group in the Bank has provided conferences and seminars, internal training, a help desk, publications, and links with external partners.

Rural Finance

38. Conventional wisdom with respect to rural finance through the 1980s emphasized supply-led government interventions in the form of targeted credit through government-owned rural finance institutions that received concessional loans and relent them to clients (often large farmers) at subsidized rates. Thus the focus was on disbursing agricultural credit, neglecting such issues as nonfarm rural development, savings mobilization, and portfolio quality. Labor-intensive investments and private for-profit financial intermediaries were crowded out. Although income expansion and poverty reduction were key objectives, the strategy used to pursue them was inappropriate.[22]

39. The relative failure of this approach led to the emergence of a new paradigm in the early 1990s. This approach focused on creating a favorable policy environment including not only macro stability and promotion of efficient financial markets, but also reduction in such historical biases against the rural sector as overvalued exchange rates, low controlled prices on agricultural products, excessive taxes on agricultural exports, and high effective rates of protection of domestic industry for products used as inputs to agriculture. The new approach also focused on reforming the legal and regulatory framework for rural financial markets, including reforms in the titling and registration of land, creation of registries under secured transaction law reform for moveable property to enhance collateral value, and elimination of usury laws.

40. IDA has approved 42 operations with rural finance components since fiscal 1994. Only four have closed, and three had satisfactory outcomes (one was marginally satisfactory). Only one, however, had likely sustainability, and one had substantial institutional development impact. Nearly 90 percent of active credits with rural finance components are rated nonrisky. OED's 1996 follow up to an earlier study of agricultural credit and rural finance, which included the IDA10 period, concluded that the quality of the portfolio had improved considerably through better components to strengthen intermediary institutions and greater attention to the macroeconomic and sectoral environments.[23] The Europe and Central Asia Region has been particularly innovative in implementing the new paradigm, incorporating legal and regulatory reform to cover land registration and titling, secured transaction reform on moveable property, use of group arrangements to spread credit risk, and provision of crop insurance (in Armenia, Albania, Azerbaijan, Georgia, the Kyrgyz Republic Moldova, and Tajikistan). Regions other than Europe and Central Asia and Africa have been much less active. Given their potential impact on PSD, these activities deserve greater priority than they have received. The upcoming Bank study on rural finance should provide a vehicle for further discussions.

[22] Jacob Yaron, McDonald Benjamin, Jr., and Gerda Piprek, "Rural Finance Issues, Design, and Best Practices," 1997. Clients of rural financial markets in Sub-Saharan Africa are engaged in activities that employ 70–80 percent of the population and generate 40–60 percent of the GDP and 80–90 percent of the exports.

[23] "A Review of Bank Lending for Agricultural Credit and Rural Finance (1948-1992): A Follow-Up," Report 15221, March 28, 1996. The study covered both IDA and IBRD countries. A different opinion was expressed in the Tanzania country assistance evaluation, which notes that the elimination of agricultural parastatals without alternative sources of credit and inputs reduced finance for small farmers.

Promoting Privatization

41. IDA's effectiveness in privatization has been positive in the microeconomic sense—that is, it has generally improved results at the level of the firm, as shown by OED project ratings. However, as discussed earlier, the macroeconomic and distributional impacts of privatization have been mixed, reflecting weak institutions, government reluctance to divest, and design problems (method of privatization or sequencing). These problems have been compounded by a tendency among IDA staff to apply the same solutions to all countries, ignoring the large differences in initial conditions, such as the former commercial culture and institutional underpinnings in some transition countries but not others. At the same time, a number of privatization programs were undermined by a lack of government ownership and commitment.[24]

42. During the review period 131 operations included privatization components, 94 of them in the Africa and Europe and Central Asia Regions. Of the 61 projects that have closed and been evaluated, 85 percent had satisfactory outcomes, only slightly below all PSD projects and IDA as a whole; 61 percent had likely sustainability; 33 percent had substantial institutional development impact; and 80 percent had satisfactory borrower performance. Of the 38 ongoing projects with privatization components, 33 (87 percent) are considered nonrisky. An example of an impact assessment of privatization program is provided in box 5.

[24] These problems were also identified by OED before IDA10. "World Bank Assistance to Privatization in Developing Countries" (Report 13273, Aug. 19, 1994) found that privatization succeeds best when government has full ownership of the program. Other important elements include appropriate macroeconomic conditions, including policies conducive to economic competition; administrative capacity to implement the program; and a private sector and supporting market institutions sufficiently developed to take advantage of the country's liberal economic stance. Not surprisingly, the report found disappointing results from privatization programs in some low-income countries, where some or all of the initial conditions were not met.

Box 5. Côte d'Ivoire: Privatization—An Impact Assessment

Over the past eight years Côte D'Ivoire's ambitious privatization program has wholly or partly privatized more than 60 firms and yielded more than $450 million in return. The program was initially supported by an IDA technical assistance credit (90 percent of which was devoted to the privatization of public enterprises) in fiscal 1992, the government having set up a Privatization Committee in 1990.

Despite a number of constraints that slowed implementation, the project's objectives were largely achieved. The government significantly reduced its shareholding in the private enterprise sector and placed the energy sector under private management. It relieved the pressure on public finances by eliminating direct subsidies to private enterprises, generating revenues from privatization transactions and collecting corporate taxes. Privatization deals also transferred responsibility for enterprise debt servicing to the private sector and led to the introduction of new capital into sectors that had long suffered from a lack of investment—including $1.4 billion in agribusiness and $1 billion in infrastructure. Profitability and labor productivity increased in privatized firms; employment increased by an average of 4 percent in privatized sectors; and there was a modest welfare impact on consumers

Nevertheless, Côte d'Ivoire has not yet attracted a diverse group of private investors, which would increase competition. The country also needs to nurture a solid base of small and medium enterprises. Regulations need to be rationalized to clarify the roles of technical ministries and regulatory bodies, including the Competition Commission. And despite the increasing participation of private firms in infrastructure, the public sector still bears a significant part of market risks. Most contracts—power, railways, water—are of the affermage (lease contract) type, with investment still the responsibility of the state.

Source: World Bank, "Implementation Completion Report: Privatization Support Credit for Côte D'Ivoire," March 2, 2000; "Impact of Privatization in Côte D'Ivoire," Boston Institute for Developing Economies (BIDE),1998; and "Can Africa Claim the 21st Century?" World Bank, 2000.

43. Case material from the nine IDA review focus countries, along with country assistance evaluations and special studies undertaken in recent years, reveals a wide range of experiences and highlights some of the factors critical to success of privatization programs (boxes 6 and 7). In Bolivia's Capitalization Program Adjustment Credit, the outcome of which was rated highly satisfactory, the ownership and commitment of senior government officials, particularly their dedication to transparency (for example, all bid openings were televised live) were key to success. In Vietnam, on the other hand, where government support for "equitization" has been very cautious, only a few small and medium enterprises have been able to sell varying percentages of their equity to the public—though the economic and financial impact of increased private ownership was still judged to be positive. A significant contributing factor to the relative failure of the privatization program in the Bangladesh jute industry was the rapid erosion of government commitment once political opposition manifested itself in the form of civil unrest. In Bolivia another element that contributed to the favorable outcome was an effective public information campaign that convinced both the public and potential investors of the costs of continued public ownership and mismanagement and the benefits of privatization. Both elements were missing in Ghana, whose Private Sector Adjustment Credit was rated marginally unsatisfactory.

Box 6. Bangladesh and Bolivia: The Importance of Government Commitment

Bolivia Capitalization Program: *The Capitalization Program Adjustment Credit* was intended to divest large enterprises and establish an appropriate legal and regulatory framework for private investment. The centerpiece was a form of capitalization, a distinctly Bolivian version of privatization. Private firms bid for 50 percent ownership and full management control of state enterprise, and these funds went into the enterprise being privatized as additional equity. The government thus gave up a potential fiscal windfall in favor of additional investments in the enterprises. From the outset there was full government commitment at the highest levels, supplemented by an effective public information campaign and transparent procedures. Five major infrastructure-related state enterprises, were wholly or mostly capitalized. The outcome of the program was rated highly satisfactory by OED. The CAE calls the program "an innovative, ambitious 'made-in-Bolivia' program to transfer management control and up to 50 percent of ownership of the key public enterprises to strategic investors." The capitalization program has resulted in new investment and infrastructure service expansion, and indirectly attracted additional foreign investment by demonstrating a conducive environment. IDA is in the process of carrying out a special study on the implementation of the Bolivian program, funded under the PPIAF, particularly with respect to its impact on the poor.

Bangladesh – Privatization of the Jute Industry. The FY94 *Jute Sector Adjustment Credit* was intended to create a viable, essentially privately owned jute industry operating on a normal commercial basis in a reformed policy environment. In the 3 year period 1994-96, the government intended to increase efficiency in the jute mill industry, by transferring most of the operating capacity to the private sector and by giving it a new ability to adjust to a weak world demand and the technological changes.

The program conditionality included elimination of excess capacity, retrenchment of 20,000 employees, privatization of remaining public mills, and closing of the state trading company. The government agreed to maintain a macroeconomic policy framework consistent with the program, including wage policies in the jute sector aimed at restoring and then maintaining profitability in the industry.

While there were some improvements, particularly with respect to the policy environment, debt restructuring and labor retrenchment, the broad objectives of the program, particularly with respect to mill closure and privatization, were not achieved. The primary reason for the program's failure was the deterioration in government commitment to the downsizing goals of the jute mill program in the face of considerable civil unrest and disturbances. IDA's performance also had a number of shortcomings, which were acknowledged by IDA management.

Sources: Boliva CPAC ICR, March 30, 1999, PPIAF Bolivia Concept Note, March 23, 2000 and Country Assistance Review, Report No. 17957, June 5, 1998; Bangladesh Jute Sector Adjustment Credit ICR, March 10, 1998 and Inspection Panel report, March 14, 1997

44. Sequencing—particularly in creating a regulatory framework—can also seriously affect the outcome of privatization. Experience clearly shows the desirability of establishing a sound regulatory framework before divesting an infrastructure firm containing natural monopoly elements. At a minimum the regulatory framework should be set up in parallel with the transaction. Attending to regulatory matters after the transaction has proven costly to both efficiency and consumer welfare.

45. The case of privatization in transition economies illustrates the complex issues involved (box 7). At the outset of transition there was general agreement that mass and rapid divestiture was the optimal policy. How else could the thousands of inefficient firms be placed in the hands of owners who would carry out the restructuring needed to make them competitive and able to survive and thrive in a market environment? Selling the companies one by one (or "case by case," as it is often termed) would take decades and—it was feared—give anti-market forces the time to regroup and halt the transition. With strong intellectual and financial support from Western advisors and the international financial institutions, including IDA, many transition states embarked on mass privatization through voucher schemes.

Box 7. The Kyrgyz Republic: Privatization in Transition Economies

Privatization and Enterprise Sector Adjustment Credit (PESAC). This fiscal 1994 credit, IDA's second adjustment operation in the Kyrgyz Republic, was geared to accelerate the pace and improve the quality of privatization and enterprise sector adjustment. Key elements were accelerating mass (voucher) privatization; enabling strategic investors to be majority owners of privatized enterprises; and establishing the Enterprise Reform and Resolution Agency, an autonomous agency to restructure or liquidate up to 30 large loss-making enterprises. The privatization strategy of the early 1990s had involved transferring large blocks of shares to existing managers and workers collectively. It was not conducive to improving efficiency in privatized enterprises because it gave control to insiders who were most inclined to resist painful restructuring and labor shedding. This contributed to a widespread perception of unfairness and threatened to jeopardize political support for privatization. The project was designed to correct some of these problems.

The government privatization strategy adopted in 1993 called for using competitive methods for all forms of privatization. Small-scale enterprises were to be privatized through competitive bids and cash auctions, and medium- and large-scale enterprises were to be privatized according to a preset formula, with most shares offered through competitive tenders to strategic investors. Despite some positive outcomes of privatization, including a reduction in subsidies to state-owned enterprises, the government views the overall results as a failure. OED rated the outcome of the project as only marginally satisfactory. Strategic investors did not materialize, and most enterprise shares were purchased by enterprise management or by individuals and legal entities affiliated with management (insiders). Sales proceeds from privatization were small, markets for coupons or stocks did not develop, investment funds were not significant (only about one-fifth of vouchers are in funds), and their operations were not clear and transparent. Privatization of public utilities was delayed, and privatization slowed after 1997 partly as a result of the government's refusal to sell companies at market prices. Unfulfilled expectations of the benefits of privatization have led to public disappointment and frustration about the outcome of the reform program. Moreover, there were serious shortcomings in corporate governance, accompanied by failures to enforce contracts and new laws. Most important, privatization has led to little deep restructuring.

Source: World Bank, "Performance Audit Report, Kyrgyz Republic: PESAC," Report 2639–KG," April 13, 2000.

