

OED IDA REVIEW

REVIEW OF POVERTY REDUCTION in IDA10-12



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This is one of the series of background papers prepared for the OED IDA Review. 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*: (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.

The findings, interpretations, and conclusions expressed in this paper are entirely those of the author. They do not necessarily represent the views of the Operations Evaluation Department or any other unit of the World Bank, its Executive Directors, the IDA Deputies or the countries they represent.

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Executive Summary

1. The agreements between the International Development Association (IDA) and its donors for IDA10, IDA11 and IDA12 make clear that poverty reduction is the overarching objective of IDA assistance and that IDA's effectiveness is to be judged primarily by its success in reducing poverty among IDA borrowers.

2. The intellectual framework for IDA's renewed emphasis on poverty was set out in *World Development Report 1990: Poverty*, which advocated a strategy of economic policy reforms and productive investments.¹ The goal of the strategy was to improve incomes among the poor through labor-intensive growth and to expand poor people's access to social services and social safety nets. The approach reflected empirical evidence, particularly from East Asia, that demonstrated the importance of growth and the central role of human resource development in bringing about significant and sustained improvements in living standards.

3. The IDA10–12 replenishment reports urged IDA to sharpen its focus on poverty reduction in accordance with the 1990 poverty strategy and to go beyond that strategy by emphasizing gender, environment, and governance as part of a “broad-based framework for poverty reduction,” in the words of the IDA12 report.²

4. The replenishment recommendations specifically instructed IDA to:

- Put poverty at the center of its country assistance strategies and increase the poverty focus of its performance-based allocation system.
- Ensure that poverty analysis, monitoring, and targets were well incorporated into its analytic work and policy dialogue.
- Link lending volumes to assessments of country performance and direct more lending within countries to poverty-targeted investments, investments in the social sectors, and actions supportive of broad-based growth, including specific poverty reduction measures in adjustment programs, attention to private sector development, and actions to mitigate inequalities.

5. As IDA approaches its thirteenth replenishment the Operations Evaluation Department (OED) has assessed the impact of the agenda described above on IDA strategy and programs at the country level. Has that agenda enhanced IDA's poverty focus?

Targeting Poverty in Country Assistance Strategies

6. Country assistance strategies (CASs) have been a core feature of IDA's poverty reduction efforts since the early 1990s. Successive replenishment reports emphasize that CASs should show how IDA's support will reduce poverty and, particularly in IDA11 and IDA12, include monitorable benchmarks and specific measures to evaluate progress toward that goal.

1. World Bank, *World Development Report: Poverty*, (Washington, D.C.: World Bank, 1990).

2. *Additions to IDA Resources: Twelfth Replenishment, A Partnership for Poverty Reduction*. (Washington, D.C.: World Bank, 1998).

7. All indications are that CASs have indeed shown substantial improvement in their coverage of poverty over the past seven years, with most of the improvement occurring since 1997.³ (also see Annex: Implementation Matrix.)

- The Bank’s 1990 poverty strategy has entered the mainstream of IDA country assistance formulation. Accordingly, human resource development, broad-based growth, and measures to protect vulnerable groups are commonly stated objectives, where country circumstances warrant.
- CASs increasingly use data and analysis from poverty assessments and public expenditure reviews, a practice that has improved their poverty focus, although shortfalls in the strategy content of such analytical work have limited their impact on CASs.
- CASs have become more relevant as borrower governments and other stakeholders have become more involved in their preparation.

8. Despite those gains, findings in the Bank’s recent CAS retrospective reveal that CASs have made less improvement in setting priorities and identifying country-specific, poverty-focused assistance strategies.⁴ Strategies are often stated in very broad terms—increasing economic opportunities, enhancing equitable growth—without a clear guide to policy or lending choices. OED’s country assistance evaluations confirm that although the Bank has strengthened the poverty orientation of its country programs more needs to be done to integrate that orientation into macroeconomic and sectoral priorities, better reflect the recipient’s implementation capacities, and avoid over-ambitious timeframes.

9. Until fiscal 2000, few CASs for IDA countries contained specific poverty reduction targets or were able to link such targets to intermediate objectives that could be monitored on an annual basis. Progress to date in monitoring poverty outcomes has been slow when assessed against the fundamental criterion of identifying IDA’s contribution to reducing poverty.

10. The client-based poverty reduction strategy paper (PRSP) process offers a new way to link poverty reduction analysis to policy design and program choice in a country-led effort. The CAS will now become a business plan that supports the country’s PRSP. This new CAS approach is expected to locate IDA’s efforts more firmly in the country’s own long-term vision and align them with those of IDA’s development partners. However, early implementation of the approach calls for increased monitoring and evaluation. To enhance the development outcomes of IDA projects and country development effectiveness, IDA must commit to new and sustained work to improve performance monitoring and evaluation of policy and program poverty outcomes.

IDA’s Contribution to Better Poverty Data and Analysis

11. In light of replenishment directives to strengthen the “analytic building blocks” of its poverty efforts, the marked increase in the quantity of IDA’s poverty data and analysis stands as a major achievement of the past decade, although data quality and in-country capacity building remain important challenges.

12. By the end of IDA11, poverty assessments had been completed for 90 percent of IDA’s eligible borrowers, including all of the major ones. The effort took considerably longer than the

3. *Country Assistance Strategies: Retrospective and Outlook* R99-228 (Washington, D.C., World Bank, 2000); also see Alison Evans, *Poverty Reduction in the 1990s: An Evaluation of Strategy and Performance* (Washington, D.C.: World Bank Operations Evaluation Department, 2000).

4. World Bank (1999).

overly ambitious 1994 replenishment report target because of the serious lack of data on poverty, particularly in African countries, and the time required to build government support for and interest in the assessment process. Up-to-date public expenditure reviews exist for close to half of the active IDA borrowers. Other economic and sector work—such as country economic memoranda, social structural reviews, and sectoral analyses—has also played an important role in strengthening the focus on poverty.

13. A major concern now is the impact of declining support for poverty-related analytical work. In addition, the quality of analyses still frequently limits poverty relevance.⁵ Increasingly, participatory poverty assessments have successfully incorporated the views and knowledge of poor groups into the diagnosis of poverty, but the impact of that knowledge on the CAS and on specific areas of government policy is harder to trace. There are important exceptions, but increased ownership by government and other stakeholders is needed to strengthen the impact of poverty assessments on country policy and strategy processes.⁶ Country consultations also point to the tendency of IDA (and the Bank as a whole) to substitute for weak domestic data and analytical capacity rather than seeking to build what is needed as it conducts its studies. The first year's experience with the PRSPs has underscored these problems.⁷

14. The PRSP process has brought the importance of domestic data gathering and analysis to the fore, providing an opportunity for IDA and other development partners to target and support policy-analytic capacity across a range of domestic institutions involved in the process.

Country Allocations and Lending

15. One area in which IDA has shown consistent performance is the allocation of lending across countries. The latest data suggest that, when compared to most other multilateral funds and bilateral donors, IDA has consistently allocated a larger share of its assistance to poor countries with sound policy environments, which are a proxy for country commitment to poverty reduction.

16. Beyond the aggregate lending picture, and in line with replenishment recommendations, IDA has committed an increasing share of its lending to investments in the social sectors. From a level of 20 percent of total IDA investment lending in the late 1980s, social sector investments rose to 40 percent in 1995 and have remained at approximately that level ever since. Notwithstanding the importance of these efforts, assessments point to limiting factors related to institutional development. An OED evaluation of lending for health, nutrition and population during the 1990s, for example, indicates that the Bank has been more successful in increasing the quantity of supply than the quality of the services provided.⁸ It has been better at specifying what needs to change than at indicating how to make the change. The health, nutrition, and population study also found that few project documents presented a coherent analysis of how interventions would be translated into improved health benefits for the poor, despite being classified as poverty targeted initiatives. An even smaller percentage of

5. World Bank, *Fixing ESW: Where are We?* (Washington, D.C., World Bank, 2000); and World Bank, *Quality of ESW in FY99: A QAG Assessment* (Washington, D.C., World Bank, January 2000); Operations Evaluation Department, *Poverty Assessments: A Follow-up Review*, (Washington D.C.: World Bank Operations Evaluation Department, 2000).

6. In Tanzania, for example, despite a fairly extensive participatory poverty assessment exercise in 1996, the dissemination of the poverty assessment within government has been limited and its implications for policy are only now being discussed in the context of the PRSP—some four years later. *Poverty Assessments* (2000).

7. International Monetary Fund and International Development Association, *Poverty Reduction Strategy Papers—Progress in Implementation* (September, 2000).

8. Susan Stout and Timothy Johnston, *Investing in Health, Nutrition and Population Sectors* (Washington, D.C.: World Bank Operations Evaluation Department, 1999).

projects showed clear results for the poor. While this does not mean that such investments did not reach their target groups, there is no way of knowing whether the investment was, in fact, the most cost-effective way of reaching the poor.

17. IDA has also maintained the share of lending that goes to projects classified under the Program of Targeted Interventions—those that explicitly seek to reach poor groups—and has increased the share of structural adjustment operations that comprise special poverty measures. Still, too few adjustment operations incorporate indicators for assessing social impact. The Quality Assurance Group's (QAG) fiscal 1999 Quality at Entry assessment on poverty and social aspects found that 36 percent of adjustment operations across the Bank failed to include adequate treatment of poverty issues. A more recent Bank retrospective study of adjustment lending details major increases in poverty and social dimensions of adjustment operations, but also finds that only 7 percent of adjustment operations from fiscal 1998 to fiscal 2000 included specific indicators for monitoring social or environmental impacts. A conclusion of the adjustment retrospective is that despite evidence of improved performance, continued attention to the social dimensions of adjustment remains a priority.

18. Overall, the performance of IDA's lending portfolio in these and most other areas has been improved significantly over the review period. OED evaluations of completed projects exiting the portfolio in the first half of fiscal 2000 suggest that outcomes of more than 75 percent of IDA projects may be rated satisfactory, reflecting improvements in IDA and borrower performance. Project sustainability and institutional development impact ratings have also improved, though they remain too low. Moreover, data from the Bank's Quality Assurance Group (QAG)⁹ confirm improvements in the quality of the ongoing portfolio and a remarkable convergence in the quality of project preparation and supervision for IDA and IBRD countries.¹⁰

From Compliance to Effectiveness

19. In assessing effectiveness it is important to recognize that poverty outcomes are the product of a wide variety of factors, few of which are under the exclusive control of the Bank. Also, in evaluating the performance of specific instruments or areas of lending, there is a danger of making partial judgments while ignoring the overall effectiveness of IDA's assistance. Hence, in shifting from the assessment of from compliance to effectiveness it is important to keep in mind the full range of assistance that IDA provides.

20. Evaluations of IDA performance at the country level point to a generally positive record in assisting countries to lay the foundations for economic growth and poverty reduction.¹¹ Particularly good examples are to be found in Uganda, Vietnam, India in the early 1990s and Bangladesh in the mid-1990s. Yet the record of IDA countries in sustaining growth high enough and long enough to benefit the majority of the poor is less positive. Bank estimates show that although GDP growth was

9. The Bank's Quality Assurance Group (QAG), established in 1997, conducts yearly reviews of the quality of project preparation (quality at entry) and supervision, based on a random sample of projects and using standards it developed.

10. The percentage of IDA projects at risk of not meeting their development objectives—an indicator of subsequent OED ratings—has declined from 1990 to 1999. Two major findings emerge from annual QAG assessments of quality at entry and quality of project supervision. First, both quality at entry and quality of supervision have improved markedly for IDA projects from 1997 to 1999. Quality at entry for IDA projects improved from 73 percent satisfactory to 88 percent, and quality of supervision increased from 61 percent satisfactory to 84 percent. Moreover, while IDA projects initially rated lower for both these indicators, the quality gap between IDA and IBRD projects appears to have been eliminated, based on the 1999 cohort.

11. Based on OED Country Assistance Evaluations for FY95-99.

positive for most IDA countries outside of Eastern Europe and Central Asia during the 1990s (an improvement over the 1980s), it was insufficient to make significant inroads into levels of absolute poverty. In fact, in IDA-only countries, roughly the same proportion of people who were poor in 1987 were poor in 1998.

21. This divergent record underlies the perception expressed in recent client surveys that although the Bank has been successful in supporting economic reforms and providing technical expertise of a consistently high standard, IDA-supported country development efforts have had only a limited impact on the status of the poor. The key question is why it has been so difficult for IDA and its partners to achieve better results for support of country development efforts and IDA's ultimate clientele—the poor.

22. One explanation is that many IDA countries have themselves moved in and out of compliance with policy reforms, making it difficult to sustain high rates of economic growth and to implement the complex structural reforms necessary for long-term poverty reduction. The recent collaborative publication, *Can Africa Claim the 21st Century?*, describes this problem:

Many African countries have moved in and out of compliance with economic and structural reform programs, so formally being on a program has meant little for the policies actually pursued over longer periods. And short-term reforms have failed to address some difficult underlying institutional problems—and in some cases may have worsened them.¹²

23. The publication also notes that adherence to sound policies does pay off in the medium term but requires good economic management over a sustained period. This has been more difficult to achieve.

24. A second possible explanation, linked to the earlier discussion of CASs, is that it has been difficult for IDA and its development partners to come up with practical policy measures to achieve not just growth but broad-based growth. The record on adjustment operations in IDA countries has been positive, but it has been difficult to identify concrete policy measures that support rapid growth and also distribute opportunities evenly. Recent research on aid and reform in Africa points to the intervening role of domestic political economy in the adjustment story and to shortcomings in the conditionality-driven model of adjustment lending.¹³ Elsewhere there is concern that the links between policy change, sector strategy, and the expected pattern of growth have been weakly articulated in country strategies. The Bank's *Annual Progress Report on Poverty* for fiscal 1999 notes the need to enhance research and country analysis regarding the transmission mechanisms through which policy changes are expected to benefit poor groups. The September 2000 progress report on PRSPs also points to the need for urgent work on the “determinants of pro-poor growth, the linkages between economic growth, macroeconomic policies, and poverty reduction.”

25. Lags in rural and private sector development are an additional factor, and that makes shortcomings in IDA assistance in both areas cause for significant concern. With a majority of poor people residing in rural areas and depending on agriculture-related farm and off-farm work for their livelihood, weakness in countries' rural development efforts is particularly troubling. *World Development Report 1990: Poverty* and *World Development Report 2000/2001: Attacking Poverty* both make it clear that expanding access to the opportunities created by growth requires major investments in the areas where the poor live and work. Evaluations of IDA's project experience

12. World Bank et al, *Can Africa Claim the 21st Century?* (Washington, D.C.: World Bank, 2000), page 35.

13. Shantayanan Devarajan, David Dollar, and Torgny Holmgren, *Aid and Reform in Africa*, (Washington, D.C.: World Bank, 2000).

confirm that investments in rural social and economic infrastructure can raise the incomes and living standards of the poor. However, IDA's rural investments turned downward in the 1990s, driven largely by a decline in agricultural lending. While adjustment lending and related economic and sector work have contributed to improved agriculture price incentives and exports, reform efforts have not resolved other structural and institutional constraints to agricultural productivity growth and marketing and to rural poverty reduction.¹⁴

26. Recent research confirms that limited private sector investment is an important part of the story of weak broad-based growth in IDA countries.¹⁵ To date, most IDA CASs have failed to come up with a coherent assistance strategy for private sector development linked to the overarching goal of poverty reduction. Disagreements between IDA and its borrower governments are more frequent and more serious on private sector issues than on most other points discussed above, reflecting different perspectives regarding the role of the state. Although IDA has had some success in promoting private sector participation in specific subsectors, few CASs include an overall approach that focuses on the fundamentals for effective functioning of an open economy and measures critical to investor confidence, and is sufficiently selective within a pro-poor growth framework.¹⁶

27. Ultimately the causes of poverty need to be treated in a framework of long-term, broad-based growth that gives attention to "the contingent factors that influence the extent to which the poor are able to participate in the opportunities created by growth-oriented policies."¹⁷ The effectiveness of IDA's future assistance lies in supporting borrowing countries' efforts to create those opportunities.

The Way Forward

28. Notwithstanding the uneven and in some cases disappointing aggregate record on growth in poor countries, many borrower countries are now in a better position to give increased attention to broad-based growth and to specific poverty reduction goals than they were at the beginning of the decade, thanks to IDA, other development agencies, and policy and institutional changes in the countries themselves.

29. Significant changes in the way the Bank and other agencies do business hold particularly important implications for IDA's role in poor countries. The first is the Comprehensive Development Framework (CDF), which emphasizes greater borrower ownership and coordination of development assistance efforts to reduce poverty. Observed weaknesses in the alignment of policies and programs for broad-based growth can, in principle, be resolved by working with others in the context of the CDF. IDA does not and should not aim to do everything, but it can and should monitor and enhance

14. Management notes that looking just at the trend in rural lending can be misleading. For example, in South Asia, while the portfolio of the Rural Unit has declined, estimates of rural commitments by other sector units (notably health and education) suggest an almost 40 percent increase in lending for the rural areas over the decade.

15. World Bank (March, 2000).

16. According to the Bank's most recent CAS retrospective study (covering the second half of 1998 and 1999), coverage of the private sector is weak. "Only 60% of CASs have a separate section or separate discussion on the private sector; the rest only discuss specific private sector issues such as privatization and competition. Only about a fourth of CASs contain a detailed discussion of private sector issues." In addition, the retrospective notes that while most CASs contain a discussion of the roles of the Bank and the IFC, in more than half those programs "are discussed separately without providing a connection between the two." World Bank, *Country Assistance Strategies: Retrospective and Outlook*, R99-228 (Washington, D.C.: World Bank, May 22, 2000), page 67.

17. Martin Ravallion, *Growth, Inequality and Poverty: Looking Beyond Averages*, (Development Research Group, The World Bank, December 11, 2000).

how its own assistance combines with the efforts of government and other development partners not only to raise incomes but also to address the other deprivations poor people face.

30. The PRSP process provides a vehicle for promoting the CDF principles. In many ways, the PRSP initiative is aiming to achieve what IDA and other development partners have struggled to do for many years—devise an effective strategy that links macroeconomic policy, sector strategies, and high-impact targeted interventions to enhance opportunity and reduce vulnerability among the poor. Some lessons from IDA's efforts of the last seven years are relevant to the process.

- Prioritization is critical but difficult to achieve and has implications for culture and costs that should not be underestimated by IDA or others.
- Compliance is not the same as commitment or ownership. The last two need more careful nurturing and patience than given to date.
- Linking poverty reduction efforts with governance and the other elements of the broad policy framework is critical.
- Without central attention to monitoring and evaluation—and without support for local monitoring and evaluation capacity—the PRSP process will not work effectively.

31. The *World Development Report 2000/2001: Attacking Poverty*, complements the CDF and PRSP initiatives. The WDR's focus on opportunity, empowerment, and security and emphasizes key elements—including governance, gender, and environmental sustainability—that were largely missing from the 1990 poverty strategy but that have formed part of the broad policy framework for poverty reduction identified in IDA12. How the Bank now translates that agenda into concrete policy and program actions will be crucial for the effectiveness of IDA assistance and for the poverty reduction strategies of borrower countries.

1. IDA's Poverty Mandate

1.1 The World Bank created the International Development Association (IDA) in 1960 to provide development assistance to member countries that could not afford the Bank's conventional lending terms. With an estimated 1.2 billion people living on less than one dollar a day in IDA-eligible countries, progress toward the World Bank's goal of reducing world poverty depends substantially on the work of IDA.

1.2 IDA's deputies have called for greater attention to the diagnosis of poverty, integration of poverty reduction themes in country assistance strategies, investments in basic social services, and poverty-targeted interventions. More recently, the deputies have extended their focus, stressing the need for more attention to gender issues, structural and fiscal measures to increase poor people's opportunities, broad-based participation by the poor, and support for borrower capacity in poverty monitoring and pro-poor policymaking.

1.3 During IDA's tenth, eleventh, and twelfth replenishments (IDA10–12) the deputies recommended numerous process and program measures to strengthen IDA's effectiveness in reducing poverty. Only a few of those measures were accompanied by clear benchmarks for monitoring progress, however. Most were expressed as qualitative statements about the content of IDA's poverty focus, making it difficult to quantify IDA's progress in complying with the recommendations. Nevertheless, the Operations Evaluation Department's (OED) judgments about IDA's performance to date must be based on those recommendations, as made.

1.4 As IDA approaches its thirteenth replenishment OED has assessed the impact of the agenda described above on IDA strategy and programs at the country level. Has that agenda enhanced IDA's poverty focus?

1.5 This background paper, one of 10 prepared for OED's review of IDA, asks specifically:

- How well has IDA followed the recommendations of its deputies on enhancing its poverty focus?
- How have those recommendations influenced the poverty focus of country strategies and lending?
- Have IDA countries reduced poverty during IDA10–12? How much has IDA contributed to the progress made?
- In preparing for IDA13, what can the deputies learn from the experiences of IDA10–12 that could further enhance IDA's poverty focus?

1.6 This paper was compiled exclusively as a desk review. It draws on several reports that examine various dimensions of Bank and country progress on poverty reduction. These include OED's March 2000 evaluation of the effectiveness of the World Bank's poverty reduction strategy, the World Bank's April 2000 review of IDA11 activities, the Bank's annual progress report on poverty reduction (March 2000, and *World Development Report 2000/2001: Attacking Poverty*.¹⁸ Although not all of these reports are IDA-specific, or even Bank specific, they provide a wealth of data and analysis that can be usefully synthesized from an IDA perspective. Wherever possible country-level information has been supplemented by interviews and focus groups carried out by members of the OED team responsible for the IDA Review.

18. Evans(2000); and World Bank, *World Development Report 2000/01: Attacking Poverty* (Washington, D.C.: World Bank, 2001).

2. Assessing Compliance

2.1 The recommendations set out in the reports of the tenth, eleventh, and twelfth replenishments of IDA (IDA10–12) reflect the extent of agreement among IDA donors about what should be done to sharpen IDA’s poverty focus.¹⁹ Those recommendations do not constitute a policy framework as such, but instead set out a series of process and program goals to guide IDA’s management in shaping its mission and key instruments. This section examines IDA’s compliance with the recommendations relating to analytical work on poverty, the composition of the lending portfolio, and the link between policy performance and IDA allocations across countries.

Analytical Work

2.2 Various recommendations underscore the importance of increasing the quantity and quality of diagnostic and analytical work on poverty as a way to strengthen the poverty focus of IDA operations and programs. Deputies have stressed the need to prepare poverty assessments, to better integrate information from poverty assessments and public expenditure reviews into country assistance strategies (CASs), to further involve the poor to improve the quality of gender analysis, and to focus more on identifying structural and fiscal measures to improve economic opportunities for the poor.

Poverty Assessments

2.3 One of the few benchmarks established by the deputies during IDA10 was that IDA would complete poverty assessments for all major IDA recipients by December 1994. This target was not met, partly due to the short timeframe. By the end of fiscal 1994 only 21 first-round poverty assessments had been completed, and by the end of fiscal 1996, 44 IDA and IDA/IBRD (“blend”) countries had a first-round poverty assessment, amounting to roughly half of the eligible countries. However, poverty assessments have now been completed for 90% of eligible IDA borrowers, including all major borrowers, some of which have more than one assessment.

2.4 According to the Bank’s annual progress reports problems in completing poverty assessments were due to weaknesses in data collection, changes in government or upcoming elections, delays in obtaining comments from government, non-governmental organizations (NGOs), and other stakeholders, and problems with staffing and budget constraints within the Bank.

2.5 With hindsight, the original target for the completion of poverty assessments was overly ambitious. A serious paucity of data in most countries, together with the time (and money) required to secure government buy-in and to build a participatory process, meant that poverty assessments frequently took two to three staff years to complete. In a few cases, where preparation was interrupted by government changes, they took as long as four or five years (for example, for the Côte d’Ivoire). Nevertheless, the replenishment recommendations consistent focus on poverty assessments did help to maintain the momentum.²⁰

21. *Additions to IDA Resources: Tenth Replenishment* (Report No. IDA/R92-168) December, 1992; *Additions to IDA Resources: Eleventh Replenishment, Interim Trust Fund for FY97 and Termination of the FY84 Special Fund* (Report No. IDA/R96-64) April, 1996; and *Additions to IDA Resources: Twelfth Replenishment, A Partnership for Poverty Reduction*, December 1998.

20. The problem now is one of aging. The first poverty assessments are well over five years old. Some have been updated; others have not, and the question remains as to how this updating will be carried out in the future. It has recently been proposed that poverty assessments be updated regularly.

2.6 The quantitative targets set in the Replenishment Reports were only a means to an end. The main concern lay in enhancing the quality of the analysis so as to improve the handling of poverty in IDA's country strategy and lending. Quality, according to the Reports, means methodically sounder analysis based on better data, greater involvement of recipients, inclusion of gender-specific analysis, more participation by NGOs and the poor themselves, more attention to structural and fiscal measures to aid the poor and clear integration of poverty concerns into the CAS and policy dialogue.²¹

2.7 Two OED evaluations of poverty assessments, plus various reports by the Bank's Quality Assurance Group (QAG) and external evaluations, present a picture of improving but uneven quality.²² On the positive side, poverty assessments are more likely to involve collaboration with governments and to make use of participatory processes. Poverty diagnoses increasingly incorporate the knowledge and views of the poor, and the results are now routinely reflected in country assistance strategies and in some cases in policy dialogue within recipient governments.²³ In a survey of 81 government and non-government stakeholders conducted for the latest OED evaluation of poverty assessments, over 70 percent perceived poverty assessments to have had a moderate to large impact on the design of country assistance strategies.²⁴ Particularly successful examples cited for IDA countries are Bangladesh (fiscal 1998), Bolivia (fiscal 1996), and Côte d'Ivoire (fiscal 1997), all of which contain strong poverty analysis and strong linkages to a subsequent CAS and lending program.

2.8 Yet weaknesses in poverty assessments persisted for most of the period under review. Some poverty assessments framed the problem of poverty in monetary terms, despite the increased use of combined techniques in practice. The degree of disaggregation in poverty levels across socioeconomic groups varies,²⁵ and the quality of gender analysis, while improving, has been deficient in many cases.²⁶

2.9 The latest OED evaluation, covering the period of 1996 through 1999, found many poverty assessments wanting as an aid to strategy. Nearly half did not adequately address the individual elements of broad-based growth, social service provision, or safety nets, or provide adequate justification for the priority rankings contained in strategy recommendations. Many failed to articulate priorities for pro-poor policies (a problem mirrored in subsequent CASs) or to explain which country programs and interventions had worked and why. Treatment of governance issues was also patchy, in particular accounts of the responsiveness of institutions to the poor. Such limitations vitiate the

21. An average poverty assessment costs approximately \$228,000, although the variance around the average is considerable, reflecting variability in subject focus, coverage, and process, among other things.

22. Operations Evaluation Department, *Poverty Assessments* (Washington, D.C., World Bank Operations Evaluation Department, 1996); and Operations Evaluation Department, *Poverty Assessments: A Follow-up Review* (Washington, D.C., World Bank Operations Evaluation Department, 2000)..

23. C. Robb, *Can the Poor Influence Policy?* Directions in Development. (Washington, D.C.: World Bank, 1999).

24. OED (2000).

25. For example, the incidence of poverty among smallholders producing mainly for local markets is likely to be quite different from that among smallholders producing for export markets or among agricultural laborers. In the absence of a socioeconomic profile of the poor, the finding that 60 percent of people are below the poverty line is not very helpful for strategy purposes. Lack of data has hindered sound analysis.

26. A review of the "gender content" of poverty assessments in IDA countries was undertaken by the gender and poverty groups of the Poverty Reduction and Economic Management Network in 1999. The review found that the average quality of gender treatment improved over a three-year period from moderately poor to moderately good, with some best practice examples found in the poverty assessments for Côte d'Ivoire (fiscal 1997), Djibouti (fiscal 1998) and Georgia (fiscal 1999). However, many poverty assessments included only a very rudimentary treatment of gender issues and lacked adequately disaggregated data. See Operations Evaluation Department, *Integrating Gender in World Bank Assistance*, (Washington D.C.: World Bank, May 18, 2000).

analysis of strategy and limit the range of recommendations that are picked up in country assistance strategies and the policy dialogue.

2.10 While participatory poverty assessments have successfully incorporated the views and knowledge of poor groups into the diagnosis of poverty, it is less clear that they have significantly affected IDA's choice of country strategy or influenced specific areas of government policy. There are exceptions, as in the case of the timing of school fees in Zambia, but weak dissemination of the data and analysis created for poverty assessments and uncertain ownership by government and other stakeholders have limited the impact of those assessments on the policy process in other countries. The potential for influence is clearly illustrated by Uganda's participatory poverty monitoring exercise, which seeks to institutionalize participatory poverty analysis and monitoring in the public expenditure planning process. Tanzania is also experimenting with participatory poverty assessments to inform its reform of local government. More generally, OED's 1999 evaluation of poverty assessments found a strong positive correlation among country-level impact, the level of partnership and consultation with the recipient government, and the extent of information sharing with in-country stakeholders. The lesson is that poverty assessments, including participatory assessments, are much more influential when the demand for data is linked directly to the process of domestic policy formulation, rather than being driven exclusively by donors' need to have better poverty information for their own purposes.

Public expenditure reviews

2.11 Whereas the poverty assessment identifies the poor and points to measures that can be taken to improve their well-being, the public expenditure review examines the fiscal framework and the effectiveness of different types of public spending in meeting a country's development needs. No benchmarks were set during IDA10–12 for the timely completion of public expenditure reviews, nor were clear indications given regarding their poverty focus. IDA10 nevertheless highlighted public expenditure reviews as an especially important instrument in IDA's dialogue with recipients and instructed that review results should be included in CASs. In IDA12 the deputies restated their belief that public expenditure reviews should be undertaken in each IDA country, updated in a timely way, and incorporated into CASs.

2.12 An OED evaluation of public expenditure reviews (PERs) in the mid-to-late 1990s indicated that PERs had not been a consistently effective instrument in helping IDA to influence spending in favor of the poor.²⁷ The PERs tended to focus the attention of staff and client governments on inadequate levels of social spending and misallocations across tertiary and primary levels. For example, funding for priority sectors in Tanzania has been protected and monitored under successive participatory public expenditure reviews. But few reviews went the extra mile in helping clients to sort out the strategic choices and tradeoffs inherent in expenditure reform or in costing budget proposals in terms of their potential impact on the poor.²⁸ Poverty content was frequently missing from the reviews, and links between poverty analysis and policy choice were often not made. Until recently, attention paid to governance dimensions of the public expenditure process was also very limited. The evaluation therefore concluded that in most cases public expenditure reviews contributed

27 . Operations Evaluation Department, *The Impact of Public Expenditure Reviews: An Evaluation* (November, 1998). See also, Jeff Huther, Sandra Roberts, and Anwar Shah, "Public Expenditure Review under Adjustment Lending: Lessons from World Bank Experiences," World Bank Discussion Paper No. 382 (Washington, D.C.: World Bank, 1997).

28. Borrowers are now expected to carry out such tasks in the context of PRSPs, creating a discrepancy that has been interpreted by some observers as reflecting a "Do as I say, not as I do" attitude on the part of the Bank.

only marginally to policy dialogue on poverty reduction and to the design of lending programs.²⁹ However, more recent cases (e.g., Vietnam and Zambia) suggest that the focus of PERs is changing for the better.