46. In many cases firm insiders—workers and especially managers—became the dominant owners in firms privatized through vouchers. Recent evidence shows that insiders as owners restructure a bit more than state-owned firms but are far less effective than "concentrated"

owners—that is, strategic, external investors. Because of weaknesses in the legal and institutional fabric in economies long isolated from market operations, voucher privatization tended to produce weak and ineffective owners in terms of restructuring. Moreover, the promise that distribution of ownership would allow citizens to share in a rosy and imminent capitalist future seems hollow in retrospect for most. Two key questions arise:

- Could other methods have increased the number of concentrated owners? Case-by-case methods worked well in a few of the more favored transition economies, such as Estonia and Hungary, but they have proven much more difficult to apply in IDA transition countries, where the legal and institutional frameworks are not sufficiently developed to attract large numbers of core investors.
- Should these countries have kept their firms in state hands while they built up the needed institutional framework, perhaps with IDA's help? This appealing proposition has had considerable success in China, but its success depends on the state's ability to monitor the retained firms to prevent asset stripping by managers. It should be noted, however, that the success in China is not simply due to better institutional framework than in other transition economies, but also, to a significant extent, is attributable to the fact that many firms that have remained in local and provincial governments' hands are facing real competitive pressures which provides a strong incentive to reform. Most transition economies have undergone a political transformation in parallel with the economic one, and this transition has weakened or eliminated many of the policy and disciplinary mechanisms required to make such an approach feasible.

47. There is no easy answer. Privatizing in the absence of adequate legal and regulatory institutions is certainly unsatisfactory on equity grounds, and at least in IDA transition countries does not seem to offer many short-run production gains. But keeping the enterprises in state hands and trying to reform them slowly has not produced positive results either.

48. Given this difficult situation, IDA has learned, along with other donors and internal reformers in the countries, that privatization should be supported, but with less ambitious programs. Such scaling down requires concentrating divestiture efforts on key firms and sectors such as telecommunications in which a case-by-case approach shows promise and taking a longer-term view to lay the proper institutional foundations for well-performing private ownership. This is particularly important for legal reforms dealing with bankruptcy regimes, corporate governance, enforceability of contracts, and property rights. But this approach does not explain how to improve performance in the many firms that will not be fully privatized for some time. IDA is working on this important matter, whose resolution is increasingly urgent.

49. Labor redundancy is one of the most difficult issues in privatization.[25] A well-conceived privatization strategy should involve consultation with affected workers to review appropriate compensation—severance payments and other income support—as well as possibilities for retraining and reintegration into the labor market. A 1996 decision allowed IDA to provide direct support for severance payments to redundant workers. Often the costliest element of the project, such support has become an increasingly important component in privatization programs.[26] In low-income countries as well as transition economies with large public sectors and less-than-robust private sectors, national social safety nets may also be needed. IDA has supported social mitigation measures in many privatization projects. For example, the Mozambique Railways and

[25] Sunita Kikeri, "Privatization and Labor: What happens to Workers when Governments Divest?" World Bank Technical Paper 396, 1998.

[26] These components have not yet been evaluated.

Ports Restructuring Project approved in fiscal 2000 envisages retrenchment of about 12,200 employees as a result of the concessioning and restructuring of the ports and railways; nearly four-fifths of the project's $120 million is devoted to this issue. The staff rationalization plan, which management has discussed with staff unions and representatives, includes severance payments, redeployment support to workers, and timely dissemination of information.

50. Evidence on the environmental implications of privatization has not been collected systematically. In several cases, however, IDA funds were used to assess the environmental aspects of privatization and to assist clients in addressing them. Examples include the Capitalization Program Adjustment Credit in Bolivia, the Ghana Mining Sector Rehabilitation Project, and the Energy Sector Adjustment Loan in Senegal. Under the Economic Reforms Support Loan in Cape Verde approved in fiscal 1999, the government agreed to carry out environmental audits of the public enterprises to be privatized to determine remedial actions needed to bring them into compliance with existing national and international standards. The project will also strengthen the capacity of the National Council on the Environment to carry out monitoring and surveillance of polluting enterprises. Considering the importance of integrating environmental considerations into broad development programs early on, a more systematic approach, including a more active role in promoting pollution prevention, would help support environmentally sustainable PSD.

51. Experience has shown the following elements to be critical to satisfactory performance of privatization programs:

- An appropriate investment climate based on sound and stable macroeconomic policies, accompanied by strong government commitment to the objectives of privatization.
- A transparent institutional framework and process to administer the privatization program, particularly to provide the same information to all bidders, establish and maintain clear criteria for ranking bids, and select the winning bid on the basis of these criteria.
- Public information campaigns to explain the costs of inaction, gain the support of the public, and solicit the interest of strategic investors.
- A case-by-case approach to maximize restructuring, rather than measures to spread ownership widely (though this begs the question of how to make privatization politically palatable).
- Sequencing of reforms to ensure that competitive forces have been strengthened in manufacturing and that an adequate regulatory capacity is in place before or at least in parallel with the transaction in infrastructure privatization.

52. Other elements that would help improve IDA's effectiveness in implementing privatization projects include:

- Detailed monitoring and evaluation of all privatization transactions, covering not only post-privatization efficiency analyses but also the distributional and environmental impact of privatization and the level and use of proceeds by government, to provide data for guidance on best practice in this area.
- A revitalized thematic group on privatization and a more substantial training program for Bank staff.

Fostering the Private Provision of Infrastructure and Social Services

53. Since 1994 IDA has supported a substantial and growing number of activities, through both lending and nonlending instruments, that have transformed the provision of infrastructure. In

the process it has built up a large repository of best practice experience that is well documented and disseminated to borrowers and other donors.

Private Provision of Infrastructure

54. Of the trust funds established to support PPI, the most important is the Public Private Infrastructure Advisory Facility (PPIAF) founded in 1998 as a joint initiative by Japan and the United Kingdom and managed by the World Bank. In its first complete year of operation, through June 30, 2000, PPIAF financed 75 activities amounting to over $15 million, of which over $8 million was devoted to IDA countries.

55. Seventy-two IDA operations with PPI components have been approved since FY94, more than 60 percent of them in the Africa region. Evaluative information, while relatively scarce, is positive. Of the 19 projects that have closed and been evaluated, 17 had satisfactory outcomes, 16 had benefits considered likely to be sustained, and 10 had substantial institutional development impact. Of the 25 projects under implementation, 22 are rated nonrisky.

56. In August 1997 the World Bank Board of Directors endorsed the Bank Group staff paper "Facilitating Private Involvement in Infrastructure: An Action Program." The paper identified five barriers to effective private involvement in infrastructure and suggested actions to overcome them—advisory services, country framework and status reports, knowledge management and information on best practices, stronger and expanded guarantees, and support for subsovereign infrastructure. The paper also noted that the Bank Group—IDA as well as IBRD—should be a catalyst for private investment in infrastructure. Lending should focus on public sector actions to strengthen the enabling environment and promote reform, activities to prepare enterprises for privatization or concessioning, and financing mechanisms to leverage private funding in conjunction with MIGA or the IFC.

57. A recent review of Bank Group experience in information infrastructure concluded that the recommendations of a 1993 review of telecommunications had been heeded, including the incorporation of a private sector-led agenda in lending and nonlending interventions.[27] It is too soon to judge the outcome of the "new" agenda projects, but the report painted a mixed picture of the current state of information infrastructure in the developing world. The disconnect between the apparently responsive Bank Group approach and the more sobering status of the sector was explained by a number of factors. These include the changing sector environment, which has rendered obsolete the Bank's traditional focus on a narrowly defined telecommunications sector; complacency in the Bank over the level of network infrastructure in developing countries, the ability of poor countries to catch up quickly with no public sector role, and the adequacy of the Bank Group's monitoring systems for multisector projects; the Bank Group's fragmented organization in the sector; and the absence of an integrated operational strategy at global, regional and country levels.

58. By the late 1980s it was clear that Bank public power utilities projects were not delivering on their key objectives. A revised policy introduced in early 1993 identified guiding principles for such projects: transparent regulation, commercialization and corporatization, imports of services, a commitment to reform, and greater private investment. A 1996 OED study of power projects in Africa examined the impact of the new policy. The study (which covered only the beginning of the review period) found only modest success among projects approved after 1993 in establishing a transparent regulatory process, introducing a business orientation, and

[27] See "The Bank Group's Experience in Information Infrastructure: A Joint OED/OEG Review," May 10, 2000. This study covers both IDA and IBRD countries.

attracting the private sector.[28] It also found some positive trends—substantial progress due to the effectiveness of imported management services and improved country commitment to reform. Another OED energy sector study noted that nearly all power projects approved since the 1993 policy paper included subsector restructuring.[29] Most of the projects were still under implementation, and their privatization and corporatization components were progressing, if slowly. In many cases difficult decisions remained to be made, and the major reason for slow implementation of reforms was wavering government commitment. The report also noted the need for greater private participation in transmission and distribution of natural gas.

59. Partial risk guarantees are likely to be highly relevant in IDA counties, where the key risks hindering the increase in private capital flows are the lack of credibility of government undertakings and the concerns of investors on policy reversals. IDA guarantees can help mitigate these risks, thereby fostering private flows. The track record for the IDA partial risk guarantee is limited to only two projects approved since the inception of the pilot program in November 1997 (box 8). These are already demonstrating the potential of the instrument for catalyzing long-term private finance in IDA countries.[30] But it is important to ensure that IDA guarantees are only deployed in tandem with the implementation of sector reforms, a close judgment call in the context of the second guarantee operation in Bangladesh. Moreover, IDA, IFC, and MIGA need to establish clear criteria for determining when and where each institution should be involved in guarantee-related activities. A paper to be submitted to the Board in December 2001 will help in this respect. Finally, IDA should broaden the use of partial risk guarantees beyond the power sector, given their potential relevance to privatization, multicountry infrastructure projects, and sectors such as roads and water.

[28] Alvaro J. Covarrubias, "Lending for Electric Power in Sub-Saharan Africa," The World Bank, 1996. Most of the countries covered in this study were IDA countries.

[29] "The World Bank Environmental Strategy for the Energy Sector: An OED Perspective," Report 17359, February 11, 1998. This study covers both IDA and IBRD.

[30] A report to the Executive Directors by PSI ("Enhancing the Use of World Bank Guarantees as an Operational Tool," November 22, 2000) evaluates the experience with guarantees in both IDA and IBRD countries. There have been 14 guarantees for 13 projects. The report notes that they have demonstrated the strength of the instrument in mobilizing private finance by allowing longer maturity and lower margins, improving access to financial markets, helping countries establish a track record, and familiarizing borrowers with risk allocation, risk mitigation and project financing techniques.

Box 8. Côte d'Ivoire: Partial Risk Guarantee

Azito Power Project. This $223 million project designed to build a 300-megawatt gas-fired power station and 225 kilovolt transmission line has high priority in Côte d'Ivoire's economic investment and development system. It is expected to generate about a third of the country's electricity demand, address the critical shortage of power supplies, and have regional impact, with exports to neighboring countries.

The Azito Project was awarded through competitive bidding as a build, own, operate, and transfer concession with a term of 23 years. It was financed through a combination of equity, subordinated debt, and senior debt. The $140 million senior debt consists of a $32 million IFC A loan with 14 years maturity, a $30 million IFC B loan with 10 years maturity, a $30 million commercial loan with 12 years maturity supported by the IDA Partial Risk Guarantee, and a $48 million CDC Club loan with 12 years maturity. The IFC B loan and the IDA Guarantee Facility were successfully syndicated on a pro rata basis to a group of major international banks.

The IDA guarantee covers default to lenders on scheduled debt service payments of interest and principal if the government fails to meet its payment obligations under the concession and transmission agreement and IDA can call its counterguarantee. IDA was brought into the project as lender of last resort when the government extended the scope of the project to include the transmission system and asked the sponsors to finance the incremental cost. The commercial debt market for the country was limited to modest amounts of short-term finance, however, and there was finite lender desire for IFC B loans, particularly under the prevailing unfavorable emerging market situation. Thus the additional financing required IDA's credit enhancement and was a condition of the underwriting commitment for the IFC B loan.

Source: Adapted from a Project Finance and Guarantees Department note, June 1999.

60. IDA is expending considerable efforts to develop a conceptual framework for a strategy for pro-poor PPI, focusing on new kinds of service delivery, consumer preferences with respect to quality of service and willingness to pay, and the role of tariffs as incentives for the expansion of service. The poor typically pay more for services such as water, 10–40 times as much as people connected to modern water systems. Access to improved infrastructure, not subsidies, is thus the key to pro-poor PPI (box 9). Examples of innovative methods of utility provision include:

- Small-scale electricity providers ranging in size from individual households generating enough for their own use and that of a few neighbors to larger operators supplying up to 200 households with diesel generators, as in Yemen.
- Community-based private companies operating small-bore reticulated neighborhood sewerage systems with off-site treatment, serving about 1,000 households each, as in East Java in Indonesia.
- Telecenters offering computer, fax, telephone, and other communications and information processing equipment and training for users, managed by local entrepreneurs or community organizations, as in South Africa.

Box 9. Bolivia: Expanding Water and Sanitation Services to Low-Income Households

Bolivia's first major contract in the water and sanitation sector, a 25-year concession for the neighboring cities of La Paz and El Alto, was implemented in August 1997, benefiting from IDA advisory assistance in the context of broader work on the capitalization program. Unserved households in outlying areas relied on alternative water and sanitation services, often at high costs. A primary objective in moving to a private concession was to expand services to low-income households while holding costs down by increasing efficiency. The contract sets out requirements for service quality (including continuity of service, customer service, water pressure and flow, and water quality). The concession is regulated by a relatively independent national body, Superintendencia de Aguas, which monitors and enforces compliance with the expansion and quality obligations, but not the specific investments made by the concessionaire.