2.13 During IDA11, several initiatives aimed to make public expenditure reviews more relevant to poverty reduction, particularly by using them to support improvements in budgetary systems rather than focusing exclusively on the content of the annual fiscal envelope. Formal reviews were replaced or supplemented by informal reviews involving governments, donors, and sometimes NGOs. The new approach, spearheaded in Africa following recommendations from the Strategic Partnership for Africa, has resulted in much greater focus on institutional and governance issues and more concentration on high-priority sectors. An exciting example is the process underway in Uganda, which is being closely supported by IDA (box 2.1). Still, most IDA countries have difficulty managing their expenditure programs successfully.³⁰ This issue has been highlighted by early experiences with the PRSP;³¹ helping countries to strengthen their public expenditure management system in order to ensure that national budgetary resources and external assistance are appropriately deployed for poverty reducing activities has emerged as a major IDA concern.

Other Analytical Work

2.14 Other “due diligence” economic and sector work, such as country economic memoranda and social and structural reviews, also plays an important role in building IDA’s poverty focus at the country level. Country economic memoranda provide the framework around which the Bank and other donors develop their development strategy. In the past the content has been fairly standard: memoranda analyzed the fundamentals of growth and the direction of a country’s development path. Over time the content has become more varied as the memoranda have become more decentralized (many handled directly by country offices) and as the market for country-level knowledge has broadened. Today the role and scope of the country economic memoranda are far less predictable than they once were. Unlike poverty assessments, which are monitored by the poverty reduction board of the Bank’s Poverty Reduction and Economic Management Network, country economic memoranda are not monitored from above, making it nearly impossible to assess their treatment of poverty issues and their overall impact on IDA country strategy. The closest assessment is a recent QAG report on economic and sector work that rated the memoranda relatively highly on overall quality, relevance, and timeliness, and slightly less highly on “likely impact.”³²

29. This is sobering given that the average full public expenditure review costs about \$250,000 and takes 12 months to produce and that problems surrounding the intrasectoral allocation of public expenditures continue to plague the effectiveness of development assistance, especially in Africa.

30. In some countries the problem is compounded by the limited share of aid that actually goes through the budget. In Tanzania, for example, only around 40 percent of aid goes through the budget, making it very difficult to manage the budget and its policy focus.

31. International Monetary Fund and World Bank, *Poverty Reduction Strategy Papers – Progress in Implementation*, August 11, 2000 and April 18, 2001 (prepared by the Staffs of the IMF and World Bank). See also, Caroline Robb and Alison Scott, “Reviewing some early PRSPs in Africa,” IMF, Africa Department, November 27, 2000 (mimeo).

32. World Bank, *Quality of ESW in FY00: A QAG Assessment*, CODE2001-0033, (Washington D.C.: World Bank, April 2, 2001).

Box 2.1. Binding Planners to Poverty-Prioritization Criteria: Uganda

Uganda has made significant advances in recent years in mainstreaming poverty eradication through the linked processes of national development planning and budget allocation. Criteria for prioritizing donor investments and sectoral development programs have been distilled from the national poverty eradication action plan and applied to the process of screening new project and program proposals and restructuring existing projects in the five-year public investment plan. Now in effect, the five-year plan has become the second volume of the poverty eradication action plan—it indicates how poverty eradication goals are to be operationalized.

The budget process itself also has been redesigned, thanks in part to technical assistance from IDA. The development of the 1998–99 budget relied heavily on the work of sectoral working groups that included representatives from the finance ministry and relevant line ministries, as well as technical advisers. The purpose was to press line ministries to base their spending decisions on realistic estimations of cost that could be accommodated within a predefined resource envelope. Most sectoral working groups soon came to recognize the importance of prioritization. Another benefit was that, on the basis of the stated priorities, the working groups were able to frame medium-term budget choices consistent with the poverty eradication action plan. Those choices were fed into the budget framework paper, itself a mechanism for promoting continuity from year to year. Representatives of civil society were invited to participate in a consultative forum that evaluated the priorities, spending commitments, and impact estimates for all the working groups. The intention for the future is to involve civil society much earlier in the process.

An indication that the linkages from the poverty eradication action plan to the public investment plan and annual budget are holding firm is that the 1998–99 budget (subtitled “Budgeting for Poverty Eradication”) included a 100 percent increase in recurrent expenditures under poverty-related program areas.

Source: Greeley, Martin, and Rob Jenkins. 1999. “Maintaining the Poverty-Reduction Agenda: An Analysis of Institutional Mechanisms to Support Pro-Poor Policy Making and Implementation in Six African Countries.” Prepared for the Meeting of the SPA Working Group on Poverty and Social Policy, October 19–21, Paris, France.

2.15 The “social and structural review” is a relatively new instrument aimed at providing a systematic evaluation of the key structural policy and institutional weaknesses that hamper a country’s progress in poverty reduction and long-term development. On the basis of such an evaluation, reviews aim to summarize the strategic policy priorities that are likely to yield the highest returns in terms of poverty reduction and development. Like country economic memoranda, social and structural reviews are broad in scope. At their core they generally include an assessment of poverty performance, the macroeconomic framework, long-run growth performance, and specific sectoral issues such as public sector performance. On the other hand, social and structural reviews focus more explicitly on poverty than do country economic memoranda, but because they are relatively new it is hard to evaluate their impact on IDA’s strategy or on key in-country processes such as the Comprehensive Development Framework (CDF) and poverty reduction strategy papers (PRSP). The QAG review found social and structural reviews to be generally satisfactory in quality and of potential value in updating the Bank’s stock of knowledge on structural, social, and institutional issues. But because the reviews rely heavily on existing knowledge, they may be suitable only for countries having sufficient prior analytical building blocks.³³ Social and structural reviews are not as widely available as other due diligence products and are not subject to the same degree of public scrutiny. A proposed new instrument, the Development Policy Review (DPR), would address the need for an integrative analytical ESW product that provides an integrated view of the main elements of a country’s policy agenda to achieve sustainable growth and poverty reduction. In the low income country context, the DPR would underpin Bank contributions to the PRSP process.

33. A World Bank May 2000 review of economic and sector work found that about half of the Bank member countries with active portfolios had key ESW products that were five years old or less and that only six of the Bank’s member countries had a full set of “due diligence” studies under five years old.

2.16 Given the disparate elements of the Bank's economic and sector work program and the lack of information on its poverty content, it is difficult to provide an overall assessment of how effective the program has been in enhancing IDA's poverty focus. There is no doubt that the sheer volume of data and analysis about poverty in borrowing countries has increased dramatically during the period under review. Poverty assessments, sector reports, social assessments, and social structural reviews all have contributed to that growing mass. But with changes under way in the operating environment, IDA must focus urgently on ways to improve the strategic relevance of its non-lending work to ensure that such work informs and advances country poverty strategies.

2.17 The preparation of interim and full PRSPs suggests a new way forward, one in which poverty analysis and its link to policy and program choice becomes part of a country-led process, not an IDA-driven process. IDA's critical contribution in this process could be to support the development of local knowledge and expertise in poverty monitoring and analysis, and to foster better mechanisms for knowledge transfer as a way of informing wider public debate about priorities for poverty reduction.

The Changing Composition of Lending

2.18 Implicit in the 1990 WDR poverty strategy is a pattern of lending that favors assistance in support of the overall economic environment for labor-intensive growth and for investments that seek to directly address the access of the poor to basic social services. In assessing IDA's compliance with its replenishment undertakings, this section looks at changes over the period in the composition of IDA's investment lending; a subsequent section reviews the effectiveness of this and IDA's adjustment lending in advancing IDA's poverty reduction goal. While this section reviews IDA's implementation of specific replenishment undertakings regarding the composition of lending, it should be noted that in the subsequent discussion of effectiveness, the social and poverty impact of IDA assistance can only be appropriately assessed in the context of the overall country program of Bank support (which includes both lending and non-lending services); assessments of the impacts of individual loans is necessarily limited.

Lending for the social sectors

2.19 Using a three-fold category of lending—to support growth, specific growth and human development-related sectors, and provision of basic services, particularly for the poor—evidence shows a clear shift over the 1990s toward lending for sectors concentrated on the provision of basic social and infrastructure services.³⁴ One of the clearest and most consistent encouragements for this shift in the IDA10-12 Replenishment Reports is found in statements about the importance of investments in basic social services. Since IDA10, replenishment undertakings have directed IDA to increase the share of lending allocated to social sector projects in an attempt to focus IDA resources on areas most likely to benefit the poor. The IDA12 Report was more prescriptive, recommending that lending to the social sectors should represent about 40 percent of investment lending, depending on country conditions. No lending targets were specified for other sectors, although general reference was made to the importance of lending for broad-based growth, good governance, and social and environmental projects.

2.20 In compliance with these undertakings, lending for human capital development increased seven-fold in dollar commitments between the early 1980s and late 1990s. By the mid-1990s, IDA had become the largest source of external financing and advice for social sector policies in poor

36. Evans (2000), pages 15-16.

countries, especially in Sub-Saharan Africa. IDA disbursements for social sector projects increased from \$500 million per year a decade ago to nearly \$2 billion per year in fiscal 1998–99. Adjustment operations have focused increasingly on the social sectors, and as the Bank’s initiative for highly indebted poor countries—introduced in 1996 and enhanced in 1999—has progressed, the Bank has sought to ensure that HIPC relief responds to priorities in the social sectors.

2.21 However, the aggregate figures on social sector lending mask a slightly more complex subsector and regional distribution story. While it is certainly the case that lending for the three main social sectors—education, health, and social protection—has increased as a share of the total portfolio, most of growth has come from a steady increase in lending for population, health, and nutrition, and for social protection. The volume of lending to the education sector has fluctuated over the IDA10–12 period, showing only a modest increase since the early 1980s, though there has been a rising number of projects. On a regional basis, total social sector commitments by volume decreased from IDA10 through IDA11 in Africa, East Asia and modestly in Latin America and the Caribbean; and increased in ECA, MENA, and most notably in South Asia, where lending in the social sectors expanded to about 45% of total IDA lending.

2.22 What is clear is that IDA has become a major player in the social sectors around the world, an evolution that is consistent with the strategy for poverty reduction set out in *World Development Report 1990: Poverty* and the deputies’ sense of urgency about moving resources quickly to sectors most likely to benefit the poor. It also has been suggested that the increase in lending was consistent with the needs of borrowers to demonstrate commitment to social and poverty issues while not appearing to penalize non-poor groups in the process. Experience has shown, however, that improving service delivery for the poor in these sectors is neither politically neutral nor a simple function of the amount of money available. The outcome performance of IDA social sector projects is better on average than in many other sectors, such as agriculture and water and sanitation, but there is no evidence to suggest that social sector projects have more impact on institutional development, are more sustainable, or are any better at reducing poverty. These issues will be taken up in more detail below.

Lending for “targeted interventions”

2.23 In addition to lending for essential social services, the Replenishment Reports have focused on the need to maintain the share of lending classified under the “Program of Targeted Interventions.” A project is included in the PTI if it has a specific measure for targeting the poor (such as a food security component or a public works scheme) and/or if the proportion of poor people among its beneficiaries is significantly larger than the proportion of the poor in the total population. In IDA10 the recommendation was to increase the share of poverty targeted investment lending relative to IDA9.³⁵ In IDA11 the recommendation was to maintain that share and monitor more effectively the poverty impacts of poverty targeted and non-poverty targeted projects.

2.24 In line with the recommendation, the share of poverty targeted interventions did rise after IDA9 (although the classification did not exist in 1991) and remained constant during IDA10 and IDA11 (table 2.1). The figures for fiscal 1999 show an increase to 64 percent of projects, well above the trend for the rest of the decade, explained by extraordinary lending to Indonesia following the financial crisis there.

35. The system of poverty targeted interventions was not introduced until 1992. Thus the share of poverty targeted projects during IDA9 had to be relatively small.

Table 2.1. Program of Targeted Interventions (percent of lending in IDA/Blend countries with PTIs)

		<i>No. of Projects (% total)</i>	<i>Volume of Commitments (% total)</i>
IDA	1992–93	37	43
	1994–96	45	53
	1997–99	41	48
	2000	30	46
IDA-IBRD blend	1992–93	21	19
	1994–96	14	41
	1997–99	43	68
	2000	35	33

Source: Institutional Business Warehouse

2.25 A comparison of a sample of completed PTI and non-PTI projects for the same sectors shows that from 1992-99 the PTI projects perform better.³⁶ These results are notable given the preponderance of PTI projects in IDA lending. It is difficult to explain *a priori* why this is so, since the PTI is really no more than a poverty marker system. However, analysis of the project data suggests that PTI emphasis on community and beneficiary participation at the design and implementation stages, and their relatively greater attention to performance monitoring may be a significant part of the explanation. These are factors widely associated with good practice in the Bank, and as such reflect important changes in the way the Bank has been delivering lending over the course of the 1990s.

2.26 Nonetheless, there are several reasons to treat the analysis with caution. First, compliance with the recommendation that IDA should monitor the impacts of poverty targeted projects has been weak. The Bank has made no specific commitment to monitor or evaluate projects falling under the poverty targeting program. Successive annual progress reports make little mention of this particular IDA recommendation, although they dutifully report on the volume of IDA lending going to such operations. OED's recent poverty evaluation did find that poverty targeted interventions were more likely to pay attention to monitoring and evaluation than were other projects. But except for a few notable cases (such as the Bangladesh Rural Roads Improvement Project and the Bolivia Social Investment Fund II), no systematic data exists on poverty impacts emerging from these projects.³⁷

2.27 Second, assessing poverty targeted interventions as a category may be overstating their significance as instruments of poverty reduction, inasmuch as they are neither a particularly reliable indicator of the poverty orientation of lending nor a particularly accurate measure of who is likely to benefit from project investments.³⁸ The minimum requirement for inclusion is that a project meets either or both of the targeting criteria. However, a review of project appraisal documents and Implementation Completion Reports finds that the criteria themselves are too broad to be operationally useful in targeting project benefits. PTI projects are also not always directly concerned with poverty reduction. In some cases they have included components that mention the poor, but their major achievements at completion have included no poverty reduction-related activities.³⁹

36. Evans, (2000), pages 32-4.

37. Bangladesh Rural Roads and Market Project (Credit No. 19400); Bolivia Social Investment Fund II (Credit No. 24320).

38. Evans (2000).

39. In other cases, the PTI classification seems to have been assigned almost routinely to basic health and education projects, making it difficult to assess the credibility of the project's intention to target project benefits to the poor. See, Evans (2000), pages 33-34 and footnote 7.

Moreover, the better outcome performance of individual PTI does not mean that PTI projects have a larger impact on poverty. In many cases, Implementation Completion Reports make no mention of the percentage of beneficiaries who are poor, or the share of project benefits that have reached them. In sum, the PTI remains mainly a way of looking at inputs. It says nothing about output, outcomes, or impacts, and its focus on direct targeting of the poor may not always be the most effective way of reducing poverty. Thus, in strengthening countries' own poverty reduction strategies through better knowledge about project and program effectiveness, tinkering with the PTI will be less important than supporting more and better outcome and impact evaluations at both the project and country level.

Investment lending for broad-based growth

2.28 Investment lending for broad-based growth is even less well documented and more difficult to assess. In some sectors total lending, while remaining constant or continuing to grow, has been reorganized around new priorities. In transport, for example, the focus on highways and railways has been maintained in absolute terms, while the share of IDA lending committed to rural roads and urban transport increased during the 1990s. In finance, while the development of country financial sectors is a continuing priority, an increase in lending has also been directed to microcredit finance.