The La Paz-El Alto contract does not explicitly state whether the contractor has exclusivity over its service area, but the contract and Bolivia's water regulations protect the concessionaire from competition. Exclusivity can be harmful when it restricts service options that households might otherwise choose. In general, it is preferable to mandate outputs rather than inputs because it allows the concessionaire to choose the most efficient way to provide the desired outputs. However, by requiring in-house connections and mandating service quality standards, the La Paz-El Alto contract greatly restricts the flexibility of the concessionaire's service offering. Cost recovery over the life of the contract will be affected by such factors as the tariff structure (use of below-market social tariffs, a unified water and sewerage tariff, and maximum connection fees), the ability to disconnect customers for nonpayment, regulatory rules for adjusting the tariff level, and the soundness and independence of arrangements for applying those rules. Nonetheless, questions remain about financial sustainability given the current tariff structure and investment obligations.

To date the La Paz-El Alto concessionaire has met its service expansion obligations. But certain features of the contract could make it unnecessarily difficult to achieve the broad objective of universal service and create inconvenience for some clients. For example, the contract mandates a uniform and costly level of service, the tariff provides disincentives to meet expansion goals, and exclusivity provisions have the potential to restrict water and sanitation options before in-house connections become available

Source: World Bank, "Public Policy for the Private Sector," Note 178, April 1999.

61. A number of poverty reduction strategy paper toolkits cover ways that private sector approaches to provision of infrastructure services can have maximum impact on poverty alleviation. A conference in May and June 2000 yielded many ideas for increasing private sector involvement in infrastructure while maintaining and increasing access to these services. This work should continue and intensify and be mainstreamed into discrete operations under IDA 13.[31]

62. A core part of IDA's efforts in private participation in infrastructure has been developing best practice and good practice guidelines for setting up regulatory institutions and rules and processes for their operation tailored to the needs of developing countries, including institutionally weak low-income countries.[32] These activities would benefit from more realistic estimates of the time required to develop effective regulatory capacity. Weak regulatory capacity undermines the benefits normally associated with greater private sector involvement.

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[31] The proceedings were issued as World Bank, "Infrastructure for Development: Private Solutions and the Poor," June 2000.

[32] This is reflected in a range of seminars, conferences, special papers, "viewpoint" documents and internal training programs that IDA has put together over the past few years. Of special note has been the semi-annual International Training Program—Utility Regulation and Strategy (now in its ninth offering) put on by the World Bank in collaboration with the Public Utility Research Center at the University of Florida to train over a two-week period about 85 senior utility regulators and executives from infrastructure companies from around the world.

Private Provision of Social Services

63. Because of the importance of the private sector in providing social services—particularly health services—in IDA countries, it is important to expand the knowledge base to support improving public policy toward private social service providers. Since the 1997 Health Sector Strategy Paper IDA has made a substantial effort to develop the analytical and operational prerequisites for helping its clients enhance public policy toward the private sector. The only IDA project in private social service provision has been the 1996 Second State Health Systems Development Project in India, which included components to contract out service delivery to remote and underdeveloped areas through the use of nongovernmental organizations (NGOs). A toolkit for private participation in health is in preparation, and the new inclusive approach to sector work is being piloted in India and in the West Bank and Gaza. The effects on policy recommendations and public-private consultations so far are promising.

64. There is considerable scope for private provision of education. The IFC has taken the lead in this area, approving nine investments in education in IDA countries. The “Education Sector Strategy Paper” outlines a role for the private sector in education, and a toolkit is being prepared. IDA has included private education components in several operations (Burkina Faso, Georgia, Mali) in the past few years, though on a modest scale. This should be a growth area under IDA13, and substantial efforts should be made to operationalize and mainstream the developing knowledge. To this end IDA should consider establishing standards for health and education sector work that will ensure that the potential role of the private sector is an integral part of the analysis.

Recommendations

65. Clearly, PSD is a complex, multifaceted endeavor and there is need for IDA to exercise selectivity based on country commitment and performance, demonstrated IDA comparative advantage and partnership with other key actors. With globalization, there is demand for a greater focus on governance, and environmental and social issues related to private investment. In this context, the forthcoming PSD strategy should propose selectivity criteria reflecting the distinctive roles of IDA/IBRD, IFC and MIGA. Considerable synergies can be tapped within the Bank Group by combining IDA's role in improving the country policy framework IFC's unique connectivity to private corporations and MIGA's catalytical function vis a vis foreign direct investment. Development rewards would surely be enhanced if the three agencies would work more closely together and with their external partners to generate environmentally and socially sustainable development. This will require improved delineation of respective roles, shifting activities among institutions as well as 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, greater selectivity and improved development effectiveness.

66. Review of IDA’s experience over the IDA10-12 period highlights the importance of the following issues:

- *Equity and Environment.* IDA should pay more attention to the distributional and environmental impacts of private sector development activities. Society has not widely shared the gains from increased efficiency because of inadequate focus on the institutional framework for private sector development. Also, IDA should integrate environmental considerations more systematically into broad development programs early on, including more actively promoting pollution prevention, to help ensure environmentally sustainable PSD.

- *Legal Framework*. Recognizing the need to sequence reforms, and allowing for the fact that institutions are weak, more attention should be given to initial steps in building up the legal framework across an expanded set of concerns including consumer protection, property rights, insolvency/bankruptcy reform, and corporate governance.

- *Financial Sector Development*. IDA's financial sector objectives should include institutional and regulatory strengthening; improving accounting practices, clearing and payments systems, and the legal and judicial environment; increasing diversity through developing nonbank financial institutions; developing new approaches to increase the access of rural and urban micro, small and medium enterprises and the poor to commercially viable financial services; greater attention to gender issues in SMEs; and improving the policy environment and regulatory framework for rural financial markets.

- *Private Provision of Infrastructure and Social Services*. IDA should continue to promote increased private sector involvement in infrastructure while maintaining and increasing access to infrastructure services, especially for the poor. This work requires developing effective regulatory capacity, with more realistic estimates of the time required. With substantial scope for greater private provision of health and education, IDA should consider establishing standards for health and education sector work to ensure that the potential role of the private sector is an integral part of the analysis.

- *Export Promotion.* While efforts to reform the incentives facing producers, for example, through trade policy reform, have been important in promoting exports, IDA could explore limited interventions for export promotion focused on institutional reforms of marketing bureaus and customs facilities in more cases. Particularly in small economies, IDA should use its analytical and advisory activities to encourage action on cross-border trade and investment problems – where this is not already provided and would complement other actors, including regional development banks – where this is not already provided and would complement other actors including the regional development banks.

- *Support of Privatization.* IDA should continue to support privatization, but with a longer-term view. Its support should lay the proper institutional foundations and concentrate divestiture efforts on key firms and sectors in which a case-by-case approach shows promise. Critical elements for satisfactory privatization include a strong investment climate, strong government commitment, a transparent process of privatization, public information campaigns, sequencing of reforms to ensure competitive forces or adequate regulation, and assistance to displaced workers.

- *Monitoring and Evaluation.* Within the Bank, monitoring and evaluation to provide best practice for the future and a revitalized thematic group would help. IDA must work on how to improve performance in the substantial number of firms that will not be fully privatized for some time. In addition, the Bank Group needs a more comprehensive database to track operational results. Better indicators are needed for financial sector performance and vulnerability, as well as for the performance of lending for small and medium enterprises, microenterprises, and rural finance. OED in its forthcoming work programs should devote considerable resources to evaluative studies in the PSD area, including evaluation of work on the business environment; evaluation of work on privatization, both its design and impact, including distributional and environmental effects and the use of sale proceeds; an assessment of performance to date on PPI, including the shifting emphasis to pro-poor strategies; and a progress report on the implementation of the two new strategy papers dealing with SMEs and the financial sector.

- *Institutional Issues.* The PSD Sector Board should consider expanding its composition to include membership from ESSD, PREM, FIN, and HD to provide a Bank-wide perspective on private sector activities. The Sector Board in collaboration with HRS should review the skill-mix inventory of staff working in the PSD area in order to identify capacity gaps and training requirements and suggest steps needed for upgrading.

ATTACHMENT I

IMPLEMENTATION MATRIX FOR IDA10–12 UNDERTAKINGS RELATED TO PRIVATE SECTOR DEVELOPMENT

Introduction

The IDA12 Replenishment Report requested OED to undertake an Independent review of the IDA program during the IDA10-11 period and an interim review of IDA12. The Review concentrates on IDA's development contribution in *six thematic development priorities*: 1) poverty reduction, 2) social sector development, 3) private sector development, 4) governance, 5) environmentally sustainable development, and 6) gender. It also addresses *four priority process reform objectives*: 1) performance based allocations, 2) enhanced CAS design and implementation, 3) aid coordination, and 4) participation.

The following matrix lists the main undertakings of the IDA10,11 and 12 Replenishment Reports related to Private Sector Development and presents comments on the extent of IDA's implementation. The comments focus on actions taken by IDA during the respective replenishment period and, where appropriate, give a sense of subsequent or on-going actions.

The matrix reports on the *extent of compliance*, not effectiveness in terms of outputs or outcomes from IDA's actions. The wide variation in the nature of the undertakings –ranging from encouragement of broad redirections in areas of operations to specific calls for reports – created a challenge for arriving at aggregate ratings. The findings on IDA's degree of compliance as reported in the IDA Review's report and this background study made use of a system of ratings on individual undertakings, reviewed with management. This system also served as input into the substantive discussion of implementation that is summarized in the text in this Annex.

Undertaking	***Comments***
Prepare Private Sector Development Strategy	
IDA 12: Establish a clear PSD strategy for the World Bank Group in 1999.	A paper entitled "World Bank Group Private Sector Development Strategy" was discussed with the Board in December 1999. [33] The paper dealt with reorganization of the Bank and IFC and associated business decisions, but fell short of being a strategy. The Bank Group has continued with the preparation of strategy papers on specific topics (e.g. SMEs) as well as regional strategy papers (Africa, ECA). A comprehensive PSD strategy paper is in preparation and expected to be completed in the fourth quarter of FY01.
Help create enabling environment for PSD	
IDA 10: Prepare Private Sector Assessments (PSAs).	During FY94-FY00, IDA undertook a number of PSAs primarily in Africa and South Asia. In recent years, elements of PSA work have been "mainstreamed" through the use of enterprise surveys.
IDA 10: Develop supporting legal, regulatory and incentive frameworks. **IDA 11**: Improve the environment for private sector activity as a means of job creation and poverty reduction.	Priority in IDA countries has been given to addressing 'traditional' legal/incentive issues such as improvement of foreign investment regulations, trade reform, debureaucratization/delicensing and relevant financial sector reforms. FIAS and MIGA have strong programs in IDA countries. Less attention has been given to competition, consumer protection, property rights, insolvency and corporate governance.
Promote export development	
IDA 11: Country strategies and economic analysis	Export development has received less attention in

[33] *World Bank Group Private Sector Development Strategy*, (Report No. R99-175) September 10, 1999.

should address the need for broadening the export base.	lending than the priority assigned to it in CASs and other documents. While efforts to reform producer incentives have been a major factor in promoting exports, only a small portion of credits approved for business environment development have had an explicit export development component.

Support Development of small, medium and micro enterprises and financial sectors	
IDA11: Consultative Group to Assist the Poorest (CGAP) should serve as a forum both for mobilizing additional finance and for exchanging information and best practice in credit programs for micro enterprises. **IDA 11**: Stress importance of small and micro-enterprises in job creation, especially for women.	CGAP, established in 1995, is supported by 27 donor agencies, including the Bank, which serves as secretariat. It supports capacity building in microfinance institutions and develops best practice standards for microfinance. In its first three years, CGAP committed over $10 million to IDA countries and mobilized over $ 400 million in microfinance support from other donors. Given its relative success, the CGAP program was renewed in July 1998 for 5 years, and its objectives were broadened to include increasing the understanding of the poverty outreach of MFIs and improving their legal and regulatory framework. More than three quarters of the clients of CGAP partners are women and seven partner institutions serve female clients exclusively. See below.
IDA 11: Assess IDA's impact on small enterprises and address the economic, financial, structural and regulatory issues affecting these enterprises.	IDA support for SMEs and rural finance has undergone fundamental changes in approach and has moved away from support for directed credit and non-financial services provided through public institutions. IDA has increased support for policy efforts to remove discrimination against small firms, create a favorable business environment, and build a supportive legal and regulatory framework for financial institutions, though *level of activity* has not increased

	correspondingly.
IDA 12: Support policy changes and private sector projects that focus on small business, micro-entrepreneurs, and small farmers - both men and women. **IDA 12**: Build programs providing financial services for micro, small and medium sized enterprises. Also deepen the financial sector, including rural finance, and improve CAS diagnostic treatment of the financial sector.	See above for CGAP support of microenterprises. In the area of SMEs, over the period of IDA10 through the first year of IDA12, IDA has supported 38 projects with SME components, 49 with microfinance, and 42 with rural finance; and the IFC has become a significant source of financing for SMEs in IDA countries. A new SME Department was established (1999) as a Global Product Group combining part of the World Bank's PSD Department with IFC. For the first time a comprehensive SME strategy for the Bank group was prepared and endorsed by the Board in May 2000. A rural finance study currently under preparation could be a vehicle for new efforts in this area.[34] The 1999 CAS Retrospective covering the CASs from the second half of IDA11, found that by absolute standard, 48% of IDA CASs had unsatisfactory coverage (33% by priority-based standard). Many FY2000 IDA CASs still contain inadequate discussion of financial market structure, or issues of corporate governance, efficiency, regulation, and supervision.
Promote privatization	
IDA 10: Assess problems experienced in PSD, including privatization, and IDA's response to them.	While most IDA-supported privatization efforts have improved results at the firm level, macroeconomic and distributional impacts have been mixed -- reflecting an