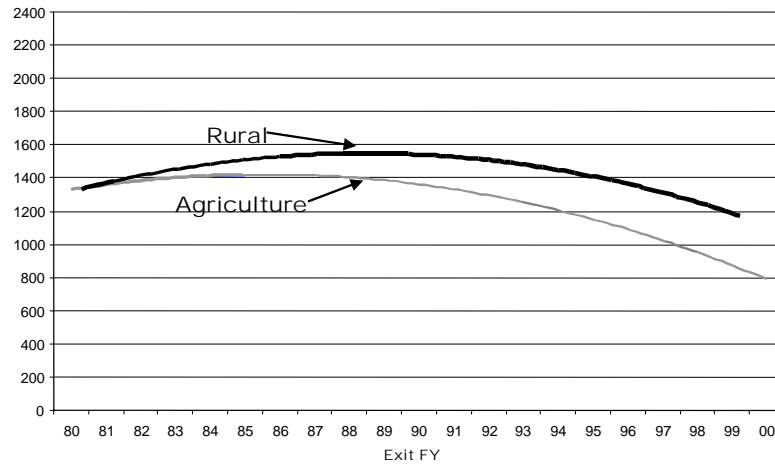
2.29 At the same time, there has been a marked decrease in IDA commitments and projects for agriculture. Omitting the numbers for fiscal 2000 (a particularly poor year for all commitments), IDA's agricultural investments have declined. Explanations for the decline include poor performance by the agricultural portfolio, a shift toward more holistic treatment of the rural sector (and away from agriculture-only projects), and an increase in the number of rural components of other operations, including those in the social sectors.

2.30 Examining the trends in IDA's rural portfolio reveals a less certain picture (figure1). The number of rural projects—defined conventionally as agriculture plus rural roads, natural resource management, and rural water and sanitation—has declined steadily since the early 1980s, although less steeply than for agriculture alone. The decline was marginally reversed in 1997–99 but returned only to the levels of the early 1990s. In dollar terms, rural commitments increased until the late 1980s, but since then the trend for IDA (and IBRD) has been sharply downwards.

2.31 It is difficult to assess the extent to which the decline in conventionally defined rural operations is being offset by an increase in the rural components of other lending operations—in education or health, for example—but there is not much evidence to indicate that an increase in total lending to those sectors is making up for the decline in rural lending. In Africa, for example, current IDA rural commitments are below the levels of the early 1980s. Although the long-term trend in social sector lending is positive, it is flat for the 1990s, and the rural trend is sharply negative.⁴⁰

40. Management notes that looking just at the trend in rural lending can be misleading. For example, in South Asia, while the portfolio of the Rural Unit has declined, estimates of rural commitments by other sector units (notably health and education) suggest an almost 40 percent increase in lending for rural areas over the decade.

Figure 1. Trends in IDA Agriculture and Rural Development Commitments (in million US\$)



Source: Institutional Business Warehouse

2.32 These trends are worrisome. With IDA's strong emphasis on supporting broad-based growth the decline in agricultural and rural lending, particularly in Africa, suggests slow progress in putting in place improved approaches after an appropriate move away from previously unsuccessful efforts. Adjustment lending and related economic and social work have contributed to relevant policy reforms in a number of IDA countries, improving agriculture price incentives and exports; but reform efforts have not resolved other structural and institutional impediments to agricultural productivity growth, marketing, and rural poverty reduction.

2.33 This is particularly sobering in light of recent statements from the Bank on the state of African agriculture, such as the following from *Can Africa Claim the 21st Century?*:

Centuries of poor policies and institutional failures are the primary cause of Africa's undercapitalized and uncompetitive agriculture.... The lack of a prolonged period of favorable incentives, rural public investments, and institutional supports has limited the opportunities for African farmers and agroindustrialists.... The undercapitalization of agriculture will have to be addressed if Africa is to feed itself, compete in world markets, and reduce rural poverty.⁴¹

2.34 Given that most of the world's poor will continue to live in rural areas well into the 21st century, and that agriculture accounts for a sizable share of poor countries' GDP, lack of consensus regarding rural development strategies among development partners and the reduced priority of agriculture and rural development in aid programs generally are cause for concern. These issues require renewed attention, with IDA's role to be determined in coordination with others.

2.35 The endemic undercapitalization of agriculture and other sectors in many IDA countries, but especially in Africa, is also linked to shortfalls in private sector investment. The need for a proactive stance on private sector development is emphasized in the IDA10-12 replenishment undertakings, but in practice the connection between private sector development and broad-based growth has remained largely abstract. Lending trends for private sector development are not easily compiled, but the indications are that large gaps exist in areas directly linked to pro-poor growth and employment creation, such as small- and medium-scale enterprise development, rural nonfarm enterprise, and

41. World Bank et al(2000). p. 170.

sustainable rural finance. Not all of these areas fall within IDA's comparative advantage in private sector development, but some are areas from which IDA has gradually withdrawn without first ensuring that a clear alternative was in place. Agricultural finance is an example.⁴²

2.36 In sum, the evidence on portfolio composition suggests that IDA has complied well with replenishment recommendations to enhance social sector lending and increase poverty targeted investments and, as discussed below, to increase the poverty and social dimensions of its adjustment lending. In parallel, however, lending to agricultural and rural projects has declined, despite emphasis given in the Strategic Compact and the rural sector strategy; and lending for private sector development has failed to demonstrate a coherent link to IDA's sharpened poverty focus. The importance of growth in IDA's poverty agenda, and the fact that the private sector, and particularly the rural private sector, is a key engine of growth in most low-income countries, makes the absence of a coherent strategy for private sector development possibly the most important shortcoming of IDA10–12.

Country Allocations and Poverty Reduction

2.37 In addition to calling for the need for more lending focused on poverty, the Replenishment Reports have instructed IDA to improve its assessment of country performance and tighten its performance-based allocations to reflect recipients' efforts to reduce poverty. Evaluations of the poverty focus of the country performance and institutional assessment, the tool used to assess country performance, and of the allocation of IDA lending across countries show generally positive results. The variables measured by the assessment tool have gradually broadened and deepened their focus on poverty and, in aggregate, IDA lending volumes are closely linked to assessments of country economic performance. This is good for IDA's poverty reduction effort. But the question remains whether the country performance and institutional assessment, as currently designed, is a good measure of a country's commitment to poverty reduction and a good predictor of future progress in poverty reduction. Another background paper looks at these issues in detail.⁴³ As the paper also notes, IDA shift to supporting the preparation and implementation of country PRSPs creates the new challenge of ensuring consistency between criteria used in the performance rating system and in the Bank/Fund joint staff assessments of countries' poverty reduction strategies.

Conclusions

2.38 Although much still needs to be done to make IDA's analytical work more useful for domestic policy formulation in recipient countries and to address more forcefully certain strategic priorities within the lending program, on the whole IDA has done much to enhance its poverty focus. The next question is whether the good things that IDA has done have been effective at the country level.

3. Country Strategy and Lending

3.1 At the core of IDA's concern with poverty is its country assistance strategy. This section looks at the extent to which country assistance strategies (CASs) have become more poverty focused,

42. The debate over the merits and demerits of the Bank's participation in lending for agricultural credit schemes has a long history. For a more extensive discussion of IDA's support for private sector development, see the OED IDA Review background study, "Review of Private Sector Development in IDA10-12," OED, World Bank (2001).

43. Operations Evaluation Department, *IDA Review—Performance Based Allocations*, February 2001.

at the content of the resulting credits, and at the capacity building and monitoring systems that have accompanied lending. It also examines evidence from research and evaluation on the effectiveness of adjustment and investment lending in stimulating broad-based growth and reducing poverty. In making this assessment it is important to recognize that poverty outcomes are the product of a wide variety of factors, few of which are under the exclusive control of the Bank. Moreover, in evaluating the performance of specific instruments – whether adjustment or investment lending instruments – it is important to keep in mind the full range of assistance that IDA provides.⁴⁴

Country Assistance Strategies

3.2 The replenishment undertakings have made it clear throughout IDA10–12 that poverty reduction should be at the center of the CAS. CASs should systematically show how IDA’s support is expected to contribute to the achievement of poverty reduction, including monitorable benchmarks and specific measures to evaluate progress. Each CAS should report on plans and progress on poverty monitoring and indicate how findings are reflected in proposed lending and dialogue on macroeconomic policy.

3.3 Reviews of CAS documents undertaken for OED’s study of the effectiveness of the Bank’s poverty reduction strategy and for the Bank’s second CAS retrospective show a clear increase in poverty focus over the past six years.⁴⁵ There is evidence that the three-part strategy that formed the basis of *World Development Report 1990: Poverty* has entered the mainstream of IDA’s country assistance work. CAS documents are accompanied by an increasingly wide array of supporting documents—poverty assessments, public expenditure reviews, private sector assessments—which have helped sharpen the poverty focus of CASs. The process of CAS preparation has also moved toward greater consultation with clients and participation by stakeholders, thus increasing opportunities for strategic selectivity and the prioritization of goals.

3.4 In the OED review of the effectiveness of the Bank’s poverty reduction strategy, an independent panel conducted a detailed review of a set of 26 CAS documents for IDA and IDA/IBRD blend countries.⁴⁶ Three-quarters of the sample, including all CASs completed since fiscal 1997, scored satisfactory or better with respect to the relevance of the strategy to poverty conditions in the country. The results were less favorable for specific aspects of the strategies, however. Only 12 of the 26 CASs asked whether projected growth would generate demand for unskilled labor, and only 9 included a discussion of distributional or equity issues arising from the growth strategy. Only 15 CASs were substantially or highly influenced by the analysis of poverty set out in the prior poverty assessment, and only 3 were substantially or highly influenced by pro-poor recommendations set out in public expenditure reviews. These weaknesses very likely reflect inadequacies in the underlying program of economic and sector work.

44. Management notes, as does OED earlier in this background paper, that the social/poverty impact of individual Bank lending operations can only be meaningfully assessed as an integral part of overall country program support. That support, in turn, must be put in the context of client country policies and institutions and assistance provided by other donors. In particular, since most of the poverty impact of adjustment lending is expected to be indirect, it is particularly difficult to determine the poverty impact of any individual operation. Similarly, there is an important distinction between the impact of adjustment and the impact of adjustment lending. That said, it should be noted that OED ratings of the outcomes of IDA operations have improved substantially over the last few years, especially for adjustment lending.

45. OED, *Poverty Reduction in the 1990s(2000)*; World Bank, *Country Assistance Strategies: Retrospective and Implications*, (R99-228) December, 1999.

46. OED, *Poverty Reduction in the 1990s(2000)*.

3.5 Weaknesses in diagnosis have also affected the process of prioritizing goals and objectives in country situations. Strategies are often stated in very broad terms—increasing economic opportunities, enhancing equitable growth, improving human capabilities, and so on. Strategies stated in such terms do not provide a clear guide to policy or lending choices. Although many CASs continue to be largely input- or project-driven—rather than instruments for reviewing tradeoffs among different areas of action and for selectivity in the deployment of scarce borrower and IDA resources—some CASs have shown progress in establishing criteria for selectivity, such as the latest strategies for Mozambique and Honduras. Overall, however, progress has remained slow and uneven—particularly in reporting on the main characteristics of poverty and key determinants, links between growth and poverty reduction, and assessment of the impact of Bank Group programs on poverty reduction, as reported in the Bank’s second CAS retrospective.

3.6 IDA11 undertakings called for CASs to include benchmarks and measures to evaluate progress against poverty reduction objectives. Here, too, progress has been uneven, though with notable improvement since FY00. Before FY00, many documents failed to distinguish adequately between what is achievable as a direct result of IDA assistance and what is achievable more generally. Only 7 of the 26 IDA and blend CASs reviewed by OED (through IDA11) provided concrete recommendations for monitoring poverty trends. Outcome indicators were generally not emphasized, despite commitment by the Bank and many borrowers to the 2015 International Development Goals.⁴⁷ Important exceptions exist, including the fiscal 1997 Côte d’Ivoire CAS, the fiscal 1998 Lesotho CAS, which outlined a strategy to monitor the government’s poverty action plan with support from the Bank, and the latest “business plan” CAS for Ghana.

3.7 CAS monitoring has recently improved, however, aided by the introduction of the country program matrix. This new CAS feature lists objectives, related diagnoses and actions to be taken, and benchmarks for tracking country and IDA performance. As a result, in FY00 more IDA CASs contained poverty reduction targets linked to intermediate objectives. Two notable examples of best practice are the FY00 CAS for Honduras and Mozambique, both of which identify clear monitorable poverty reduction targets. Still, much work remains to be done to evaluate the impact of IDA’s past assistance and to set up practical mechanisms for monitoring progress in the future—a challenge for IDA management and OED.

3.8 Based on these observations it is evident that IDA management has gone a long way to impart to staff the replenishment recommendations concerning the CAS. However, the impact of those recommendations on the policy content of CASs, the strategic deployment of IDA resources, and the measurement of results still falls short of the intentions of the replenishment undertakings. Measured against the fundamental criterion of identifying poverty impact, CAS performance in the period under review has been only partially satisfactory, though it has improved.

The Lending Program

3.9 Beyond the CAS document itself, IDA’s effectiveness lies in significant part in the value created by the lending program, an integral part of the broader program of assistance. Because the impact on poverty of projects, programs, and entire assistance strategies is not known, very little can be said about the marginal effect of IDA operations. Nevertheless, evidence from research and evaluations provides indications of the development effectiveness of broad areas of IDA’s lending work, even though it does not allow us to attribute key outcomes to the contribution of IDA alone.

47. Ibid.

The following looks first at the record of IDA's adjustment lending and then at investment lending, particularly in the social sectors.

Adjustment Lending

3.10 Specific replenishment recommendations for IDA10 provide guidance on using adjustment lending to reduce poverty and address other social concerns.⁴⁸ They note the need to encourage sound macroeconomic policies that support equitable growth by improving employment opportunities for the poor and expanding their access to productive resources. They also emphasize the maintenance of social sector expenditures and social safety nets for the most vulnerable during the adjustment process, and the inclusion of poverty reduction measures wherever feasible in the design of adjustment programs. Elsewhere in the IDA10, IDA11 and IDA12 replenishment reports, emphasis is placed on greater beneficiary participation in the policy formulation process and close monitoring of the impact of lending programs on poverty. The question addressed here is whether IDA has been able to implement these undertakings and with what effect in terms of policy outcomes and institutional change.

3.11 Adjustment lending has been IDA's major instrument for helping countries improve their economic management. The number and range of adjustment operations prepared each year and the evolving nature of the instrument itself make it difficult to compile a complete or definitive inventory of their poverty-related concerns. Through the 1990s, the Bank has tracked the "social content" of adjustment loans by monitoring the number of social sector conditions in loan and credit agreements and the number of operations classified as "poverty focused."⁴⁹

3.12 In the period under review, IDA adjustment operations have evolved in ways consistent with changing country circumstances and replenishment undertakings. In general, as countries moved from first generation macroeconomic reforms (trade, exchange rate, monetary policy) to second generation social and structural reforms (in health, financial and private sector development) adjustment operations have evolved to support institutional reform and increased their emphasis on poverty reduction and sector reforms. In the fiscal 1999 cohort of operations approximately 15 percent of conditions related specifically to social sector reforms, an increase from earlier years and a significant shift away from the earlier dominance of fiscal and trade conditions and other macro-level concerns.⁵⁰ The share of IDA adjustment credits classified as poverty focused also increased, from 33 percent of operations in IDA10 to 46 percent in IDA11, representing 67 percent of commitments.

3.13 However, as measures of poverty focus, neither category is wholly adequate. The number of social conditions indicates neither their relevance nor their efficacy in relation to poverty outcomes.⁵¹ Also, because the classification is very broad, one cannot be sure that an operation classified as poverty focused in fact directs resources to poor groups or mitigates the impact of policy reforms on

48. *Additions to IDA Resources: Tenth Replenishment* (Report No. IDA/R92-168). The Bank's principal guidance on poverty treatment in lending is given by its operational policy OD4.15.

49. Operations are classified as poverty focused operations if they include at least one of the following criteria: (a) focus specifically on eliminating distortions affecting poor groups, (b) support a public expenditure program focused on poverty reduction, or (c) support programs that provide safety nets or target specific groups of the poor.

50. Based on a review by the Poverty Reduction and Economic Management Network for the adjustment lending conditionality database. Average figures of course conceal very wide variation, with some operations containing as many as 36 social sector conditions (Kyrgyz SOSAC) and others none.

51. For example, are social conditions more likely to be waived in the event of an adjustment operation running into compliance difficulties? Are social conditions more likely to be phrased in terms of studies and data collection, rather than tangible changes in policy?

the poor. OED's evaluation of high impact adjustment lending in Africa, for example, found that despite general success in fiscal reform, social spending reform was disappointing and most of the benefits of that expenditure reform favored high-income and urban groups—the outcome reflecting deep-seated structural and political inequities.⁵² Emphasizing that it is the effectiveness of the overall program which matters and that measuring the poverty impact of individual operations is not a meaningful concept, the Bank is now discontinuing the "poverty focus" measure.

3.14 More generally, on the issue of the poverty reduction impact of adjustment operations, two main findings emerge from a number of studies. One is that many countries receiving adjustment credits have been able to protect or even increase their social spending.⁵³ However, few operations have addressed the likely economic impact of proposed policy changes on the poor or identified ways to mitigate the negative effects of reform where likely to occur.

3.15 While participation and the monitoring of poverty impacts have been rare features in adjustment operations, two fairly recent operations were particularly innovative. Burkina Faso's sectoral adjustment operation included proposals to put rural communities in charge of many aspects of their own development and even give them some influence vis-à-vis central authorities.⁵⁴ The accountability-enhancing design was intended to reduce the likelihood that resources would be captured by local elites at the expense of the rural poor. Participation, too, was a central part of the program. Indonesia's Policy Support operation included a useful disaggregation of poverty and analysis of poverty impact. Risks were realistically assessed, local-level institutional weaknesses taken into account, and national political instability and vested opposition to change acknowledged. Measures were proposed to address the constraints identified. Operations such as these provide evidence of improving practice based on a more realistic assessment of institutional constraints to policy change and a deeper understanding of the poor and their potential stake in the reform process. Whether these changes will be sufficient to overcome past weaknesses in tracking the poverty impact of adjustment programs remains to be seen. The Bank's adjustment retrospective emphasizes that while the poverty and social focus of adjustment lending has increased over time, more attention to these issues remains a priority matter.

3.16 The second finding is that adjustment operations have done well, on average, in helping countries lay the foundations for economic growth and poverty reduction. Internal and external reviews suggest that the main contribution of adjustment lending has been to reduce inflation and wean economies from general subsidies. Complementary findings on structural adjustment lending also maintain that policy reforms related to trade, price liberalization, and reduced regulation have been positive for many countries, while agricultural output and productivity growth generally have

52. OED, *Higher Impact Adjustment Lending, vols 1 and 2*, Washington D.C.: World Bank, 1999. See also, Florencia Castro-Leal, Julia Dayton, Lionel Demery, Kalpana Mehra. "Public Social Spending in Africa: Do The Poor Benefit?" (World Bank Research Observer; 14:49-72, 1999). In addition, the external evaluation of IMF ESAF (Enhanced Structural Adjustment Facility) operations finds that while donors have paid most attention to the share of social expenditures in the budget, changes in the relative cost of providing social services can have an equal if not more significant impact on the value and volume of social service provision. They note that in Zimbabwe, Malawi, and Côte d'Ivoire the relative cost of social services declined substantially during ESAF implementation, so that declines in the real value of spending were often converted into increases in the volume of service delivery. In Zambia and Uganda relative price changes worked in the opposite direction. Although the relative price effects can be large, they are rarely part of the analysis underpinning ESAF or structural adjustment operations ("External Evaluation of ESAF," 1998).

53. Evans (2000); and World Bank (2001). However, while detailing the increasing focus of adjustment operations on the social and poverty dimensions of adjustment, the Bank's retrospective on adjustment found that in 10 percent of the countries that obtained such credits, social spending declined despite efforts to maintain it.

54. Burkina Faso Agricultural Sector Adjustment Loan (Credit No. 23810).

risen in response to reforms.⁵⁵ A sample of 23 countries for which poverty data were available before and after adjustment found that around two-thirds implemented adjustment successfully and achieved per capita income growth and modest reductions in the incidence of poverty.⁵⁶ However, most IDA countries have had less success in sustaining growth at rates high enough for the poor to benefit.

3.17 Bank estimates show that GDP growth was positive for most IDA countries outside of Eastern Europe and Central Asia during the 1990s, but that growth was still insufficient to make inroads into the number of those living in absolute poverty. Outcomes vary widely both across countries and within individual economies. An external study of countries' adjustment efforts from the mid-80s through the late-90s found that although well-executed adjustment programs tend to correlate with faster short-run economic growth (as in Ghana, Uganda, and Vietnam), there is little causal evidence that adjustment programs have enhanced growth overall or significantly raised economic opportunities for the poor in most low-income countries.⁵⁷

3.18 Obviously, the relationship between adjustment, growth, and poverty reduction is complex. On average, adjustment policies, when implemented fully, have been good for growth, and many IDA countries, especially in Africa, have achieved greater macroeconomic stability and at least modest growth rates for much of the decade just passed. But in Tanzania, for example, structural measures appear to have had little direct impact on job creation for the poor (box 3.1), and social conditionality of individual adjustment operations have had only a modest impact on the orientation (as distinct from the level) of social spending and on the efficiency of public service delivery. Structural inequalities between rich and poor and among poor groups have limited the poverty-reducing impact of growth and public spending (box 3.2, p. 19). The implication is that policies that are good for growth will have less impact on the poor where attention is not paid to vast inequality in incomes, assets, and control over public resources that the poor face.⁵⁸ However, the policy mix itself is only part of the battle.

55. Jacob Meerman, *Reforming Agriculture: The World Bank Goes to Market* (Washington, D.C.: World Bank Operations Evaluation Department, 1997).

56. Carl Jayarajah, William Branson, Binyak Sen, *The Social Dimensions of Adjustment: World Bank Experience, 1980-93* (Washington, D.C.: World Bank Operations Evaluation Department, 1996).

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

58. See, Martin Ravallion, "Growth, Inequality and Poverty: Looking Beyond Averages," Development Research Group (Washington, D.C.: The World Bank, 2000).

Box 3.1. Weak Agricultural Growth Despite Improved Macroeconomic Stability—Tanzania

Tanzania is a predominantly rural and agricultural economy in which more than 90 percent of the labor force depends on agriculture and related activity for its livelihood. Poverty is overwhelmingly rural. Rural dwellers and agricultural producers are more likely to be poor and to experience a deeper level of deprivation than urban dwellers and nonagricultural producers. The need to transform the productivity of the agricultural sector has been an objective of Tanzania's reform effort ever since the country agreed to a program of structural adjustment in 1986. Yet, despite a steady return to macroeconomic stability in the mid-1990s and a widely regarded reform program covering key areas of budget management, privatization, and improved incentives, the agricultural sector stagnated throughout the period. A modest response to reform measures by some export crops has been largely offset by a poor response in the much larger traditional, rain-fed sector. Reasons for the poor supply response are many but include poor infrastructure, absence of credit, price variability, and weak public sector support for agriculture, which took the form of an uneven commitment to reform in the early 1990s. The return to stability took place without significant development impact elsewhere in the economy. OED's country assistance evaluation for Tanzania notes the absence of a clear strategy for rural development accompanying IDA's work and suggests that this absence may have contributed to the apparent neglect of policy issues for improved agricultural growth and rural poverty reduction.

Sources: *Tanzania Country Assistance Evaluation*, September 2000 (Report No. 20901-TA); and *Tanzania Country Assistance Strategy*, May 2000 (Report No. 20426-TA).

3.19 A recent study by the World Bank's research department, based on 10 country studies, finds that the outcome of adjustment loans has relatively little to do with variables under the control of the Bank (such as the resources devoted to project preparation and supervision) but can be predicted quite well by information on the recipient country.⁵⁹ For example, the success rate for new governments is far higher than the rate for long-established governments. The success rate is also higher in countries that have consultative processes that build consensus for change.

3.20 Examining the record of policy reform in the study's ten cases, the authors find that domestic politics and the availability of local policymaking talent exert the greatest influence on policy change. By itself, adjustment lending does not bring about sustained policy change. Moreover, the conditionality of adjustment loans has had variable effects. In the case of two successful low-income reformers—Ghana and Uganda—conditionality helped to lock in the reform agenda early on, but by the mid-1990s adjustment credits contained too many conditions, mirroring key reforms in minor details that hampered both implementation and ownership. Elsewhere overly ambitious conditions have been linked to weak borrower ownership and low implementation compliance. In Zambia, for instance, the combination of aid and conditionality when no serious movement for change existed in the mid-1980s worsened rather than improved the policy environment. However, the combination of aid, conditionality, and a more reform-oriented administration in the 1990s brought about significant economic liberalization and the privatization of about 80 percent of state enterprises. In Kenya, despite government's agreement on the need for far-reaching reforms, conditionality had no discernible impact on implementation. In contrast, once Ethiopia started to make progress with reforms in the 1990s, adjustment conditionality helped to deepen reform commitments and support a return to higher growth rates.⁶⁰

59. S. Devarajan et al, (2000).

60. S. Devarajan et al(2000).

Box 3.2. Have Reforms Delivered Growth to the Poor?

Cross-country evidence suggests that market reforms—whether or not linked to an adjustment program—have boosted growth rates but had little or no effect on income distribution. The latest research suggests that policies such as openness to international trade, low inflation, moderate government size, and strong rule of law mean that the poor will benefit from growth as much as anyone else, and that some policies, notably stabilization of high inflation, may benefit the poor disproportionately.

The drawback of this kind of analysis is that focusing on the average relationships between a set of desirable policy outcomes and income distribution tells us nothing about how to determine the right policy mix for any particular country or about how the gains and losses of reform are distributed within particular income groups, especially among the poor themselves.

A 1998 external evaluation of the International Monetary Fund's Enhanced Structural Adjustment Facility (ESAF) programs describes social impacts ranging from generalized losses to generalized gains of income, and from prolonged reductions in social expenditures to sustained increases. The World Bank has often provided adjustment assistance in conjunction with the IMF; and some of what has been found about IMF programs applies equally to Bank adjustment operations. The same social group may suffer severely in some ESAF programs and benefit in others. For example, implementation of an ESAF program radically reduced civil service wages in Côte d'Ivoire while raising them in Uganda. The evaluation finds that on the whole the groups that lose from reform are among the initially better off rather than among the poor. That does not mean, however, that no overlap exists between the poor and those who lose from reforms. In some contexts income redistributions work against large subgroups of the poor, such as maize growers in Zambia, estate workers in Malawi, and urban informal sector workers in Côte d'Ivoire.

On matters of policy, the ESAF evaluation finds that in some countries suffering temporary contractions in aggregate income a significant part of the decline in income could have been avoided if the reform program had been sequenced differently. In both Zambia and Zimbabwe, financial liberalization preceded fiscal stabilization and considerably delayed its attainment. The subsequent contraction of incomes could have been avoided if financial liberalization had been delayed. Furthermore, some of the structural reforms, particularly those that would have enhanced the ability of the poor to benefit from the ESAF program, as in agriculture, should have come earlier in the reform cycle.

These findings suggest, in line with other research, that the mix and sequencing of policies can be crucial in ensuring that poor groups benefit from reforms. They also suggest that there is little practical value in identifying a single class to be known as "the poor." Even where the poor benefit on average, some subgroups lose, while others are largely left out of the process. Initial conditions, the structure of production, and the complexion of the reform package itself all have potentially diverse impacts on the direction of policy change, making it difficult and possibly dangerous to generalize about overall effects.

Source: Dollar et al, 2000; "External evaluation of ESAF," 1998.

3.21 The experience of "higher impact adjustment lending," a relatively new instrument, is interesting in this regard. Higher impact adjustment lending targeted at low-income countries has been shown to be more effective than other operations in supporting essential macroeconomic reforms. The effect of such lending on growth and poverty has yet to be assessed, but some technical features are instructive. These include the use of flexible tranching arrangements that give governments increased freedom in timing reforms, allowing greater ownership and fewer conditions overall. A typical poverty-focused higher impact adjustment loan in Sub-Saharan Africa has 22 conditions, compared to the average of 38 for all adjustment loans and 46 for all of the Bank's fiscal 1999 adjustment loans. Such loans also tend to involve wider government participation and give greater attention to benchmarks and performance criteria, both of which are important tools for building commitment and developing institutions.

3.22 Recognizing the need to broaden ownership and build political support for reform, the Bank has changed the way it does business. More flexibility, fewer conditions, and a reform program

rooted in countries' poverty reduction strategies have moved the Bank away from conventional structural adjustment operations. A new lending instrument – the Poverty Reduction Support Credit – has been introduced. As stated in its guidelines, the PRSC is “a CAS-based development assistance instrument, supporting an IDA-eligible country’s policy and institutional reform program to help implement its poverty reduction strategy. Over time, PRSCs are expected to become an important vehicle of IDA financial support to low-income countries with strong programs, anchoring the Bank’s overall support for their poverty reduction strategies. It is expected that the PRSP/PRSC framework will allow donors to combine their efforts behind a single program, with consistent and harmonized monitoring and evaluation focusing on results at the project, program, and country levels.” (Box 3.3 briefly describes the first PRSC, provided to Uganda.) The new instrument provides in a single operation support for the government’s strategic framework for macroeconomic stability, governance, and poverty reduction. As such it is a potentially useful form of support for countries facing the demands of second-generation reforms and the need to maintain predictable aid flows. But because it presumes sound fiduciary arrangements and planning capability that not all IDA countries have yet acquired, it will need to be adapted carefully to different country conditions.

Box 3.3. Uganda’s poverty reduction support credit

A new credit for Uganda represents a shift in IDA’s assistance strategy away from short-term adjustment combined with numerous investment projects toward budget support for the government’s medium-term strategic framework.

The poverty reduction support credit (PRSC) takes the form of a series of annual credits to support the implementation of the government’s poverty eradication action plan with clear performance benchmarks, including results indicators and policy measures within the areas of IDA’s primary responsibility. Covering the three-year life cycle of the combined action plan and poverty reduction strategy, the credits are synchronized with the government’s budget cycle and embedded in the CAS. The first Poverty Reduction Support Credit for US \$150 million was approved by the Executive Board of the World Bank on May 31, 2001. It is aimed at strengthening the reform process by focusing on service delivery particularly in education, health care and water and sanitation services. The credit also aims to improve the efficiency and equitable use of public resources and governance through cross cutting public sector reforms. It is envisaged that there will be two further single tranche PRSCs (each in the amount of US\$150 million equivalent) over the next two years.

By increasing the predictability of donor flows to Uganda and providing direct support for the poverty eradication action plan, the poverty reduction support credit is expected to overcome some of the problems of the short term and weak ownership associated with some structural adjustment packages in the past. The credit also signals clearly to the government and the rest of the development community that poverty reduction is the primary goal of IDA assistance.

Source: *Uganda—Country Assistance Strategy* (Vol. 1) (Report No. 20886) December, 2000.

3.23 In sum, IDA has traveled a considerable distance to incorporate socially sensitive criteria into its adjustment programs. But the evaluative evidence suggests that in the face of inequalities and institutional constraints, even the most poverty-sensitive adjustment credit will have at best a modest effect on poverty reduction. Ultimately the causes of poverty are best treated in a long-term, strategic framework of national poverty reduction. The effectiveness of all lending – whether adjustment or investment -- lies in its being part of a coherent poverty framework. The PRSC to be used in support of countries’ own poverty reduction strategies, enhances IDA’s capacity to provide such support. Careful application to country circumstances and the development of processes of monitoring and evaluation will be key to this new instrument’s early use and evolution.