[34] A new strategy, *Small and Medium Enterprises (SME). Sector Strategy,* (Report No. R2000-67 May 4, 2000), and new department (Bank/IFC) for small and medium-size enterprises, both recently launched, promise a more dynamic response, and an ongoing rural finance study could provide needed guidance.

	underestimation in the IDA10 period of the importance and complexity of institutional underpinnings and government reluctance to divest, and design problems (including method and sequencing of privatization efforts).
IDA 12: Ensure that privatization improves services to the poor, that social safety nets are in place; assess the employment and social effects of privatization and how privatization affects environmental sustainability and social equity. Where appropriate, assess relevant legal issues and provide capacity building assistance.	Issues of equity and environmental sustainability received increased attention in the first year of IDA12 -- with some recent privatization programs having included environmental audits and establishment of severance funds and including new analysis of the potential of PPI to serve the poor. However these are early measures and the general effect of privatization on the poor and the environment do not yet receive adequate attention in operations. Analysis and technical assistance in the area of legal and regulatory issues of privatization and private enterprise development have also increased and more of this work is in the planning stages.
Promote private investment through infrastructure development	
IDA 10: Continue to encourage private investment through infrastructure lending. **11**: Foster economic frameworks to encourage private provision of infrastructure (PPI).	Infrastructure lending declined slightly (in volume) in IDA10 to a level of 15% of total IDA lending, then rose to just over 20% in IDA11 and remained close to that amount in FY00. Support for PPI, through lending and non-lending services, has been an area of growth for IDA in IDA11 and IDA12. Internally, IDA has produced "best practice" policy papers and conducted training seminars organized by a PPI thematic group. Also, the Bank established an International Forum for Utility regulation in 1997 which offers

	workshops for regulators from developing countries, including many from IDA countries, in support of increased private provisioning of utility services.
(a) Pilot use of partial guarantees	
IDA 12: Make IDA partial guarantees available (if the pilot program proves effective, the IDA guarantees fit within the context of an overall Bank Group PSD strategy, and they are limited to small portions of IDA resources).	It is too early to rate this commitment. IDA provided its first Partial Risk Guarantee Operation in January 1999 under the pilot for the Azito Power project in Ivory Coast. The IDA Guarantee was critical in ensuring the successful completion of the financing plan for the project. Another IDA PRG was approved in June 2000 (Haripur Power Project in Bangladesh) but raised issues of the sequencing of guarantees with sector reforms. PPI efforts suggest the potential for IDA partial guarantees beyond the power sector. An appropriate division of labor in the Bank Group was discussed in Board paper titled "Enhancing Use of World Bank Guarantees as an Operational Tool: Review of the World Bank Group Program" (2000).

Annex 1. IDA Projects with PSD Components in Relation to Total IDA Portfolio

	Total IDA		With PSD components			
	No. of projects	**IDA loan amount** (in $mil.)	**No. of projects**	*% of total*	**IDA loan amount** (in $mil.)	*% of total*
Sectors						
Agriculture	158	7275	35	*22*	999	*14*
Economic policy	93	5109	62	*67*	3974	*78*
Education	102	4593	2	*2*	76	*2*
Electric power and energy	35	2301	13	*37*	1157	*50*
Environment	45	1246	1	*2*	8	*1*
Finance	45	1323	35	*78*	1140	*86*
Health, nutrition and population	86	4954	1	*1*	350	*7*
Mining	10	189	4	*40*	42	*22*
Multisector	13	871	1	*8*	25	*3*
Oil and gas	13	427	4	*31*	155	*36*
Private sector development	52	1624	47	*90*	1465	*90*
Public sector management	62	1707	17	*27*	666	*39*
Social protection	75	2310	12	*16*	597	*26*
Telecommunications	8	55	3	*38*	29	*53*
Transport	76	4783	10	*13*	424	*9*
Urban development	48	1667	2	*4*	85	*5*
Water supply and sanitation	34	1263	8	*24*	253	*20*
Total	**955**	**41697**	**257**	***27***	**11445**	***27***

Annex 2A: PROJECT RATINGS

	Total	Africa	Europe and Central Asia	Latin America and the Carribean Region	Other Regions[1]
CLOSED PROJECTS:					
Total # of projects	***76***	***36***	***24***	***10***	***6***
# Satisfactory outcome[2]	66	28	24	10	4
(in percentages)	*87%*	*78%*	*100%*	*100%*	*67%*
# Likely sustainability[3]	42	18	16	7	2
(in percentages)	*55%*	*50%*	*67%*	*70%*	*33%*
# Substantial institutional development impact[4]	28	14	8	5	1
(in percentages)	*37%*	*39%*	*33%*	*50%*	*17%*
# Satisfactory Bank performance[5]	64[6]	26[7]	24	8	3[8]
(in percentages)	*89%*	*76%*	*100%*	*80%*	*75%*
# Satisfactory Borrower performance[5]	*59[6]*	*23[7]*	*23*	*8*	*2[9]*
(in percentages)	*82%*	*68%*	*96%*	*80%*	*67%*

ACTIVE PROJECTS:

Total # of projects	***140***	***68***	***32***	***9***	***31***
# Non-risky[10]	122	59	27	9	27
(in percentages)	*87%*	*87%*	*84%*	*100%*	*87%*

Sources: Institutional Business Warehouse, Operations Evaluation Department and Quality Assurance Group.

Notes:

[1] Other regions include East Asia Pacific, South Asia and Middle East and North Africa.

[2] Satisfactory outcome ratings include projects rated marginally satisfactory, satisfactory and highly satisfactory. Of the 66 projects with satisfactory outcomes, 14 were rated marginally satisfactory.

[3] Likely sustainable ratings excludes projects rated otherwise, i.e., uncertain or unlikely.

[4] Substantial institutional development impact ratings include projects rated at least substantial (choices are high, substantial, modest and negligible).

[5] Bank and borrower performance satisfactory ratings include projects rated satisfactory and highly satisfactory. Some projects were not rated for these two items.

[6] 72 projects were rated for this item.

[7] 34 were rated for this item.

[8] 4 projects were rated for this item.

[9] 3 projects were rated for this item.

[10] Non-risky projects exclude projects determined as being actually at risk and potentially risky.

Annex 2B: RATINGS OF PROJECT COMPONENTS

	Business Environment	Privatization	Microfinance/Small and Medium Enterprises/ Rural Finance	Private Participation in Infrastructure	Export Promotion	Financial Sector Development
CLOSED PROJECTS:						
Total # of components	***40***	***61***	***8***	***19***	***8***	***24***
# Satisfactory outcome	37	52	7	17	6	22
(in percentages)	93%	85%	88%	89%	75%	92%
# Likely sustainability	25	37	3	16	4	16
(in percentages)	63%	61%	38%	84%	50%	67%
# Substantial institutional development impact	12	20	2	10	2	5
(in percentages)	30%	33%	25%	53%	25%	21%
# Satisfactory Bank performance	35[11]	51[12]	7	16[13]	5[14]	22
(in percentages)	90%	86%	88%	89%	71%	92%
# Satisfactory Borrower performance	34[11]	47[12]	6	15[13]	6[14]	23
(in percentages)	87%	80%	75%	83%	86%	96%

ACTIVE PROJECTS:

Total # of components	*52*	*38*	*56*	*25*	*35*	Not available
# Non-risky	46	33	48	22	30	Not available
(in percentages)	86%	87%	86%	88%	86%	Not available

Sources: Institutional Business Warehouse, Operations Evaluation Department, Quality Assurance Group, Projects Search databases, Projects Search databases, ImageBank and Staff Appraisal Reports.

Notes:

[11] 39 projects were rated for this item.

[12] 59 projects were rated for this item.

[13] 18 projects were rated for this item.

[14] 7 projects were rated for this item.

Annex 3. No. of IDA Projects with PSD Components (by instrument): FY94-00

(IDA loan amounts in italics; in million US $)

	SALs	**SECALs**	**TALs**	**Ils**	**Others**	**TOTAL**
1994	7	7	1	9	0	24
	495	*728*	*9*	*267*	*0*	*1499*
1995	6	7	8	17	4	42
	333	*281*	*110*	*549*	*225*	*1498*
1996	9	7	17	16	3	52
	567	*727*	*241*	*825*	*212*	*2572*
1997	8	1	4	16	0	29
	560	*10*	*47*	*522*	*0*	*1139*
1998	9	3	6	14	4	36
	588	*200*	*49*	*982*	*17*	*1836*
1999	12	3	8	12	7	42
	712	*275*	*111*	*353*	*171*	*1622*
2000	4	1	8	15	4	32
	480	*32*	*139*	*518*	*110*	*1279*
Total	**55**	**29**	**52**	**99**	**22**	**257**
	3735	***2253***	***706***	***4016***	***735***	***11445***

Annex 4. No. of IDA Projects with PSD Components by Network: FY94- 00

(IDA loan amounts in italics; in million US$)

	PSD	**Other PSI**	**PREM**	**HD**	**ESSD**	**FIN**	**TOTAL**
1994	4	3	8	0	5	4	24
	324	*144*	*555*	*0*	*166*	*310*	*1499*
1995	7	9	10	1	11	4	42
	153	*468*	*528*	*50*	*241*	*58*	*1498*
1996	13	6	17	1	7	8	52
	508	*154*	*956*	*350*	*446*	*158*	*2572*
1997	5	2	10	1	8	3	29
	105	*135*	*601*	*26*	*155*	*117*	*1139*
1998	3	12	12	0	6	3	36
	52	*736*	*548*	*0*	*345*	*155*	*1836*
1999	8	5	16	0	8	5	42
	155	*219*	*939*	*0*	*128*	*181*	*1622*
2000	7	7	7	0	3	8	32
	168	*289*	*538*	*0*	*123*	*161*	*1279*
Total	**47**	**44**	**80**	**3**	**48**	**35**	**257**
	1465	***2145***	***4665***	***426***	***1604***	***1140***	***11445***

Annex 5 FIAS Activities in IDA Countries FY95-00

CAS Countries

FIAS Activities

	FY 1995	FY 1996	FY1997	FY1998	FY 1999	FY 2000
AFRICA						
Benin						
Burkina Faso						Administrative & Institutional Reforms
						Registration Procedures & Info System
Burundi						
Cameroon	Diagnostic Study					
Cape Verde	Institutions					Promotion Strategy
Chad						
Comoros						
Congo						
Cote D'Ivoire						
Eritrea						
Ethiopia			Diagnostic			IPA Strengthening
Gambia, The	Diagnostic Study					
Ghana	Investment Policy	Promotion Strategy				
Guinea		Investment Policy		Diagnostic/Promotion		
Guinea-Bissau			Investment Law	Investment Code		
Kenya						Investment Code Review
Lesotho			Administrative Barriers			
Madagascar					Administrative Barriers	
Malawi	Promotion Strategy					
Mali			Institutions	Incentives	Administrative Barriers	
Mauritania		Administrative Barriers			Implementation: Law	
					Administrative Barriers	
Mozambique		Administrative Barriers	Implementation: Admin. Procedures			
Niger						
Nigeria						
Rwanda						
Senegal		Investment Policy	Investment Laws		Administrative Barriers	Implementation: Administrative Procedures
						Review of IPA Decree
						Administrative Barriers
Sierra Leone						FDI & EPZ Laws Review
Tanzania					Investment Law	
					Promotion: Institutions and Strategy	
Togo						

Uganda	Institutions: Investor Tracking Software		Administrative Barriers	Incentives/EPZs		
Zambia					Infrastructure	
Zimbabwe	Promotion Strategy		Infrastructure			Administrative Barriers
EAST ASIA and PACIFIC						
Cambodia			Institutions			Investment Policy: Incentives
China	Infrastructure	Implementation of BOT	FDI Database	Investment Law	FDI Data	Investment Promotion Strategy
		Promotion Strategy: Sichuan	Investment Policy	Investment Policy: Seminar		
Indonesia	Backward Linkages	Bakcward Linkages II		Approval/Promotion	Approvals/Licenses	Implementation: Eastern Provinces
	Investment Policy	Institutions: FDI Database				
Laos						
Mongolia			Promotion Strategy	Investment Law		
			Implementation of Laws	Implementation: Training	Implementation: Promotion	
Solomon Islands			Investment Laws			
Vietnam	Investment Policy	Infrastructure		BOT Regulations	Investment Policy: Establishment	Special Economic Zones Diagnostic
SOUTH ASIA						
Bangladesh						
Bhutan						
India						Andhra Pradesh Diagnostic/Promotion Strategy
Maldives						
Nepal			Incentives		Infrastructure	
Pakistan					Institution: Promotion	
Sri Lanka						
EUROPE and CENTRAL ASIA						
Albania						
Armenia					Investment Law	Implementation: Investment Law
					Investor Survey	
Azerbaijan						
Bosnia-Herzegovina				Investment Law		IPA Structure & Activities
FYR Macedonia					Diagnostic	Implementation: Legal Reforms
Georgia		Diagnostic	Implementation: Laws	Implementation: Training		
			Implementation: Institutions			

Kyrgyz Republic	Diagnostic		Diagnostic II	Investment Law	Diagnostic	
					Investment Law	
					Law Implementation	
Moldova						Investment Policy Statement
Tajikistan						
LATIN AMERICA and CARIBBEAN						
Bolivia	Institutions				Administrative Barriers	
Guyana	Diagnostic					
Haiti						
Honduras						
Nicaragua				Diagnostic/Promotion	Promotion	
					Legal Framework	
					Implementation: Legal Framework	
MIDDLE EAST and NORTH AFRICA						
Egypt				Investment Policy	FDI Data	General Promotion Strategy
Yemen, Republic of			Diagnostic			Review of Investment Law
TOTAL NUMBER of PROJECTS	**14**	**11**	**19**	**15**	**25**	**21**

Annex 6. Corporate Governance IDA Credit Components FY94-00

Africa	**Project Name**	**Description of Corporate Governance Components**
Mauritania	Capacity Building Project for the Development of the Private Sector, 1995.	Strengthen information system pertaining to credit and arrears in banking systems. Review the status of accounting professions and upgrade the existing accounting plan - taking into consideration changes in other countries and realities of the Mauritanian economy; ensuring transparent, reliable accounting rules; and ensuring comparability of statements. Strengthen the Chamber of Commerce. Update the commercial law, including the investment code, commercial and civil procedural law; bankruptcy proceedings; provide information on existing companies through the establishment of commercial register.
Cameroon	Privatization and Private Sector Technical Assistance Project, 1996 C2882	Implementation of the General Statute for Public Enterprises which deals with the operating rules of PEs and their supervision by Government and dispositions regarding liquidation of PEs. Components on corporate governance cover: PEs (other than those non-commercial affairs or branches of central government) to be subject to corporate law - even if private sector is a minority shareholder; statutory organs such as the Board of Directors and shareholders' meetings; financial reporting requirements; improvement of legislation on debt recovery and strengthen Creditors Rights.
Mali	Financial Sector Development Project, 2000 ML-PE-1748	The government's strategy in the financial sector in Mali aims specifically at (a) encouraging private sector and the government to take advantage of the existing legal framework; (b) improving financial intermediation by supporting the local antenna of the Regional Stock Exchange (Bourse Regional des Valeurs Mobilires (BRVM)) and the General Brokerage and Intermediation Company (Societe de Gestion et d'Internidiation (SGI)); and (c) building bridges between the operations of banks, non-bank financial institutions, and microfinance institutions to encourage greater financial sector outreach. Also addressed are judiciary issues including those that originate in the functioning of the judiciary itself as well as in the practices of ancillary structures associated with the judicial system.

East Asia	Project Name	Description of Corporate Governance Components
Indonesia	Indonesia - Second Accountancy Development Project, 1994. 12883-IND L3810	The project supported technical assistance for drafting accounting and auditing standards compatible to the IAS. Enforcement of these standards would be achieved through the provisions of the company and commercial law. The project also supported formulation of: special accounting and disclosure rules for public companies; securities industry regulations; and development of organizational plans, systems and procedures for capital market regulatory operations. It also provided effective coordination among the law and decree making, standard-setting, capital market rule-making and professional accountants licensing and supervision activities.
Indonesia	Indonesia - BEPEKA Audit Modernization Project, 1997.	Skills Development Component will develop a core capacity in government auditing with a special emphasis on performance and financial audits by supporting i) overseas and in-county short-term programs to create a small but well-trained multi-disciplinary auditing team; audit BEPEKA's training center to develop a core curriculum and course material for maintaining and upgrading staff skills. Support BEPEKA implementation of the proposal to introduce general audit guidelines for all public sector entities. To improve legal and regulatory environment through passage of legislation to i) expand legal authority to do performance audits; and ii) remove limitations to financial audits.
Mongolia	Mongolia - Ulaanbaatar Services Improvement Project, 1997.	Design and implement conversion to the new accounting system with supporting rules and procedures consistent with IAS. Incorporation of USAG Articles according to requirements of the Company Law. Amendments of the AoA to clarify: role of owner and governing board; the legal responsibility, whether limited liability company or a SOE; procedure for establishing the governing board and selecting its members, as well as its duties, powers and responsibilities.
Indonesia	Indonesia - Policy Reform Support Loan Project, 1998	Corporate Governance components include: all corporations required to publish audited financial accounts annually; modify and strengthen bankruptcy laws to provide adequate protection to debtors and creditors; and to adopt transparent rules for evaluating the reorganization plans and for liquidation procedures.

East Asia	Project Name	Description of Corporate Governance Components
Indonesia	Indonesia - Second Policy Reform Support Loan Project, 1999 L4470	Improve governance and bank supervision and strengthen the policy, regulatory and institutional infrastructure for banking through rebuilding a bank supervision dept. in line with international standards and reinforcement of bank supervision dept. Strengthen bankruptcy and debt restructuring provisions through review of early experience with the commercial Court set up under INDRA, appointments, training and review of the performance of the ad hoc judges. Reform State owned enterprises to increase efficiency through privatization. Improve corporate governance by increasing private sector disclosure and management oversight through review of accounting and auditing standards to ensure consistency with international standards. BAPEPAM to review method of improving corporate governance in order to further strengthen the securities market and work with other agencies to review issues related to minority shareholder rights and foreign ownership and develop suggestions, issue a report recommending actions to improve corporate governance and to develop options for improving the Company Law, including aspects related to mergers and acquisitions.
China	China Accounting Reform and Development Project, 2/1999 CN-PE-51856	The project would develop accounting standards compatible to the IAS and also promulgate enterprise level standards. This transparent system of accounts is aimed to facilitate a) Banks to evaluate potential borrower's creditworthiness; and b) improve the governance of China's enterprise sector - providing for better evaluation of the performance of enterprises for the purposes of bankruptcy, mergers and acquisitions and restructuring.
China	China - Financial Sector Technical Assistance Project (Supplemental Loan), 2000 CN- PE 70947	The Financial Sector Technical Assistance Project for China is designed to lay the foundations for continued financial sector reform by strengthening key elements of financial sector infrastructure. The project will support modernization of the national payments and clearing system and other central bank functions in the areas of financial sector regulation and supervision, accounting and internal audit, research and statistics, fiscal agent and monetary policy, and training in economics and banking. The project will further support the government's efforts in modernizing the overall national accounting framework, strengthening its domestic debt

East Asia	Project Name	Description of Corporate Governance Components
		management, and modernizing the framework for external auditing.
Vietnam	Structural adjustment credit project VNPE4850, 2000.	Legal and regulatory reforms to improve business environment and competition policy.
Mongolia	Mongolia - Financial Sector Adjustment Credit Project, 2000. MN-PE-68071	Specific components include the establishment of basic financial infrastructure, such as improved banking skills, accounting standards, and clear policy framework regarding bank failures; consolidation of the banking system; and improvement of the payments system in rural areas.
Europe and Central Asia	**Project name and ID**	**Description of Corporate Governance Components**
Macedonia	Macedonia - Economic Recovery Loan/Credit, 1994. L3703	Legislate a law on public utilities and services to transform enterprises - both state and privately owned, into companies under the commercial code. Improve governance of SOE in public services and separate government's ownership function from its policy and regulatory roles.
Azerbaijan	Azerbaijan - Rehabilitation Credit, 1996 C2773	Corporate Governance components of this project includes the following: corporatization of all SOEs (with the exception of some defense and solely budget financed non-commercial enterprises); implementation of the 1994 Joint Stock Companies law, and legislation of accounting law establishing international accounting standards), company law, and regulations for public utilities; increase transparency of the SOEs by the introduction of the accounting standards; increase performance and internal oversight, by appointing a particular government agency to represent the state's interest as owner and separating the policy and regulatory functions from actual operation and management of public utilities.
Armenia	Armenia - Second	The corporate governance components of the project includes: (i) Introduction of IAS for the Banking and Energy sectors, and

East Asia	Project Name	Description of Corporate Governance Components
	Structural Adjustment Credit (SATAC II) 1997 C 2981	(ii) Preparation of Capital Markets Development (CMD) Strategy. The CMD strategy would include an assessment of all existing capital market institutions and an action plan to address issues related to : regulatory authority; stock exchanges; institutional investors; Government securities markets; and depository institutions.
Bosnia Herzegovina	Bosnia Herzegovina-Enterprise and Bank Privatization Adjustment Credit, 1999 BAPE48461	Bank Strengthening and Privatization through a) increased strictness in licensing standards required for banks and a gradual rise in the minimum capital requirement is planned so as to rationalize the banking system; b) design and implementation of laws in each entity that allow for the realization of bank privatization, the establishment of supervision agencies, and a rational and transparent banking system consistent with international banking standards is an on-going process; c) liquidation of insolvent banks; d) deposit insurance; and e) bank privatization.
Albania	The Financial Sector Institution Building Technical Assistance Project, 2000 AL-PE-69079	To provide technical assistance to develop national accounting standards, revising the chart of accounts for the enterprise, banking, insurance sectors, and budgetary institutions to comply with the new law. To develop and integrate accounting and operations' information systems, and develop the legal and regulatory environment dealing with issues such as solvency and liability/asset management. To revise the legal, institutional, regulatory, and supervisory framework for capital markets to ensure transparency, investor protection, and risk reduction.
Macedonia	Second Financial and Enterprise Sector Adjustment Loan/Credit Project, 2000 (FESAL) MK-PE-42400	The project proposes the establishment of a self regulating organization responsible for the training of accountants and auditors in IAS, as well as continuing education and licensing / maintenance of professional standards. The actions required under the FESAL are designed to rapidly expand the application of IAS.
Middle East and North Africa	**Project Name**	**Description of Corporate Governance components**

East Asia	Project Name	Description of Corporate Governance Components
Yemen	Financial Sector Adjustment Credit, 1997 P-7164-YEM 43101-YEM	1) Legal reform: amend the banking law to ensure to specify criteria for bank licensing (including qualifications of management and Board of Directors); introduce accountability of individual directors and set penalties for non-performance; 2) regulatory framework: amend prudential regulations on loan classification and provisioning as well as on foreign exchange exposure, regulation on credit risk concentration and insider lending, regulation of external auditing, including terms of reference, for commercial and specialized banks in accordance with international standards, revise banking accounting standards; 3) strengthening of the supervision capacity of the central bank; 4) enforcement of new standards; 5) resolving public enterprise debt (non-performing loans) no relation to liquidation; 6) establish an Accounting Standards Board to set and enforce standards for the non-bank corporate sector.
South Asia	**Project Name**	**Description of Corporate Governance Components**
India	India - Container Transport Logistics Project, 1994 L3753	Strengthening of the commercial approach and operational capacity of CONCOR in increasingly competitive environment by: i) diversifying shareholder base and strengthening the commercial orientation by divesting 5 percent of the Government's equity in CONCOR; ii) broadening the composition of the Board of Directors to include non-official directors to improve the skill base of the Board; iii) reforming claim policy to meet customers demand; iv) provide technical assistance and training to improve its operational commercial, financial and general management capabilities.
Pakistan	Pakistan Financial Sector Deepening, 1994 L3808	Assist government and financial institutions in developing a better framework of credit delivery to the private sector, reform of capital market and insurance regulations and technology. Preparation for the privatization of certain state-owned financial Institutions
Pakistan	Pakistan Banking Sector Adjustment Loan 1997 L4257	To reform banking sector by improving governance and improving financial discipline through bank owners, bank regulators, markets and the courts.
Sri Lanka	Sri Lanka - Financial Sector Reforms, 1998	This reform program for Sri Lanka's financial sector aims to: a) reduce the crowding out of the private sector through fiscal stabilization and further liberalization of the government debt

East Asia	Project Name	Description of Corporate Governance Components
		market; b) improve the efficiency and health of state-owned financial institutions by reforming governance, preferably through privatization; c) promote market competition by reducing the dominance of state-owned institutions and encouraging faster growth by private financial institutions and foreign participation; d) encourage savings; and e) achieve more effectively the savings and insurance objectives of the pension system while minimizing labor market distortions and moral hazard.

Annex 7. IDA Projects with Business Environment Components (FY94- 00)

TABLE 1

No. of IDA projects with Business Environment components by Region: FY94-FY00

	AFR	EAP	ECA	LAC	MENA	SAS	TOTAL
1994	7	0	2	3	0	1	13
1995	11	3	3	2	0	0	19
1996	9	2	5	0	1	0	17
1997	7	1	5	0	0	1	14
1998	6	0	2	1	0	0	9
1999	4	2	9	0	1	1	17
2000	6	0	1	1	0	1	9
	50	*8*	*27*	*7*	*2*	*4*	98

TABLE 2

No. of IDA projects with Business Environment components by Instrument: FY94-FY00

	SALs	SECALs	TALs	Ils	Others	TOTAL
1994	6	4	0	3	0	13
1995	2	4	6	4	3	19
1996	6	2	4	3	2	17
1997	6	0	3	5	0	14
1998	1	1	3	3	1	9
1999	7	0	2	4	4	17
2000	1	0	3	5	0	9
	29	*11*	*21*	*27*	*10*	98

TABLE 3

No. of IDA projects with Business Environment components by Network: FY94-FY00

	PSD	Other PSI	PREM	HD	ESSD	FIN	TOTAL
1994	3	0	7	0	2	1	13
1995	4	0	8	0	4	3	19
1996	6	1	8	0	2	0	17
1997	4	0	7	0	2	1	14
1998	1	2	4	0	2	0	9
1999	6	0	8	0	3	0	17
2000	5	0	2	0	1	1	9
	29	*3*	*44*	*0*	*16*	*6*	98

Annex 8. IDA Projects with Export Promotion Components (FY94-00)

TABLE 1

No. of IDA projects with Export Promotion components by Region: FY94-FY00

	AFR	EAP	ECA	LAC	MENA	SAS	TOTAL
1994	0	0	0	0	0	0	0
1995	3	0	1	0	0	0	4
1996	2	0	0	0	0	0	2
1997	0	0	1	0	0	0	1
1998	2	0	0	0	0	0	2
1999	1	0	1	0	0	1	3
2000	2	0	0	0	0	1	3
	10	*0*	*3*	*0*	*0*	*2*	15