Issues in Investment Lending

3.24 This paper has already noted IDA's success in raising the profile of social service investments and safety nets in its analytical work and lending. But what has that increased investment done for the poor?

3.25 Overall, education and social protection operations showed relatively strong outcome performance, trailed by operations in health, nutrition, and population. As rated by QAG, the quality at entry of the human development portfolio rose from 68% satisfactory or better in CY97 to 87% in CY99.⁶¹ Moreover, OED ratings of the outcome of exiting projects improved 72% satisfactory or better in FY95-98 to 77% in FY99-00.⁶² But at the subsector level, lending for primary and secondary education—subsectors closely associated with the poor—performed less well than higher education. In health, nutrition, and population, basic health projects performed below the average for the Bank as a whole and below the average for the sector, although there are signs that the record is improving.

3.26 A recent evaluation of the Bank's work in the health, nutrition, and population sector suggests that despite a huge increase in activity during the 1990s and a growing concern with quality, investments in the sector have performed below par, particularly in terms of their impact on institutional development and their sustainability. Part of the reason is that countries needing basic health-related investments also tend to have weak institutional and policy environments. At the same time, relatively complex IDA investments often have overtaxed the implementation capacity of local institutions and political processes.

3.27 Further concern about the effectiveness of lending in the social sectors arises from the lack of clear evidence that the poor are in fact the main beneficiaries. OED found that the documents for few projects—even projects classified under the Program of Targeted Interventions and identified in the CAS as “pro-poor”—presented a coherent analysis of how project interventions would improve health outcomes for the poor. An even smaller percentage of projects were able, on closing, to demonstrate clear results for the poor.⁶³ Background work done for the Social Protection Sector Strategy notes that “the sector does well on processes but is unrealistic in its assessment of outcomes.”⁶⁴ There are notable exceptions, however, as illustrated in box 3.4.

61. World Bank, *FY00 Annual Report on Portfolio Performance*, R2001-0011 (Washington D.C.: World Bank, 2001).

62. Operations Evaluation Department, *2000 Annual Review of Development Effectiveness*, (Washington, D.C.: World Bank Operations Evaluation Department, 2001).

63. Management emphasizes, however, that the poverty impact of IDA support must be measured at the level of the country program rather than that of an individual operation.

64. Social Protection Sector Strategy: From Safety Net to Spring Board (R2000-0160), August 2000.

Box 3.4. Employment Generation Project—Haiti

Originated during a consultative group meeting in Haiti in May 1995, the Employment Generation Project was based on employment generation studies carried out for an earlier emergency economic recovery credit. The project, designed to provide short-term employment during the transition from short- to medium-term economic assistance, made a crucial contribution to poverty alleviation during a politically volatile period when democratic institutions were still fragile. The objectives were to (a) create short-term employment for people in extreme poverty, reaching up to 1.6 million family members of unskilled workers; (b) rehabilitate seriously deteriorated economic and productive infrastructure; and (c) strengthen the capacity of nongovernmental and community organizations to manage labor intensive small-scale development projects. The project's outcome was highly satisfactory. It reached its ambitious job-creation objectives (487,000 person-months of employment), benefited the poorest layers of the population, and helped to rehabilitate vital infrastructure. Central to the project's success was a well-coordinated partnership between the public and private sectors. NGOs in particular showed drive and implementation capacity unmatched in the public sector. Beneficiaries and local authorities participated from the start. Intensive supervision and flexible procurement and disbursement were vital to successful implementation.

Source: Haiti Employment Generation Project, Implementation Completion Report (Report No. 17238).

3.28 The complex link between social sector investments and poverty reduction is further demonstrated at the macro level by evidence that the link between levels of public social spending and poverty reduction may at best be indirect, and that in many countries the beneficiaries of social expenditures often are the rich and middle class (box 3.5). Although such evidence does not nullify the importance of investments in these sectors, and debate remains open, it does suggest that making effective investments is a complex and politically charged process. IDA's more recent work on decentralization, sectorwide investments, and budgetary reform show promise in dealing with these more complex institutional issues, but it is too early to predict their results for the poor.

Box 3.5. Who benefits from health and education expenditures in Africa?

A six-country study of the benefit incidence of government health and education spending in Africa revealed that, in absolute terms, the better off benefit more than the poor. With respect to health, the poorest 20 percent of the population typically receive some 10–15 percent of the subsidy represented by government expenditures. (The rate is somewhat more equitable for primary health care than for other types of care.) The situation is similar for education, although intercountry variations are larger. When the results are assessed in terms of the “concentration curves” commonly used in distribution studies, the pattern of distribution for almost all countries and types of health and education service favors the better off, although the extent of inequality implied by the curves is not as great as it is for income.

These results are illustrative. Demand for health care and education rises with income, putting pressure on government services in the absence of an effective private sector. Price—any price—also tends to discourage service use among the poor more than the rich. Publicly run services are often located in urban areas with relatively high per capita incomes. Facilities located close to high-income groups tend to offer the higher quality service that such groups expect. These factors—all of which relate more to service quality and access than to the level of spending per se—point to the importance of targeting public services based on an understanding of the variables that influence demand for health and education services in poor communities.

Source: Florencia Castro-Leal, J. Dayton, L. Demery, and K. Mehra, *Public Spending in Africa: Do the Poor Benefit?* [World Bank Research Observer](#), volume 14, 1997, pp. 49-72.

3.29 Although IDA's recent reputation for improving conditions for the poor has rested heavily on its work in the social sectors and its support for economic adjustment, the benefits of other lending work, particularly in sectors supporting broad-based growth, deserve equal attention. While it would

be inadvisable to make generalizations about the overall effectiveness of those investments, there is clear evidence that specific projects have benefited the poor—with lasting results.

3.30 Bolivia's Rural Communities Development Project is a case in point. Approved in fiscal 1996, the project sought to “broaden the benefits of economic growth” by closing the link between institutional strengthening and investment. The objectives were to alleviate rural poverty through investments identified and formulated in a participatory planning process and to improve the capacity of municipalities and rural communities to implement municipal development plans by enhancing the institutional capacity of the Secretariat for Rural Development, the Small-Farmer Development Fund, and the Secretariat for Popular Participation. The investments made under the project were small, giving it the flavor of a pilot project. Nevertheless, because of the project's focus on local empowerment and access to resources by the poor, the project's potential for helping to alleviate poverty was enhanced by the combination of a strategic vision solidly grounded in borrower circumstances and priorities that allowed the project to spearhead one of the key reforms of the government [a law on popular participation] and to help in setting the stage for future efforts directed at poverty reduction and local empowerment.

3.31 In Bangladesh, two of IDA's most successful pro-poor investments have been made not in the social sectors but in rural road rehabilitation and rural electrification.⁶⁵ The main objectives of the rural electrification project, approved in fiscal 1990, were to expand existing distribution networks to underserved areas, rehabilitate distribution systems taken over from parastatal organizations, reduce system losses, and improve the financial viability and institutional performance of rural electricity cooperatives. The achievement of those objectives was outstanding in many ways. The number of consumer connections, for example, far exceeded original estimates. Key social and economic outcomes included better household lighting—which became the basis for improved opportunities for study, extra household earnings, and higher quality of life—and more productive energy use in industry and agriculture. A socioeconomic study revealed that average income in the areas affected by the electrification program was about 50 percent higher than that of control households in nonelectrified villages. Twenty-two percent of the difference in average income was attributed to electrification, and the poverty rate in electrified household was below that of control villages.

3.32 India's Forestry Project in Madhya Pradesh is another example of a project that was not designed with an explicit poverty focus but that significantly improved lives and livelihoods, especially for tribal peoples. IDA financed activities in 2,500 communities with a population of at least 1 million, but the project actually expanded far beyond this to include more than 12,000 communities and 6 million people. The project supported new productive opportunities and income increases for the poor and empowered communities of poor forest-fringe dwellers. Community protection funds helped to increase public choice and reduce debt and reliance on moneylenders. Achievement of environmental goals also was substantial. However, the process of participatory planning did result in some conflicts between villages over forest access, while participation in decision making by women was limited. The last fact detracts from the major social gains of the rest of the project.⁶⁶

65. Bangladesh Rural Road Rehabilitation Project (Credit No. 19400) and Bangladesh Rural Electrification Project (Credit No. 12620).

66. Madya Pradesh Forestry Project (Credit No. 27000).

Capacity Building, Monitoring, and Evaluation

3.33 Over the three replenishment periods, specific undertakings have emphasized the importance of monitoring the effect of IDA activities on poverty and social welfare at the institutional and country levels. In IDA11, the deputies stated that IDA should monitor poverty reduction through the use of appropriate indicators and assess the results of its poverty policies. Importance was also attached to monitoring the impact of the entire IDA portfolio on incomes and living conditions of the poor. In IDA12, the emphasis shifted to include even greater use of poverty reduction targets, including those developed in the context of the international development goals of the Organisation for Economic Co-operation and Development, United Nations, World Bank, and International Monetary Fund, strengthening their use in the development dialogue with governments and incorporating them into country assistance strategies.

3.34 OED's poverty study noted slow but gradual progress in integrating indicators and targets into CASs.⁶⁷ Still, many CAS documents fail to distinguish clearly between performance indicators for IDA and for its borrower. Moreover, only a third of the CASs reviewed provided concrete recommendations for monitoring poverty trends. Almost all of those that did provide recommendations were prepared after fiscal 1997.

3.35 Efforts to build capacity for poverty monitoring and evaluation have been patchy, although because capacity building is often included as a component of other project investments it is hard to know how much time and money have been spent on it. Some successful examples exist, such as the case of Kyrgyz discussed in box 3.6, but overall poverty monitoring, which depends on client ownership, has received little systematic attention until very recently.

Box 3.6. Poverty Monitoring in the Kyrgyz Republic

After independence in 1991 the Kyrgyz Republic faced enormous challenges in its transition to a market economy. One of the challenges was to develop a system of poverty monitoring to provide information and guidance to social service agencies. To address this issue IDA included a component in its Social Safety Net project (approved in fiscal 1995) to provide equipment, technical assistance, and training to strengthen the National Committee for Statistics (Natstatkom). Included among the component's key indicators were: household surveys, analysis of data, formation of a users' committee, and training personnel in field work, sampling, and analysis. Overall achievement of project objectives was rated marginally satisfactory in the implementation completion report, but the poverty monitoring component was rated highly satisfactory. The capacity of Natstatkom to undertake household surveys and analyze data was greatly strengthened, especially in areas related to poverty and unemployment. Although at first progress in institutional development was slow, by the end of the project it was judged to have been substantial, with a significant increase in Natstatkom's survey and analysis capabilities. Policymakers also acknowledged the value of the survey data and the analysis provided by Natstatkom, and sustainability was rated as "highly likely." These efforts have subsequently become invaluable as Kyrgyz prepares its own poverty reduction strategy.

Source: World Bank, Kyrgyz Republic Country assistance Strategy Report No. 17641 (Washington D.C., World Bank); Operations Evaluation Department, *Kyrgyz Republic Country Assistance Evaluation* (Washington, D. C., World Bank Operations Evaluation Department, 2001).

3.36 The shift to the CDF and PRSP offers the opportunity to correct for weaknesses in capacity building, monitoring, and evaluation by placing the borrower at the center of strategy formulation, emphasizing a results-based approach (box 4.7), and mainstreaming the poverty focus throughout the country strategy. Early indications are that institutionalizing monitoring and evaluation functions is

67. Evans(2000).

not an easy task. Fragmented and overlapping systems with limited linkages to budgetary and policy formulation processes are common in most countries. In some cases implementation of the monitoring requirements of the interim PRSP already lags behind the rest of the process. Where civil society has been invited to participate in the monitoring process, the mechanics of its role are still being worked out.

Box 3.7. Support for Results-Based Management in Honduras

With World Bank assistance, the government of Honduras has decided to develop national monitoring and evaluation functions in order to deepen public sector reforms that are already under way. Strengthening monitoring and evaluation capacities and coordination mechanisms in the finance ministry and five pilot sector ministries will encourage better budget planning and resource allocation, support line management and service delivery in sector ministries, and foster greater accountability. Explicit links are drawn to ongoing reforms of the annual budget process, the new financial management system, the development of the capacities of the national audit office, the planned national statistics agency, and the development of a national poverty reduction strategy.

Source: Honduras Country Assistance Strategy, January 2000 (Report No. 20072).

Conclusions

3.37 In many areas, IDA has gone a long way to reflect the replenishment recommendations in CASs and in lending, but implementation has been uneven and the contribution to poverty reduction uncertain. While basic data on poverty and its correlates has improved in many countries, uses of that data to improve the pro-poor content of policy and strategy still vary in their quality and effectiveness. Support for improvements in economic management has helped countries to reestablish economic stability and, in some cases, to initiate structural reforms. But broad-based, labor-intensive growth appears to lack concrete definition in the majority of CASs, making it difficult to identify practical measures that are both pro-growth and pro-poor. A focus on inputs persists, with too few explicit linkages drawn between CAS programs and expected reductions in poverty. Limited evaluation of the effects of projects and programs on poverty has impeded the assessment of the impact of key IDA instruments as well as policy and strategy formulation within borrowing countries. The next section looks beyond projects to IDA's contribution to improving country performance.

4. Country Performance and the Contribution of IDA

4.1 The challenge of reducing poverty is enormous. The latest estimates by the World Bank for 1998 show that 1.2 billion people, one-quarter of the world's population, live on less than \$1 a day; 2.8 billion, or half the world's population, live on less than \$2. Of this number roughly 70 percent live in South Asia and Sub-Saharan Africa. The global totals began to stabilize in the late 1990s, but when the figures for China are excluded, the underlying trend is still rising.

4.2 In IDA countries, roughly the same proportion of people who were poor in 1987 were poor in 1998—not a promising picture. In IDA/IBRD blend countries the record is slightly better, with a drop in the average poverty incidence from 37 percent to 30 percent over the decade. Some IDA regions have done better than others, particularly in improving basic social outcomes, but the persistently

high rates of poverty and social inequality evident in Sub-Saharan Africa continue to cause concern (tables 4.1 and 4.2).

Table 4.1. Percentage of People Living on Less Than \$1 per Day in IDA Countries (1987–98)

	1987	1990	1993	1996	1998 (est.)
IDA-only countries	33.86	39.28	39.92	38.22	33.60
IDA-only countries less Bangladesh	38.34	41.34	41.37	41.44	37.70
IDA/IBRD blend countries	37.06	37.74	36.17	30.82	30.03
All IDA/blend countries	36.59	37.97	36.75	31.96	30.59
All IDA/blend countries less China	43.09	42.60	41.87	41.63	39.43
IDA/blend countries in Sub-Saharan Africa	50.67	51.95	53.82	52.66	50.04

Source: Shaohua Chen and Martin Ravallion, "How did the world's poorest fare in the 1990s?" Policy Research Working Paper No. WPS 2409 (Washington, DC: World Bank, 2000); and International Development Association, *IDA11 (FY97-99) Implementation Report: Improving IDA's Effectiveness in Reaching the Poor*, IDA/SecM2000-184 (Washington, D.C., World Bank, April 24, 2000).

4.3 A crucial reason for the lagging performance of low-income countries, and of Sub-Saharan Africa in particular, is their variable record on growth during the 1990s (table 4.3). On average, GDP in developing countries grew at 3.2 percent per annum between 1991 and 1998. Countries in East Asia and the Pacific continued their strong growth performance, despite faltering in the late 1990s in the face of the financial crisis.⁶⁸ Countries in South Asia also grew relatively strongly, maintaining an average growth rate of more than 5 percent for most of the decade. In Sub-Saharan Africa, Latin America, and the Middle East and North Africa, on the other hand, growth was well below the forecasts of *World Development Report 1990: Poverty*. Also contrary to the 1990 forecast, growth turned out to be strongly negative for most of the former Soviet Union.