TABLE 2

No. of IDA projects with Export Promotion components by Instrument: FY94-FY00

	SALs	SECALs	TALs	Ils	Others	TOTAL
1994	0	0	0	0	0	0
1995	0	1	0	2	1	4
1996	0	1	0	0	1	2
1997	0	0	0	1	0	1
1998	0	0	1	1	0	2
1999	0	0	1	1	1	3
2000	0	0	0	3	0	3
	0	*2*	*2*	*8*	*3*	15

TABLE 3

No. of IDA projects with Export Promotion components by Network: FY94-FY00

	PSD	Other PSI	PREM	HD	ESSD	FIN	TOTAL
1994	0	0	0	0	0	0	0
1995	2	0	0	0	1	1	4
1996	2	0	0	0	0	0	2
1997	1	0	0	0	0	0	1
1998	1	0	0	0	1	0	2
1999	3	0	0	0	0	0	3
2000	1	0	0	0	1	1	3
	10	*0*	*0*	*0*	*3*	*2*	15

Annex 9. IDA Projects with FSD Components (FY94-00)

TABLE 1

No. of IDA projects with FSD components by Region: FY94-FY00

	AFR	EAP	ECA	LAC	MENA	SAS	TOTAL
1994	6		1	1			8
1995	3		4	2			9
1996	7	2	9	2			20
1997	3	2	2				7
1998	1		6	2	1		10
1999	2	1	6				9
2000	3	1		2		1	7
	25	*6*	*28*	*9*	*1*	*1*	70

TABLE 2

No. of IDA projects with FSD components by Instrument: FY94-FY00

	SALs	SECALs	TALs	Ils	Others	TOTAL
1994	2	4	1	1		8
1995	1	4	2		2	9
1996	3	4	10	2	1	20
1997	4	1	1	1		7
1998	4	1	4	1		10
1999	4	1	2	2		9
2000		1	3	3		7
	18	*16*	*23*	*10*	*3*	70

TABLE 3

No. of IDA projects with FSD components by Network: FY94-FY00

	PSD	Other PSI	PREM	HD	ESSD	FIN	TOTAL
1994			3		1	4	8
1995	3		2			4	9
1996	5		8			7	20
1997	1		4			2	7
1998	1		6		1	2	10
1999	1		6			2	9
2000	2					5	7
	13	*0*	*29*	*0*	*2*	*26*	70

Annex 10. IDA Projects with SME/Microfinance/Rural Finance Components (FY94-00)

TABLE 1

No. of IDA projects with SME/Micro-Finance/Rural Finance components by Region : FY94-FY00

	AFR	EAP	ECA	LAC	MENA	SAS	TOTAL
1994	7	1	0	1	1	0	10
1995	9	1	1	1	0	0	12
1996	8	1	3	1	1	0	14
1997	3	1	7	0	1	1	13
1998	3	0	3	0	2	2	10
1999	6	1	6	0	1	1	15
2000	4	0	0	0	1	1	6
	40	*5*	*20*	*3*	*7*	*5*	80

TABLE 2

No. of IDA projects with SME/Micro-Finance/Rural Finance components by Instrument: FY94-FY00

	SALs	SECALs	TALs	Ils	Others	TOTAL
1994	1	1	0	8	0	10
1995	0	1	2	9	0	12
1996	0	1	3	9	1	14
1997	1	1	1	10	0	13
1998	0	1	0	7	2	10
1999	1	1	2	3	8	15
2000	0	0	0	4	2	6
	3	*6*	*8*	*50*	*13*	80

TABLE 3

No. of IDA projects with SME/Micro-Finance/Rural Finance components by Network: FY94-FY00

	PSD	Other PSI	PREM	HD	AGRI	Other ESSD	FIN	TOTAL
1994	2	0	1	0	5	2	0	10
1995	4	3	0	0	4	1	0	12
1996	5	0	1	0	2	5	1	14
1997	3	0	1	0	5	3	1	13
1998	0	0	0	0	7	1	2	10
1999	2	0	1	1	5	2	4	15
2000	1	0	1	0	0	1	3	6
	17	*3*	*5*	*1*	*28*	*15*	*11*	80

Annex 11. IDA Projects with SME Components (FY94-00)

TABLE 1

No. of IDA projects with SME components by Region: FY94-FY00

	AFR	EAP	ECA	LAC	MENA	SAS	TOTAL
1994	4	0	0	0	0	0	4
1995	7	0	0	1	0	0	8
1996	5	1	1	1	1	0	9
1997	3	0	2	0	1	0	6
1998	0	0	0	0	1	2	3
1999	1	1	3	0	0	1	6
2000	1	0	0	0	0	1	2
	21	*2*	*6*	*2*	*3*	*4*	38

TABLE 2

No. of IDA projects with SME components by Instrument: FY94-FY00

	SALs	SECALs	TALs	Ils	Others	TOTAL
1994	1	0	0	3	0	4
1995	0	1	2	5	0	8
1996	0	1	1	6	1	9
1997	1	0	1	4	0	6
1998	0	0	0	3	0	3
1999	1	1	1	1	2	6
2000	0	0	0	2	0	2
	3	*3*	*5*	*24*	*3*	38

TABLE 3

No. of IDA projects with SME components by Network: FY94-FY00

	PSD	Other PSI	PREM	HD	AGRI	Other ESSD	FIN	TOTAL
1994	2	0	1	0	0	1	0	4
1995	4	1	0	0	2	1	0	8
1996	4	0	0	0	1	3	1	9
1997	3	0	1	0	1	1	0	6
1998	0	0	0	0	3	0	0	3
1999	2	1	0	0	1	0	2	6
2000	1	0	1	0	0	0	0	2
	16	*2*	*3*	*0*	*8*	*6*	*3*	38

Annex 12. IFC's SME Program in IDA Countries (FY94-00)

($ Million in approvals including indirect assistance)

			Fiscal Year							
Region	Country	Data	1994	1995	1996	1997	1998	1999	2000	Grand Total
AFR	Benin	Sum of IFCs Account	0.9	0.1		0.34		0.25	1.76	3.35
		Sum of Project Count	1	1		1		2	1	6
	Burkina Faso	Sum of IFCs Account	0.57			0.26	0.74	1.52		3.09
		Sum of Project Count	1			1	2	1		5
	Burundi	Sum of IFCs Account							0.46	0.46
		Sum of Project Count							1	1
	Cameroon	Sum of IFCs Account	2.07	0.36	2.3		0.46	1.64	1.37	8.2
		Sum of Project Count	2	1	3		1	3	4	14
	Cape Verde	Sum of IFCs Account						1.5		1.5
		Sum of Project Count						1		1
	Chad	Sum of IFCs Account							0.33	0.33
		Sum of Project Count							1	1
	Cote D'Ivoire	Sum of IFCs Account	1.74	10.07	13.91	6.65	2.66	9.1	3.3	47.43
		Sum of Project Count	3	3	7	2	4	4	3	26
	Eritrea	Sum of IFCs Account				0.95				0.95
		Sum of Project Count				1				1
	Gambia	Sum of IFCs Account	0.37	0.22		0.22	0.24			1.05
		Sum of Project Count	1	1		1	1			4
	Ghana	Sum of IFCs Account	5.33	2.26	10.12	0.82	1.17	3.4	1.22	24.32
		Sum of Project Count	5	3	4	3	2	3	4	24
	Guinea	Sum of IFCs Account	1.5	0.36			0.57	1.3	0.5	4.23
		Sum of Project Count	1	1			3	1	1	7
	Guinea-Bissau	Sum of IFCs Account	0.84				0.78			1.62
		Sum of Project Count	1				3			4
	Kenya	Sum of IFCs Account	3.34	2.23	3.2	2.82	1.1	7.89	8.26	28.84
		Sum of Project Count	5	4	5	4	2	8	6	34
	Madagascar	Sum of IFCs Account	2.61	2.54	0.9	2.07	1.73	0.5	0.7	11.05
		Sum of Project Count	2	2	1	2	2	2	1	12
	Malawi	Sum of IFCs Account	0.51	0.11	1.61	0.6	1.11	0.64	1.07	5.65

		Sum of Project Count	1	1	2	1	3	1	1	10
	Mali	Sum of IFCs Account	0.92	1.54	0.77	2.1	0.5	2.8		8.63
		Sum of Project Count	1	1	1	3	1	6		13
	Mauritania	Sum of IFCs Account			4.47	1.2		0.4		6.07
		Sum of Project Count			2	2		1		5
	Mozambique	Sum of IFCs Account	1.2	1.6	4.57	4.3	0.54	1.28	5.47	18.96
		Sum of Project Count	1	2	3	4	2	3	5	20
	Nigeria	Sum of IFCs Account	3.88	2	1.47	3	1.43	2.52	2.18	16.48
		Sum of Project Count	4	2	4	5	4	4	3	26
	Rwanda	Sum of IFCs Account					0.53			0.53
		Sum of Project Count					1			1
	Senegal	Sum of IFCs Account	1.18		2.5	1.96	4.76	0.14	10.97	21.51
		Sum of Project Count	1		2	2	4	1	4	14
	Sierra Leone	Sum of IFCs Account					0			0
		Sum of Project Count					0			0
	Tanzania, United Republic of	Sum of IFCs Account	0.9	4.78	4.95	9.64	3.6	4.65	3.4	31.92
		Sum of Project Count	3	5	6	5	5	5	3	32
	Togo	Sum of IFCs Account	0.07						0.38	0.45
		Sum of Project Count	1						1	2
	Uganda	Sum of IFCs Account	1.51	1.2	3.23	2.54	6.22	1.9	7.29	23.89
		Sum of Project Count	2	2	3	4	7	2	4	24
	Zambia	Sum of IFCs Account	0.58	0.19	1.84	11.63	2.7	2.75	11.26	30.95
		Sum of Project Count	1	1	2	7	4	3	4	22
	Zimbabwe	Sum of IFCs Account	11.27	3.21	10.05	1.67	1.34	4.11	0.3	31.95
		Sum of Project Count	9	4	8	5	3	4	1	34
AFR Sum of IFCs Account			**41.29**	**32.77**	**65.89**	**52.77**	**32.18**	**48.29**	**60.22**	**333.41**
AFR Sum of Project Count			**46**	**34**	**53**	**53**	**54**	**55**	**48**	**343**
EAP	Cambodia	Sum of IFCs Account							1.49	1.49
		Sum of Project Count							1	1
	China	Sum of IFCs Account	0.96	0	4	7.7	10.19		4.03	26.88
		Sum of Project Count	1	1	0	2	2		1	7
	Indonesia	Sum of IFCs Account	2.11	3.35	0	10	0		1.37	16.83
		Sum of Project Count	2	2	0	1	0		2	7
	Lao People's Democratic Republic	Sum of IFCs Account					2.28		0.18	2.46
		Sum of Project Count					3		1	4

	Mongolia	Sum of IFCs Account				1.75				1.75
		Sum of Project Count				1				1
	Vietnam	Sum of IFCs Account		3	3.39		0	0	0	6.39
		Sum of Project Count		1	1		0	0	0	2
EAP Sum of IFCs Account			**3.07**	**6.35**	**7.39**	**19.45**	**12.47**	**0**	**7.07**	**55.8**
EAP Sum of Project Count			**3**	**4**	**1**	**4**	**5**	**0**	**5**	**22**
ECA	Albania	Sum of IFCs Account			2	1.5		2.33		5.83
		Sum of Project Count			1	1		2		4
	Azerbaijan	Sum of IFCs Account					4.4			4.4
		Sum of Project Count					5			5
	Bosnia and Herzegovina	Sum of IFCs Account				2.61	4.39	5.17		12.17
		Sum of Project Count				2	2	3		7
	Georgia	Sum of IFCs Account					4	3.74	3.36	11.1
		Sum of Project Count					1	2	1	4
	Kyrgyz Republic	Sum of IFCs Account			2.3	0.15		0.77	1.4	4.62
		Sum of Project Count			1	1		2	1	5
	Macedonia, Former Yugoslav Republic of	Sum of IFCs Account				11.11			0.01	11.12
		Sum of Project Count				4			0	4
	Moldova	Sum of IFCs Account							6.57	6.57
		Sum of Project Count							1	1
	Tajikistan	Sum of IFCs Account				2.05	3		1.39	6.44
		Sum of Project Count				0	1		3	4
ECA Sum of IFCs Account					**4.3**	**17.42**	**15.79**	**12.01**	**12.73**	**62.25**
ECA Sum of Project Count					**2**	**8**	**9**	**9**	**6**	**34**
LAC	Bolivia	Sum of IFCs Account					2	2		4
		Sum of Project Count					1	1		2
	Guyana	Sum of IFCs Account					1.68			1.68
		Sum of Project Count					2			2
	Haiti	Sum of IFCs Account					0.5			0.5
		Sum of Project Count					1			1
	Honduras	Sum of IFCs Account		0.64			0.5			1.14
		Sum of Project Count		1			2			3
	Nicaragua	Sum of IFCs Account					7.5	1	2.6	11.1
		Sum of Project Count					2	1	1	4
LAC Sum of IFCs Account				**0.64**			**12.18**	**3**	**2.6**	**18.42**

LAC Sum of Project Count				**1**			**8**	**2**	**1**	**12**
MNA	Egypt	Sum of IFCs Account	1	1.6	0.59	0		4.3	4.26	11.75
		Sum of Project Count	0	0	1	1		4	1	7
	Yemen, Republic of	Sum of IFCs Account					3.8			3.8
		Sum of Project Count					1			1
MNA Sum of IFCs Account			**1**	**1.6**	**0.59**	**0**	**3.8**	**4.3**	**4.26**	**15.55**
MNA Sum of Project Count			**0**	**0**	**1**	**1**	**1**	**4**	**1**	**8**
SAS	Bangladesh	Sum of IFCs Account		3	0.38	7.14		1.3	5	16.82
		Sum of Project Count		1	0	2		1	2	6
	India	Sum of IFCs Account	2.43	4.88	3.45	7.81	0.84	1.54	1.51	22.46
		Sum of Project Count	7	5	3	2	1	1	2	21
	Nepal	Sum of IFCs Account				1.32	7			8.32
		Sum of Project Count				1	3			4
	Pakistan	Sum of IFCs Account	10.64	5.43	2	2.51	15			35.58
		Sum of Project Count	4	6	4	2	4			20
	Sri Lanka	Sum of IFCs Account	0.67	0.5		4.89	3.51	1.18	1.25	12
		Sum of Project Count	1	1		3	1	2	1	9
SAS Sum of IFCs Account			**13.74**	**13.81**	**5.83**	**23.67**	**26.35**	**4.02**	**7.76**	**95.18**
SAS Sum of Project Count			**12**	**13**	**7**	**10**	**9**	**4**	**5**	**60**
Total Sum of IFCs Account			**59.1**	**55.17**	**84**	**113.31**	**102.77**	**71.62**	**94.64**	**580.61**
Total Sum of Project Count			**61**	**52**	**64**	**76**	**86**	**74**	**66**	**479**

Annex 13. IDA Projects with Micro Finance Components (FY94-00)

TABLE 1

No. of IDA projects with Micro-finance components by Region: FY94-FY00

	AFR	EAP	ECA	LAC	MENA	SAS	TOTAL
1994	5	1	0	1	1	0	8
1995	4	1	1	1	0	0	7
1996	4	1	2	1	1	0	9
1997	0	1	2	0	1	1	5
1998	3	0	1	0	0	1	5
1999	4	0	3	0	1	1	9
2000	4	0	0	0	1	1	6
	24	***4***	***9***	***3***	***5***	***4***	**49**

TABLE 2

No. of IDA projects with Micro-finance components by Instrument: FY94-FY00

	SALs	SECALs	TALs	Ils	Others	TOTAL
1994	1	1	0	6	0	8
1995	0	1	0	6	0	7
1996	0	0	2	7	0	9
1997	0	0	0	5	0	5
1998	0	0	0	3	2	5
1999	0	1	0	2	6	9
2000	0	0	0	4	2	6
	1	***3***	***2***	***33***	***10***	**49**

TABLE 3

No. of IDA projects with Micro-finance components by Network: FY94-FY00

	PSD	Other PSI	PREM	HD	AGRI	Other ESSD	FIN	TOTAL
1994	0	0	1	0	5	2	0	8
1995	2	1	0	0	2	2	0	7
1996	1	0	1	0	1	5	1	9
1997	0	0	0	0	1	3	1	5
1998	0	0	0	0	3	1	1	5
1999	0	1	0	1	2	2	3	9
2000	1	1	0	0	0	1	3	6
	4	***3***	***2***	***1***	***14***	***16***	***9***	**49**

Annex 14. IDA Projects with Rural Finance Components (FY94-00)

TABLE 1

No. of IDA projects with Rural Finance components by Region: FY94-FY00

	AFR	EAP	ECA	LAC	MENA	SAS	TOTAL
1994	3	1	0	1	1	0	6
1995	1	1	1	1	0	0	4
1996	4	1	1	0	1	0	7
1997	1	1	4	0	1	1	8
1998	3	0	2	0	2	0	7
1999	4	0	3	0	1	0	8
2000	1	0	0	0	0	1	2
	17	***4***	***11***	***2***	***6***	***2***	**42**

TABLE 2

No. of IDA projects with Rural Finance components by Instrument: FY94-FY00

	SALs	SECALs	TALs	Ils	Others	TOTAL
1994	0	1	0	5	0	6
1995	0	0	0	4	0	4
1996	0	0	2	5	0	7
1997	1	0	0	7	0	8
1998	0	0	0	5	2	7
1999	0	0	1	2	5	8
2000	0	0	0	1	1	2
	1	***1***	***3***	***29***	***8***	**42**

TABLE 3

No. of IDA projects with Rural Finance components by Netowork: FY94-FY00

	PSD	Other PSI	PREM	HD	AGRI	Other ESSD	FIN	TOTAL
1994	1	0	0	0	5	0	0	6
1995	0	0	0	0	2	2	0	4
1996	1	0	0	0	2	3	1	7
1997	0	0	1	0	4	2	1	8
1998	0	0	0	0	5	1	1	7
1999	0	0	0	1	4	1	2	8
2000	0	0	1	0	0	0	1	2
	2	***0***	***2***	***1***	***22***	***9***	***6***	**42**

Annex 15. IDA Projects with Privatization Components (FY94-00)

TABLE 1

No. of projects with privatization components by Region : FY94-FY00

	AFR	EAP	ECA	LAC	MENA	SAS	TOTAL
1994	6	1	2	3	0	3	15
1995	10	2	8	3	0	0	23
1996	12	1	9	3	1	5	31
1997	6	2	3	1	0	1	13
1998	5	0	6	1	1	2	15
1999	9	1	10	0	0	1	21
2000	7	0	1	2	1	2	13
	55	*7*	*39*	*13*	*3*	*14*	131

TABLE 2

No. of projects with privatization components: FY94-FY00 (by instruments)

	SALs	SECALs	TALs	Ils	Others	TOTAL
1994	5	5	0	5	0	15
1995	4	6	4	6	3	23
1996	6	2	14	7	2	31
1997	6	1	3	3	0	13
1998	6	1	3	3	2	15
1999	10	1	4	5	1	21
2000	3	0	6	3	1	13
	40	*16*	*34*	*32*	*9*	131

TABLE 3

No. of projects with privatization components: FY94-FY00 (by networks)

	PSD	Other PSI	PREM	HD	ESSD	FIN	TOTAL
1994	2	4	6	0	1	2	15
1995	4	4	8	0	5	2	23
1996	8	5	12	1	1	4	31
1997	1	1	7	0	2	2	13
1998	1	3	10	0	1	0	15
1999	3	3	12	0	2	1	21
2000	4	4	5	0	0	0	13
	23	*24*	*60*	*1*	*12*	*11*	131

Annex 16. IDA Support for Privatization-Related Labor Retrenchment Programs (FY94-00)

Region	Country	FY approval date	Project name	Loan-Credit number/ Project ID	World Bank loan /labor component in US$ million	Type of assistance to displaced labor
Africa						
AFR	Mozambique	1999	Railways and Ports Restructuring Project	C3288; Project ID MZ-PA-42039	100 / 93.5	The staff rationalization process includes staff retrenchment through normal and early retirement, redeployment, social mitigation, pension fund, pension study and information dissemination. The expected surplus labor is 12,200 on a total of 19,200 - meaning a reduction of 64%.
AFR	Cape Verde	1998	Privatization and Regulatory Capacity Building Project	C3121; Project ID CV-PE-55467	9.0 / 10.0	The project includes an accelerated privatization program expecting to divest a total of 30 institutions; e.g., oil distribution, water and energy, airline, postal and telecommunication regulation. The project provides technical assistance by financing contracting services of private firms (incl. investment banks, consulting companies, legal and auditing firms) to assist in the design and execution of major privatization transactions. The project provides a staff retrenchment program and public communication campaigns. Estimated 1,000 (20% PE workforce) employees will be redundant: 33% will be retrenched through early retirement, 66% through voluntary departure schemes, and 80% will use various training and advisory services.
AFR	Senegal	1998	Energy sector adjustment Operation	C3069; Project ID SN-PE-51357	100 / not specified	In the case of SENELEC (Senegal Electric company) staff, both a social plan as well as a transfer of 10% of SENELEC shares are under consideration. To mitigate risks GoS launched a large scale information and promotion campaign about the reform process and its benefits.

AFR	Togo	1998	Public Enterprise Restructuring and Privatization Support Project	C3045; Project ID TG-PE-41280	30.0 / 6.93	The project includes the telecommunications sector. A large number of PEs were overstaffed, and retrenchment is needed to make the enterprises attractive to potential investors. Estimations indicated that some 1,800 employees should be displaced under the program (total employees 3,656). The project will finance retrenchment benefits such as severance payments (cover all legal indemnities, on average 8 months of salary), early retirement (for employees 50 years and older - pension premiums until date of retirement and 1% of annual salary, per year of service), social safety net (minimal medical coverage for 12 months for laid-off workers), outplacement services (job search, assistance and training for small and micro-entrepreneurs), and support for SMEs (contribution in the costs to finance viable projects). During the project a public information campaign was designed.
AFR	Togo	1997	National Agricultural Services Support Project	C2990; Project ID TG-PE-2891	26.20 / 1.7	The restructuring process would concern about 4,400 staff: 2,760 employees will be redeployed in new agencies, 550 will retire, and 1,250 will be laid off. The labor component consists of financing of severance payments to retrenched workers. Additionally, the project also consists of consulting, studies and training component (US$9.2 million).
AFR	Guinea	1997	Third Water Supply and Sanitation Project	Project ID GN-PA-1075	25 / not specified	In order to mitigate social problems, all former workers of EAGB will automatically be recruited by the new operating company while EAGB is liquidated. The new operator will have a six month period to make staff adjustments.
AFR	Kenya	1997	National Agricultural Research Project II	C2935; Project ID KE-PE-1354	39.7 / not specified	The project will include the following activities at KARI (Kenya Agriculture Research Institute): retrenchment of around 1,400 non-essential support staff; redeployment of scientists; enhancement of human resource development; introduction of an expanded training program to upgrade management, technical and administrative skills among managers, researchers and support staff. The project will provide financing for staff salaries (largely from GOK).

AFR	Ghana	1996	Public Enterprise and Privatization Technical assistance project	C2877; Project ID GH-PA-972	26.45 / 40	Sectors include mining, telecommunications, petroleum and aviation. An appropriate institutional framework and policy would be developed to manage the issue of labor redundancies. Measures would be put in place to mitigate negative impacts, such as facilitating early re-hire of workers by in-coming buyer, introduction of standard voluntary redundancy package, training and redeployment schemes, standard workforce communication checklist. Termination and severance payments to workers (est. about 40,000 redundant workers), which may amount to US$40 million, would be paid from the sale proceeds. The technical assistance includes the implementation of a public information and communications strategy, including periodic impact assessments with the participation of key stakeholders, and communication of policy to workers.
AFR	Malawi	1995	Railways Restructuring Project	C2696; Project ID MW-PA-34489	16.16 / 6	The project includes the Railway (MR) privatization, as well as ports revitalization and privatization. The project provided financing for staff retrenchment package including staff retrenchment, retraining, redeployment and self-employment facilities, compensation for retrenched staff, counseling services, credit facilities for acquiring housing available with MR, and equity participation in new railway company. The retrenchment support was also extended to staff retrenched in the recent past and whose retrenchment packages were found to be below the package agreed under the project. MR already retrenched 1,200 employees and of the remaining 2,300 employees only about 1,130 staff will be absorbed (leaving 1,170 surplus).
AFR	Uganda	1994	Transport Rehabilitation Project	C2587; Project ID UG-PA-2923	75 / not specified	The project includes the roads and railways sectors. In consultation with the trade union, retrenchment has been effected by selective redundancies and payment of compensation. As part of the rehabilitation plan the staff at the railways will be reduced from the current number of 4,200 to 2,600 in 1996. The remaining staff will receive training.
Europe and Central Asia						

ECA	Macedonia	1999	Transport Sector Project	L4439; ID MK-PE-50589	32 / not specified	The project includes the road and railway sector. As a result of the project, the Railways (MR) reduced the labor force by 20% (900 people). In addition, a new railway law approved in February 1998 gave MR sufficient independence in terms of tariffs and staffing decisions to permit it to operate on a commercial basis. To the extent possible, labor reductions were achieved through attrition and/or voluntary retirement. In any case, the pace of labor reduction will take into account the social and economic environment of the other sectors to absorb redundant labor.
ECA	Macedonia	1997	Structural Adjustment Loan and Credit Project	C2949; L4153; Project ID MK-PE-38393	L 30 - C 30 / not specified	The Project includes consolidating recent structural reforms, bank rehabilitation and privatization, divestiture of socially-owned industrial enterprises, and adjustment of the social safety net. The reform of the social safety net aims to facilitate labor adjustments through appropriate income support and development of active labor services; restructure incentives under social assistance programs; and improve short- and long-term financial sustainability of social insurance. To facilitate labor adjustment, the relevant regulations have been altered to reduce advance notification of termination to one month for individual and small scale layoffs, and to three months for large scale layoffs. To ease the uncertainty associated with layoffs, the government set up a fund for labor adjustment services, including counseling, placement, small business development and retraining.
ECA	Armenia	1996	Social Investment Fund Project	C2784; Project ID AM-PE-35768	12 / not specified	The Project aimed to support the most vulnerable groups among the Armenian population through improvement of basic social services and creation of employment opportunities. The primary objectives of the project are to: 1) rehabilitate basic small-scale infrastructure that can result in immediate improvements of the living conditions of the poorest among the population; 2) strengthen the capacity of private, small-scale contractors and other micro-businesses so that they can benefit directly or indirectly from contracts financed by the Armenian Social Investment Fund (ASIF), and build the capacity of local government staff and communities so that they can prepare and implement small projects; 3) generate employment through financing of labor-intensive public works.