Table 4.2. Social Indicators in IDA Countries

	1980	1990	1997	1980–90 (percent change)	1990–97 (percent change)
<i>Life Expectancy (years)</i>					
All IDA	58	61	63	6	3
IDA except China	53	57	60	8	5
Africa	47	48	50	3	3
<i>Infant Mortality Rate (percent)</i>					
All IDA	86	65	59	-24	-11
IDA except China	112	85	74	-24	-12
Africa	117	101	92	-14	-9
<i>Primary School Enrollment (percent)</i>					
All IDA	66	86	98	30	14
IDA except China	66	60	69	-9	15
Africa	55	47	48	-15	2
<i>Female Illiteracy (percent)</i>					
All IDA	62	50	44	-18	-13
IDA except China	71	62	56	-12	-10
Africa	76	64	54	-17	-15

Note: All indicators are population weighted.

Source: *IDA11 Implementation Report (World Bank 2000)*

68. For the worst-hit countries, growth was estimated at -7.9 percent in 1998 (GEP 2000).

Table 4.3. Growth Rates in the 1980s and 1990s (percent)

	<i>Global Economic Prospects 2000</i>			<i>WDR 1990</i>
	1991–99	1999	2000 (estimate)	1989–2000 (forecast)
High-income countries	2.2	2.7	3.8	3.0
Developing countries	3.2	3.2	5.3	5.1
Sub-Saharan Africa	2.1	2.3	2.7	3.7
East Asia and the Pacific	7.1	6.9	7.2	6.6
South Asia	4.1	5.7	6.0	5.1
Europe and Central Asia	-2.3	1.0	5.2	1.9
Middle East and North Africa	3.1	2.4	3.1	4.3
Latin America and the Caribbean	3.2	0.1	4.0	4.2
Developing countries excluding transition countries	4.7	3.3	5.3	—

Note: The original estimate for Europe and Central Asia was based on a small set of Eastern European countries that were members of the World Bank in 1990. It was not until after 1990 that the full impact of the transition in the former Soviet Union became apparent.

Source: World Development Report 1990, *table 1.3*, and *Global Economic Prospects 2001*.

4.4 These growth outcomes are particularly relevant in light of the international community's commitment to achieve major reductions in poverty and social inequality by 2015. Three poverty scenarios show that continued increases in inequality coupled with less than robust growth would imply failure to reach the poverty target for developing countries as a group, and in particular substantial increases in the number of poor in Sub-Saharan Africa.⁶⁹ In terms of social outcomes the scenarios are more varied, but to achieve the international development goal in infant mortality by 2015 will require significantly faster growth than is currently being achieved.

4.5 The inescapable conclusion is that growth in low-income countries during the 1990s has been insufficient to bring about sustained reductions in poverty. Below this global portrait lies diversity across the dimensions of poverty and across countries, ethnic groups, households, and individuals.⁷⁰ Areas of progress and improvement exist alongside areas of stagnation.

4.6 Among eight African countries with data spanning the 1990s, four experienced a decline in income-defined poverty levels (Ethiopia, Ghana, Mauritania, and Uganda), whereas four experienced rising poverty levels (Burkina Faso, Nigeria, Zambia, and Zimbabwe). In South Asia, the incidence of poverty declined in Bangladesh during the 1990s, while remaining more or less stagnant in both Pakistan and Sri Lanka. The picture in India is more complex, with national trends showing a decline but household surveys reporting almost no change in the incidence of poverty. In East Asia, dramatic declines in poverty levels in the 1980s and early 1990s were affected by the crisis of 1997. After considerable hardship poverty rates appear to be stabilizing in the region. In contrast to Cambodia, Laos, and Myanmar, China and Vietnam have shown remarkable success in reducing aggregate poverty over the decade, although progress has slowed in the last few years.

4.7 But even country level numbers hide the fact that poverty is moving in different directions. Rural poverty has declined in several countries—Burkina Faso, China, Ghana, and Zambia—but urban poverty has tended to increase, often overwhelming reductions in rural poverty. Regional income gaps have widened in some countries, such as China and Vietnam, even as overall poverty

69. World Bank, *Global Economic Prospects and Developing Countries 2001*, (Washington, D.C.: World Bank, 2001).

70. *World Development Report 2001*.

levels have declined, . Gender disparities, too, have declined in some countries while remaining stagnant in others. In the transition countries, where poverty has been regarded as temporary, poverty appears to be becoming more resistant to economic recovery, at least for a significant subset of the population.

4.8 In addition, qualitative information gathered in poverty assessments shows that the poor are becoming more vulnerable to shocks, crime, and violence. Their sense of powerlessness in the face of remote government and poor public services is growing. Few concrete measures exist to illustrate recent changes in these dimensions of poverty. Yet, overall, it is fairly clear that there remains a huge anti-poverty agenda for the coming decades.

Perceptions of IDA's Record on Growth and Poverty Reduction

4.9 Against this backdrop we examine how IDA borrowers and staff perceive IDA's record in supporting long-term growth and reductions in poverty.

Client Perceptions

4.10 A synthesis of client and stakeholder surveys conducted in IDA countries as background for country assistance work reveals that IDA's task of translating its poverty reduction strategy into practical policies and programs—and ultimately into benefits for the poor—has been a difficult one.

4.11 In the surveys conducted in the Africa Region, governments and stakeholders point to IDA's limited effect in improving the status of the poor and in investing in people. Even in countries where overall progress looks promising, such as Ghana and Uganda, IDA's effectiveness in poverty reduction and human development is rated low. By contrast, IDA is perceived to have been effective in helping restore macroeconomic conditions for a return to growth, but not necessarily in focusing on the long term sustainability of that growth.

4.12 Those results point to an apparent confusion among key stakeholders about IDA's strategy for poverty reduction which, at least on paper, rests fundamentally on economic growth. Many stakeholders appear to believe that despite the quality of its technical knowledge, advice, and overall contribution to development strategy, IDA has tended to emphasize short-term policies and projects over the longer-term measures necessary to bring about improvements in social conditions. They also believe that IDA has given weak support to the private sector and to improvements in governance, and that it has only a modest understanding of local institutional constraints. Despite IDA's positive role in supporting macroeconomic stability, neither governments nor private sector stakeholders viewed IDA as having been effective in supporting measures to enhance long-term growth and sustainability.

Staff Views

4.13 Some of the same surveys contain views expressed by IDA staff working in country teams. Like stakeholders many members of the staff believe that IDA has been most effective in supporting the conditions necessary for overall economic growth and least effective in improving the status of the poor.⁷¹ Both staff and clients view recent efforts by IDA to increase participation as having had a

71. Although differences in methodology make it problematic to compare quantitative results across surveys, it is interesting that on the question of IDA's effectiveness in improving the status of the poor only 20 percent of IDA staff gave the institution a favorable response, while 30 percent gave it an unfavorable response and 50 percent responded neutrally.

favorable impact, yet neither group considers IDA's support for public sector agencies and public services to have been particularly favorable.

4.14 Areas of divergence include favorable staff perceptions of IDA support for the private sector and the staff's view that IDA works jointly with stakeholders to develop solutions to development problems.

4.15 As part of OED's 2000 evaluation of the Bank's poverty reduction work, staff were asked for their views on the implementation of the strategy set forth in *World Development Report 1990: Poverty*. The dominant view was that the 1990 strategy was a sound strategy on paper, but that it had to be adapted to take account of country-specific conditions such as governance, gender equality, environmental sustainability, and the pivotal role of the private sector. In line with the country-client surveys, staff noted that the macroeconomic agenda designed to support growth had brought about improvements in the policy environment in many countries, but not always benefits for the poor. The view was that while the Bank had all the knowledge needed to support rapid, broad-based growth, the staff's ability to translate that knowledge into concrete strategies and policy advice compatible with country-level institutional capabilities was limited. Staff noted the past tendency of Bank management to continue with a standard policy prescription for growth regardless of a country's commitment to pro-poor reform.

4.16 While attitudinal data need to be treated with care, client surveys point almost unanimously to a perceived lack of coherence between IDA's growth objective and its drive for lower poverty. Selected country experiences provide some confirmation for this perspective but also suggest that over-generalizing would be inappropriate. The following three cases, in which IDA has played a significant supporting role in the country's own recent efforts, provide examples of the crucial importance of both country "readiness for reform" and the responsiveness of IDA lending and non-lending activities to specific country circumstances.

Tanzania

4.17 Despite almost four decades of development assistance, Tanzania remains one of the poorest countries in the world. Macroeconomic stabilization and structural reform efforts in the mid-80s to the mid-90s promoted limited growth but little transformation in the primarily rural economy and minimal growth. Anecdotal evidence suggests that poverty rates have remained largely the same since 1992, and many gains made during the 1970s in meeting basic needs have been wiped out.⁷² A comprehensive household survey is currently underway under the PRSP and a strategy in place for updating analytical work and then designing appropriate programs. Under new government leadership, improved macroeconomic stability since the mid-1990s has contributed to a modest but steady increase in per capita GDP growth.

4.18 The 1999 OED country assistance evaluation for Tanzania finds that IDA's early support for the country's policies of self-reliance and equity, and later for the economic recovery program of 1986, had a limited impact on growth and poverty in the country. In the early 1980s, despite substantial investment in agriculture, industry, and infrastructure, the vast majority of IDA's projects were rated as unsatisfactory. Constraints in donor coordination and fragmented, project-bound assistance reduced the effectiveness of aid and weakened the policy environment. However, the record of project performance has been improving during the 1990s. In support of government efforts, IDA has renewed its emphasis

72. Operations Evaluation Department, *Tanzania Country Assistance Evaluation*, Report No. 20901-TA (Washington, D.C., World Bank Operations Evaluation Department, September 2000); and World Bank, *Tanzania Country Assistance Strategy*, (Report No. 20426-TA(Washington, D.C., World Bank, May 2000).

on fundamental macroeconomic reforms, supported new emphasis on improving stagnant or declining social indicators (including gender issues), and increased its support for donor coordination and country-driven formulation of strategy. Though there is still a considerable distance to go, results look promising, with a steady reduction in projects at risk since 1998 and outcomes for projects (though few in number) also improving in the past three years.

4.19 Widespread recognition of Tanzania's limited progress in development led the new government to adopt a national poverty eradication strategy in 1997 with three key goals: creating an enabling environment for poverty reduction, building capacity for poverty reduction, and promoting priority sectors. Following a crisis in donor-government relations in 1994-5, the government began work on an assistance strategy that provides a framework for development assistance in support of Tanzanian development priorities. Aid relationships have since improved markedly, including the establishment of a multilateral development fund to assist in servicing debt to multilateral agencies. The related budgetary savings are being used to protect expenditures for priority sectors within the context of the government's medium-term expenditure framework. These initiatives involved a broad process of consultation, including civil society and the international donor community. The government's preparation of a poverty reduction strategy paper (PRSP), in accordance with the eligibility requirements for the Highly Indebted Poor Countries initiative, built on those on-going efforts.

4.20 A core objective of the 2000 country assistance strategy (CAS) is to align IDA assistance with the country's own assistance strategy and PRSP. With macroeconomic stabilization substantially complete, the shared focus of the documents is to create conditions for accelerated growth and poverty reduction based on a broad program of support. The CAS program builds on Tanzania's recent efforts in sectorwide reform with a shift to more programmatic lending. It also places a central focus on private sector and infrastructure development, sustainable rural development, improved social infrastructure, and public sector reform.

4.21 Though the government's new program is still taking shape and it is too early to assess its impact, early signs are encouraging. Country-led aid coordination is has been supported through the promotion of transparency in aid flows and harmonization of donor procedures. Annual public expenditure reviews with a participatory component have begun to improve management of public expenditures. The multilateral development fund has released crucial resources for spending on priority sectors, while the government is setting up a Medium Term Expenditure Framework linked to priority goals set out in the national poverty eradication strategy.

4.22 Yet the challenges ahead are substantial. Growth remains below levels required for substantial poverty reduction. Some social indicators such as child malnutrition have shown little improvement over the past decade, and average life expectancy, which rose from 45.3 years in 1970 to 52 years in 1990, is in decline largely due to the spread of HIV/AIDS. With a national poverty eradication strategy, a national assistance strategy, an effort to improve donor coordination sponsored by the UN Development Assistance Fund, and a PRSP all commanding attention, the burden on country administrative capacities—however unintended—remains significant.

4.23 The PRSP includes a national poverty line, medium-term poverty targets, including monitorable indicators covering poverty and priority sectors such as primary education, primary health, rural roads and water supply, HIV/AIDS, and judicial reform. And the government has taken a number of specific actions in support of core objectives. However, the PRSP itself notes that the development and costing of specific strategies require further work, particularly in the key areas of education, agriculture, and rural development and the finalization of local government reform. It also notes that available data does not provide for a precise analysis of poverty incidence and trends and that the strategy will need to be refined on the basis of the availability of new data in the next 1-2 years. The Joint Staff Assessment of

the PRSP, while concluding that the strategy set out provides a credible basis for sustainable improvements in the lives of the poor, emphasizes that institutional weaknesses and lack of capacity could delay further elaboration of the poverty reduction program. It also notes that commitment to implementation at the local level is largely untested, and that the feasibility of the medium-term targets is dependent on continued high levels of external finance in addition to debt relief under the enhanced HIPC Initiative.

4.24 In support of Tanzania's PRSP, strategic selectivity in the CAS could be strengthened. In the current matrix of 13 key areas for action by government, donors, and nongovernmental organizations, IDA assigns significant or high priority to eight and moderate priority to four, leaving just one area—decentralization—in which it will take a back seat. The resulting policy matrix also includes some 97 benchmarks against which progress on CAS objectives is to be monitored. With the locus of strategy shifting to the PRSP, it may be sensible for the CAS to focus more on clarifying the criteria for program emphasis and instrument choice and guidelines for monitoring IDA performance under the government's existing policy framework, and less on broadening efforts to ensure that the reform program is fully financed.⁷³

4.25 The government's expenditure framework (including the cash management system established in 1995) has improved in recent years through better management of the budget and the closing of several notable leakages. Improvements have been particularly strong in education and health. Yet corruption is an increasingly serious issues and concerns persist about the conflict between achieving fiscal discipline, protecting spending for operations and maintenance, and improving the efficiency and equity of social spending—particularly in the context of local government reform.. At present, Government and donors are aiming to protect spending through the multilateral development fund and tracking expenditure flows to priority sectors, but the crucial challenge is how to build them into the budgetary process itself. With such a high percentage of development aid flowing outside the budget, donors may be the biggest obstacle to significant changes in budget management.

Vietnam

4.26 Vietnam's record since the mid-1990s has been one of exceptionally high growth and significant improvements in basic living standards. Thanks to a comprehensive program of stabilization and structural reform, Vietnam's economy experienced a rapid transformation and spectacularly high rates of growth (box 4.1). Absolute poverty declined from 58 percent in 1993 to around 37 percent in 1998, and trends in non-monetary indicators of welfare confirmed that living standards were improving.⁷⁴

4.27 IDA's early assistance in Vietnam focused on rehabilitation of infrastructure which was devastated during the consecutive wars, and restoration of the system of basic health and education. The program was designed to gain high rates of return from these investments and it had strong links to poverty through easing bottlenecks to broad based growth. As the growth performance started faltering in latter half of 1990s due to the regional crisis and slackened momentum for reform, the government

73. Management questions the implication that the Tanzania program has not been selective and would note that the Bank's approach in Tanzania reflects a long history of constructive and effective support across a number of sectors. That program has been the product of frequent discussions with Government and donors. As indicated in the CAS for Tanzania, the Bank is supporting the Government's desire to enter into a new relationship with donors, switching from projects to programs which will be increasingly geared towards operations with a direct bearing on poverty and strengthening of social sector programs, a shift from the earlier emphasis on infrastructure development. This transition is entirely consistent with the CDF principles of government ownership, donor partnership, and selectivity.