ECA	Macedonia	1995	Social Reform and Technical assistance loan	C2722: ID MK-PE-38092	14.0 / 14.7	As part of the Special Restructuring Program, 25 enterprises were identified to be restructured or privatized (including power utility and railway). The Labor Redeployment component (US$10.9 million) will support the redeployment of labor in communities affected by large-scale enterprise restructuring by: (i) analyzing the labor requirements of socially-owned enterprises (SOEs) which are undergoing restructuring or privatization, (ii) providing pre-layoff adjustment services, (iii) providing post-layoff services to displaced workers through a Labor Redeployment Fund - applied to 19,531 displaced workers at an average cost of US$248 (including employment counseling, job placement, relocation, retraining, temporary community employment, small business assistance, but ***exclude severance payments which are financed separately through the government's special restructuring program***), (iv) strengthening employment bureau services for job seekers. The program also includes a public information program (US$1.4 million)
ECA	Kyrgyz Republic	1994	Social Safety Net Project	C2643; ID KG-PE-8515	17 / not specified	Employment services component includes counseling, retraining and a pilot program to facilitate transfer of social assets from restructured PEs to local authorities.
ECA	Macedonia	1994	Economic Recovery Loan Project	C2564; L3703; Project ID MK-PE-8408	C40-L40 / not specified	The project supported the government's program of stabilization and structural measures by financing costs associated with the restructuring of Macedonia's economy following the breakup of the Yugoslav Federation, by supporting privatization, enterprise restructuring, private sector development, labor market liberalization and adjustment of the social safety net. Reformed provisions labor law: (a) employer has the right to determine when to terminate a labor relationship; (b) employer informs workers, trade union, local employment office; (c) workers affected should be given minimum of six months notice; (d) lump-sum payment equal to one month's wages for every two years employment up to a maximum of 12 months; and (e) payment of termination grant is obligation employer. Reforms in unemployment benefits: (a) reducing maximum unemployment compensation to 24 months; (b) imposing a floor and ceiling on unemployment compensation; and (c) stiffening conditions to disqualify unemployed for compensation.
Middle-East and North Africa						

MENA	Egypt	1996	Second Social Fund Project	C2865; ID EG-PE-43102	120 / 92	The project focuses on redeploying redundant and unemployed workers in Egypt by upgrading skills through retraining redundant workers in public sector (est.US$1,000 per trainee), training workers in private sector (US$1,000 - US$5,000), preparing workers for alternative jobs, placement services, early retirement (est. LE2,000 to LE7,000 per person -not funded by IDA), self-employment, financial assistance to start new businesses (around LE2,000 per worker). Private enterprises wishing to benefit from this program would need to demonstrate that their competitive situation was altered by trade liberalization. The expectation is that between 1997 and 2000 about 27,000 people will participate in this program (retirement=3,000; retraining=6,000;assist. new business=6,000; training private sector=5,000; training in SME=7,000).
MENA	Yemen	1996	Economic Recovery Credit	C2840; Project ID RY-PE-41302	80 / not specified	The project supported the government's reform program to stabilize the economy and stimulating sustainable growth. The project includes conducting a study on severance and redeployment options for redundant workers. A public works project designed to generate employment was implemented.
Asia						
SAS	India	1998	Andhra Pradesh Economic Restructuring Project	L4360; C3103; IN-PE-49385	L 301.3 - C 241.9 / 26.2	The project consists of activities in education (construction of schools, recruitment of teachers, establishment of school improvement funds); primary health care; roads (provide basic all-weather road access to villages); irrigation rehabilitation and maintenance; public enterprise reform. The public enterprise reform component will assist the Government in meeting the cost of severance pay, providing training services, and by providing social safety net program. Severance pay is financed under a voluntary retirement scheme, and include only the incentive component of the total severance package. Terminal benefits or legal entitlements are not included.
SAS	Sri Lanka	1998	Mahaweli Restructuring and Rehabilitation Project	C3058; ID LK-PA-34212	57 / 25.3	The focus of the project is to shift of the Mahaweli Authority of Sri Lanka (MASL) from project implementation to river basin management to ensure that the natural resources in the Mahaweli River basin/watershed are managed more efficiently and productively. The labor component includes: (i) 'rightsizing' of MASL by offering a voluntary early separation package (US$24 million) for about 57% of the staff, and (ii) retraining and redeploying staff (US$1.3 million) for the new organization.

SAS	Pakistan	1996	Punjab Private Sector Groundwater Development Project	C2901; PK-PE-10501	56 / 8.2	About 7,100 government employees are employed in the organization. The expectation is that the staff redeployment component will be divided in retirement (1,000 employees who have more than 25 years of service and are eligible for full pension), training (3,100 staff which can be redeployed in other branches of the government or find employment in the private sector), incentives for voluntary separation (3,000 employees). IDA provided funds for the training program and the government financed the retirement/severance benefits for employees leaving the government service.
EAP	China	1995	Labor Market Development Project	L3967; C2800; ID Project CN-PE-34618	L 10 - C 20 / 38	The Project will contribute to an enabling environment for state-owned enterprise (SOE) reforms and promote the transition to a market economy. The objectives of this pilot project include support for policy and legal reforms to facilitate the development of functioning labor markets and promote urban labor mobility and to improve the delivery of labor market services, and training to facilitate the redeployment of surplus workers in SOEs, the unemployed, and rural-to-urban migrant labor. The components of the project include policy reform on the coverage and pooling of social insurance at the municipal level, reduction of surplus labor in SOEs, and the monetization of social benefits by employers; employment services on job waiting time, improved administrative and accounting procedures and timely payment of unemployment insurance, and improved labor market information and dissemination; in service training on placement rates and earnings; improved services to job seekers and employers, and improved resource allocation.
EAP	China	1994	Enterprise Housing and Social Security Reform	L3773; C2642; Project ID CN-PE-3603	L275 - C75 / not specified	Project assists in developing a strategy to help municipalities develop market-based housing system and social safety net to free enterprises of direct welfare responsibilities (housing, pension, health care, other benefits).
EAP	China	1994	Shenyang Industrial Reform Project	L3788; Project ID CN-PE-3585	175 / not specified	The project includes the waste water sector. The project aims to change terms of employment of municipal-controlled enterprises (MCES) employees from permanent to contract status and to establish a labor market information system to improve employment service operations.

Annex 17. IDA Projects with PPI Components (FY94-00)

TABLE 1

No. of IDA projects with PPI components by Region: FY94-FY00

	AFR	EAP	ECA	LAC	MENA	SAS	TOTAL
1994	3	0	0	0	0	0	3
1995	5	0	1	2	0	0	8
1996	5	0	1	5	1	3	15
1997	3	0	0	0	1	0	4
1998	7	0	3	2	1	1	14
1999	11	0	3	0	0	0	14
2000	10	0	1	1	0	2	14
	44	*0*	*9*	*10*	*3*	*6*	72

TABLE 2

No. of IDA projects with PPI components by Instrument: FY94-FY00

	SALs	SECALs	TALs	Ils	Others	TOTAL
1994	1	0	0	2	0	3
1995	0	1	1	6	0	8
1996	3	1	6	4	1	15
1997	1	0	1	2	0	4
1998	1	2	4	6	1	14
1999	3	2	3	5	1	14
2000	3	0	5	5	1	14
	12	*6*	*20*	*30*	*4*	72

TABLE 3

No. of IDA projects with PPI components by Network: FY94-FY00

	PSD	Other PSI	PREM	HD	ESSD	FIN	TOTAL
1994	0	2	1	0	0	0	3
1995	1	5	0	0	1	0	7
1996	5	5	5	0	0	0	15
1997	1	2	1	0	0	0	4
1998	1	7	5	0	1	0	14
1999	3	6	5	0	0	0	14
2000	3	5	6	0	0	0	14
	14	*32*	*23*	*0*	*3*	*0*	72

Annex 18. IDA Projects with PPSS Components (FY94-00)

TABLE 1

No. of IDA projects with PPSS components by Region: FY94-FY00

	AFR	EAP	ECA	LAC	MENA	SAS	TOTAL
1994							0
1995	1						1
1996						1	1
1997	1						1
1998			2				2
1999							0
2000							0
	2	*0*	*2*	*0*	*0*	*1*	5

TABLE 2

No. of IDA projects with PPSS components by Instrument: FY94-FY00

	SALs	SECALs	TALs	Ils	Others	TOTAL
1994						0
1995		1				0
1996				1		1
1997				1		1
1998	1		1			2
1999						0
2000						0
	1	*1*	*1*	*2*	*0*	5

TABLE 3

	PSD	Other PSI	PREM	HD	ESSD	FIN	TOTAL
1994							0
1995				1			1
1996				1			1
1997				1			1
1998			2				2
1999							0
2000							0
	0	*0*	*2*	*3*	*0*	*0*	5

Annex 19

Institutional Issues Related to Implementation of IDA Replenishment Recommendations

1. Management Instructions. Since the replenishment recommendations (with the exception of the call for a Bank Group Strategy Statement) largely reflect ongoing initiatives, there was no need for special instructions from management to staff.

2. PSD Sector Board. For most of the earlier period under review, the PSD Sector Board was primarily focused on human resource issues (e.g. issues related to individual promotion) and did not emphasize broader questions of sector strategy, quality support and knowledge sharing. With the arrival of a new Sector Board chair in January 2000 the Sector Board has focused on the following priority areas: developing strategic direction (including the preparation of a holistic PSD Strategy paper), quality assurance (provision of high quality inputs without becoming an additional bureaucratic layer of review), knowledge management (including the use of a 'Rapid Response' unit to analyze cutting-edge issues) that can complement work done by thematic groups, and partnerships. The Board has developed a comprehensive action plan to deliver on this. However, the Sector Board should consider expanding its composition to include membership from ESSD, PREM, FIN, and HD to provide a Bank-wide perspective on private sector activities.

3. Thematic Groups. Five long-standing thematic groups (Private Provision in Infrastructure – PPI; Rural and Microfinance / Small Enterprises; Corporate Governance; Business Environment; and Privatization and Enterprise Reform) function in the PSD area and report to the PSD Sector Board. With knowledge management as a key function, there has been a wide variation in the effectiveness of these groups, according to a recent self-assessment survey.[35] This variation reflects differences in thematic group leadership, commitment by sector managers and resource allocation. The first three of above mentioned TG's received higher ratings than the latter two.

4. Skills Mix. The PSD Sector Board in collaboration with HRS should review the skill-mix inventory of staff working in the PSD area in order to identify capacity gaps and training requirements. The skills mix assessment can then serve as an input to a Bank Group PSD Strategy.

5. Training. For the period under review, the former PSD department in collaboration with WBI sponsored 102 courses (Table 2) reaching 3,200 participants, increasing from 7 courses in FY94 to a peak of 18 in FY96 and declining steadily to 12 in FY00, a reflection of budget constraints. Additionally, specialized clinics were held beginning in FY97 (a total of 34 clinics, with 737 participants). These courses covered the 5 broad thematic areas within PSD in addition to a few specialized areas, such as land and real estate, and were rated by participants at a level slightly above the average ratings for Bank courses as a whole. Within the PSD thematic areas, greater emphasis was placed on PPI and rural and microfinance/small enterprises in the past few years in terms of numbers of courses, and with greater positive response, than for business

[35] Thematic Group Self-Assessment Survey (July 2000) and Survey Report (September 2000)

environment or privatization topics (corporate governance has yet to be offered as a training course); this reflects the knowledge base of Bank staff available to manage such training courses. It is also worth noting that as Bank-wide budget constraints grew in impact, particularly in FY00, attendance for such courses began to diminish.

This decline in training on PSD issues coincides with a greater burden on IDA staff, particularly task managers, who had to "reinvent" themselves on several occasions to keep abreast of the rapidly changing technical requirements in the PSD field. The PSD Sector Board, in conjunction with HRS, should undertake an inventory of the skill mix of staff working in the PSD area and suggest steps needed for upgrading.

6. Partnerships with the Private Sector. The Bank has developed partnerships with private sector entities to work on agreed activities where the parties contribute resources (financial, technical or personnel) to be implemented within the terms of the agreement, but where no legal partnership is sought. There are four common partnership structures[36] including (a) activities of limited duration (conferences and workshops); (b) creation of a systematic consultation mechanism (e.g. Vietnam Private Sector Forum); (c) creation of a governance structure for partnership activities (e.g. PPIAF, Corporate Governance Forum, InfoDev); and (d) parallel structures (e.g. Business Partners for Development , BPD, originated in June 1998 by the PSIVP and funded by the DGF). In April 2000, the Business Partnership and Outreach group (BPOG) was established under the PSIVP, funded by the Bank, IFC and MIGA to promote more effective partnerships with the private sector. Given the rapid growth in such activities and the inherent risks of conflicts of interest and reputational damage, the PSD Sector Board is undertaking a full review (including an inventory) of the effectiveness of the variety of partnerships now in existence with a view to guiding future initiatives.

7. Monitoring and Evaluation. OED in its forthcoming work programs should devote considerable resources to evaluative studies in the PSD area, including: evaluation of work on the business environment; evaluation of work on privatization, both its design and impact, including distributional and environmental effects and the use of sale proceeds; an assessment of performance to date on PPI, including the shifting emphasis to pro-poor strategies; and a progress report on the implementation of the two new strategy papers dealing with SMEs and the financial sector.

[36] World Bank, The Partnership Cycle, 2000