74. *Vietnam: Attacking Poverty*, December 1999.

expressed concerns about adverse effects on employment creation, poverty reduction and social equity, as well as widening urban-rural gaps.

4.28 The latest CAS in 1998 was designed to support the government program towards restoring growth momentum with enhanced quality, with deeper focus on poverty and social issues and rural development. The CAS also emphasizes the need to develop clearer links between individual projects and policy dialogue and to give greater attention to improving the efficiency of public administration—particularly accountability of public sector.

4.29 This shift reflected the need to enhance the effectiveness of IDA assistance by meeting changing country needs, namely the transition from phase one—responding to immediate needs to support growth through easing bottlenecks in infrastructure—to phase two, supporting government efforts to restore the growth momentum through a deeper focus on poverty reduction. The main strengths of IDA assistance has been its increasingly strong poverty focus in support of government efforts, high quality analytical work well regarded by government, and strong synergies between the analytical work and lending.

4.30 The urgent question now for IDA and the rest of the aid community is whether the donor community's help within the spirit of the CDF and newly introduced PRSP process will add value to the government's efforts towards restoring growth and poverty reduction. As the international community's support shifted from phase I to phase II, and increased in size and pace during the second half of the 1990s, three things became clear to donors and government. First, effective coordination—led by government—was required to avoid overload and duplication. Second, ODA projects needed to be placed within a coherent policy and institutional vision, giving adequate attention to matters of government organization and accountability. Third, poverty reduction needed to be the central motivator of ODA activities, and better integrated into the fundamental transition underway in Vietnam. The PRSP potentially provides an overall framework within which the donor community can support the government's long-term development plans. Whether this is successful will depend upon the extent to which the government continues to own this process, and the international community perceives this to be the case. The recent decision by the Government of Vietnam to rename the PRSP as the Comprehensive Poverty Reduction Strategy (CPRS) and to establish an inter-ministerial committee to prepare it is encouraging.

4.31 The I-PRSP, which was discussed at the IMF and World Bank Boards in April 2001, was prepared entirely by the Government and involved consultation with NGOs, donors and other organizations. In support of the I-PRSP, the IMF and WB have reached agreement with the government on PRGF support and a PRSC, to which structural reform and broad based growth is centered.

4.32 The I-PRSP was one of several strategic planning exercises undertaken by the Government during 2000. In preparation for the Ninth Party Congress in April 2001, a Socioeconomic Development Strategy for 2001-2010 was drafted. Economic growth and poverty reduction targets lie at the heart of this strategy, underlying the government's commitment to poverty reduction and social equality. Line ministries also have been formulating 10-year strategies and 5-year plans, which pre-date the advent of the PRSP. Ensuring the consistency between the goals and targets of the PRSP and other government strategies and programs will be essential. The challenge ahead for the government is to synthesize the various strategic exercises undertaken by respective line ministries, with a view to poverty reduction. The value added of the upcoming full PRSP will be judged by whether the strategy successfully brings together poverty reduction dimensions from various planning exercises and weaves them into a coherent approach going forward.

Box 4.1. Vietnam—Quantity or quality of growth?

Major reforms undertaken between 1989 and 1996 yielded impressive pay-offs. Per capita income grew more than 5 percent per year. Inflation dropped to single digits. Growth in foreign investment flows, domestic savings, and real investment rates was impressive, and exports grew more than 25 percent per year. Finally, improvements in poverty levels were widespread and very visible.

By 1998, however, signs of trouble had appeared. Loss of competitiveness, a weak banking system, and lower rates of export growth and foreign direct investment following the East Asian financial crisis all slowed the momentum of growth and produced a decline in the rate of employment creation, with more than half of new employment coming in low-productivity jobs in the informal sector. Growing rural-urban and regional income disparities, together with a period of high economic growth, placed severe strains on Vietnam's natural environment. In the absence of a sound environmental policy, those strains are causing rapid environmental degradation. User fees introduced in the education and health sectors before IDA's involvement have placed a heavy burden on the poor for financing basic health and education. In some areas this has been accompanied by declining rates of use.

Vietnam's experience offers important lessons. First, while broad-based growth is a critical element of any poverty reduction strategy, its ability to benefit the poor is constrained over time by emerging inequalities and imbalances between and within regions, and by weaknesses in governance and institutions. Those inequalities, imbalances, and weaknesses need to be addressed if reductions in poverty are to be sustained. Second, the quality of growth, and not just its quantity, matters. In Vietnam, rapid expansion of capital-intensive activities has led to high rates of economic growth but has slowed the rate of job creation and placed considerable stress on the natural environment. The costs are now showing in a loss of momentum in poverty reduction and a growth path that is in danger of undermining social and environmental sustainability. Third, investments that have a high potential for growth (power, large-scale infrastructure, telecommunications) may not necessarily reach the poor in the short to medium term. Consequently, strategic investments in areas like rural roads, low-cost energy distribution, and small-scale irrigation are crucial for spurring enterprise and employment creation for the poor.

Source: *Vietnam Country Assistance Strategy*, August 1998 (Report No. 18375).

Uganda

4.33 Uganda's positive record of growth and poverty reduction is based on a very different political dynamic from that of Vietnam. Following a long period of economic mismanagement, political instability, and finally civil war Uganda, in 1986, set about a comprehensive program of economic recovery. The government demonstrated increasing resolve when it imposed fiscal discipline, adopted decentralization, liberalized foreign exchange markets, and made primary education universally accessible.⁷⁵ The reform program, which in many ways seemed to anticipate the Bank's Comprehensive Development Framework (CDF), was broad and far-sighted, with clearly defined goals based on widespread consultation. The results were remarkable, including single-digit inflation, GDP growth averaging 7 percent during fiscal 1993–97, and a near doubling in the rate of private investment. Together with the end to civil strife in much of the country those outcomes contributed to a 21 percent decline in the poverty headcount between fiscal 1992 and fiscal 1998.⁷⁶ While the growth and inflation targets set out in the PEAP/PRSP (7 percent and 5 percent, respectively) were not met in 1999/2000 (July/June); with growth down to 5 percent and inflation up to 6.3 percent; the proportion of the population below the poverty line has continued to decline. Estimates from the 1999/2000 Uganda national Household Survey indicate that the headcount of poverty in Uganda is down to 35 percent; a decline of 38 percent since 1992.

75. Evans(2000).

76. World Bank, *Uganda—Country Assistance Strategy* (Vol. 1) Report No. 20886 (Washington, D.C., World Bank, December, 2000); and Operations Evaluation Department, *Uganda Country Assistance Evaluation* (Washington, D. C., World Bank, June 26, 2000).

4.34 Notwithstanding the country's remarkable recent achievements the sectoral and regional distribution of poverty is of continuing concern. More than 90 percent of the poor live in rural areas. Food crop farmers, women, and residents of the country's northern and eastern regions are disproportionately likely to be poor. In recognizing that economic growth had not been sufficiently broad-based to address persistently high poverty levels, and with improvements in social spending being insufficient to bring about major changes in social indicators, the government in 1997 adopted the poverty eradication plan, the key elements of which were to maintain growth-promoting macroeconomic policies; encourage broad-based growth (especially in agriculture); provide social infrastructure; create capacity for quick response to shocks; build a secure, just, and tolerant social order; and promote balanced regional development. The government also adopted universal primary education as a national goal and in 1998 established a poverty action fund to ensure that savings from the Highly Indebted Poor Countries initiative would be committed to poverty reduction rather than used for other purposes. A leading example for PRSPs, Uganda was the first country to submit a full PRSP to the boards of the Bank and IMF. It is also the first country to have a Poverty Reduction Support Credit (PRSC) approved by the Bank board.

4.35 IDA's strategy for Uganda has evolved from an early emphasis on stabilization and growth to the present emphasis on poverty reduction, public sector management, and private sector development. The 1995 CAS marked the first notable shift in strategy toward poverty reduction. Key goals were to maximize labor-intensive growth and strengthen economic and social infrastructure, develop human resources, and provide public services. The CAS also recommended a phasing down of nonproject lending in favor of sector investment lending. The 1997 CAS marked two important changes. First, it intensified IDA's poverty focus through a greater emphasis on the composition of growth; second, it reversed the earlier recommendation for phasing down nonproject lending. Policy-based lending was again considered central to IDA's support for universal primary education and public sector reform. The 2000 CAS is the first to be developed within the context of a full PRSP. It places IDA's strategy within the parameters of the poverty eradication plan, setting out sector targets, monitoring indicators, and a selective program of support based on partnership and comparative advantage.

4.36 OED's country assistance evaluation of Uganda finds that IDA's macroeconomic program was highly satisfactory overall, despite overoptimistic expectations about how long stabilization and adjustment would take. IDA's commitment to overlapping adjustment credits and capacity support in key technical ministries in Uganda built credibility and trust—a step that was previously missing in neighboring Tanzania. Moreover, IDA's analytical insights and conditionality, phased to respond to the growing momentum of reform, helped reformers to lock in reforms. Unlike in Tanzania, reforms also brought about an increase in private investment that further spurred growth, although persistent obstacles to further private investment raise questions about the sustainability of growth. IDA's support for coffee marketing liberalization in the early 1990s also brought about significant reductions in poverty in coffee growing areas. As the country assistance evaluation notes, "Since even the poorest farmers in Uganda produce some coffee, the reforms IDA promoted were perhaps the most relevant and strategic for reducing poverty in the country." (p. 24)

4.37 In other sectors, however, IDA's performance has been uneven. In agriculture the food crop sector has been relatively neglected. Poverty among food crop farmers has barely declined, and disparities between food and cash crop farmers persist. Gender differences also persist, and despite major improvements in primary-school enrollments and literacy levels, secondary-school enrollment lags. Life expectancy is one of the lowest in the region, largely due to the AIDS epidemic. The country assistance evaluation also rates IDA as having been only marginally successful in developing institutions (other than the technical institutions necessary for improved macroeconomic management) and in supporting government efforts to tackle corruption. Weaknesses in capacity and

in ownership of reform in some line ministries have also reduced the impact of IDA assistance, while the inability to resolve continuing instability in the northern region of the country has put at risk the sustainability of the achievements made thus far.

4.38 The critical question for Uganda is whether poverty reduction and social progress will continue at the same pace. First, at around -1.26 the poverty reduction elasticity of growth is relatively low. Much higher or more broad-based growth is required for a more rapid decline in poverty. Second, whereas much of the past reduction in poverty has been traced to the liberalization of agricultural marketing and favorable international coffee prices, no further quick fixes appear likely in the near future. Plans for agricultural modernization hold promise, but they will depend critically on the ability of the food sector to adapt, diversify, and commercialize. Third, the lack of depth in financial markets means that the government has to rely on heavy-handed fiscal corrections to keep inflation in check. In the past the social sectors have lost most when budget cuts were necessary. That practice could jeopardize the stability of funding to those sectors, while continuing leakages in social expenditures undermine effective service provision for the poor.

4.39 The PRSC process promises consistent rather than episodic support for social and sectoral reforms, which should promote institutional development. The clarity of the links between the sequencing of the proposed credit and the progress indicators under the PRSP and poverty plan will be crucial for the successful attainment of the objectives. While the “basket” approach underlying the PRSCs is widely regarded as desirable, questions persist about how much should be loaded into a single operation, given weak institutional capacity in some line ministries and the considerable learning that still needs to occur to establish accountability and monitor performance. And, in light of recent research on aid effectiveness there needs to be a careful on-going assessment of whether the conditionality associated with the poverty reduction support credit is compatible with the difficult process of institutional change that the credit implies and with domestic ownership of the PRSP process.

Conclusions

4.40 Throughout the IDA10–12 period, and particularly after the mid-1990s, IDA’s objectives grew increasingly consistent with its goal of reducing poverty. Country assistance strategies have sharpened their focus on alleviating constraints to growth and on reducing poverty by addressing the related areas of governance, macroeconomic policy, and private sector development. In many cases, however, these crucial linkages have been inadequately addressed in country programming and sector objectives have been pursued without apparent regard for their impacts on poverty.

4.41 Client and staff perceptions of IDA point to a contradiction between its apparently successful record in supporting the foundations for growth and its lack of success in ensuring that growth’s benefits reach the poor. Performance at the country level suggests that IDA’s record on laying the foundations for general growth is indeed fairly good, but the record on broad-based growth is a lot less positive. Reasons include the lack of a concrete definition of broad-based growth, the relative neglect of agriculture and rural development in the 1990s, the absence of a coherent strategy for private sector development, and allowing too much to ride on improvements in short-run macroeconomic stability without taking related specific steps to change social and institutional conditions.

4.42 The country cases make it clear that we have much to learn about judging the political readiness of countries to cope with reform and about mixing policies to the best practical effect. For example, in the early 1990s IDA used similar strategies and policies in Uganda and Tanzania, but

because of the different political and institutional characteristics of the two countries the outcome was very different.

4.43 Goal prioritization and strategic selectivity are still relatively elusive tools at the country level, although some country assistance strategies are beginning to use them to help support domestic policy formulation processes, as in Tanzania. But weak evaluation of the poverty impact of programs and vague or abstract links between particular instruments and expected poverty outcomes make it difficult to identify and cost out high-impact poverty reduction activities.

5. Consolidating Lessons Learned

5.1 Because of internal political and institutional changes and external contributions from IDA and other donors, most IDA recipients are now in a position to direct greater attention to poverty reduction goals than they were at the beginning of the review period. For some, the joint Bank-Fund initiative for highly indebted poor countries will begin to ease the pressures of debt and relieve IDA of the need to make new loans to repay old debts. Greater emphasis on participation means that IDA, governments, donors, and nongovernmental organizations (NGOs) are beginning to communicate and collaborate more effectively. New organizational structures and processes inside the Bank are beginning to take effect, giving greater authority to resident missions and enabling field offices to improve their knowledge of and relations with clients.

5.2 Substantial changes have taken place since the mid-1990s—in IDA and the development assistance environment generally. IDA has responded well, but there has been little time for consolidation. Evidence from country assistance strategies and from the lending program indicates that although the building blocks are in place, implementation remains an overwhelming problem. IDA has done the right things, in other words, but it has not necessarily done things right. Above all, there is little evidence that, within the poorest countries, the poor have benefited most from IDA's efforts.

5.3 Change is on the horizon. All countries eligible for the Highly Indebted Poor Countries initiative and those eligible for concessional funds from IDA and the International Monetary Fund (IMF) must prepare a poverty reduction strategy paper (PRSP) outlining their goals and plans for reducing poverty. Countries must then demonstrate progress towards those goals before debt relief, PRGF, and high-case IDA lending is provided. In many respects PRSPs build on the experience of the 1990s—particularly the experience of some of the more successful IDA borrowers, such as Uganda. The focus is on identifying in a participatory manner the outcomes a country wishes to achieve and the public actions—policy changes, institutional reforms, programs, and projects—that are needed to achieve those outcomes.

5.4 PRSPs are still very much in their infancy. Most of the work carried out so far has been in the form of interim PRSPs, documents designed to guide the country in preparing the full PRSP, and to move countries to the next stage of eligibility for the Highly Indebted Poor Countries program. To date five full PRSPs have been submitted to the Bank and IMF boards—by Bolivia, Burkina Faso, Mauritania, Tanzania, and Uganda. All reflect on-going processes. For example, in the Ugandan case, those processes culminated in 1997 in a poverty eradication action plan that became the template for the PRSP. In most other countries, however, where the processes of consultation and participation are not well established, the PRSP is taking governments into uncharted territory.

5.5 Behind the PRSP idea is an acknowledgement by the major donors that aid is not truly effective unless it takes place within a framework of domestic ownership and accountability. The underlying principles are that the strategies should be country-driven, with governments leading the process, and that broad-based participation is needed in making and monitoring those strategies. Strategies should be comprehensive, oriented toward results, and based on partnership between governments and other actors in civil society, the private sector, and the donor community. Donors expect these principles to change the ways they work with governments and the ways governments work with their constituents. The objectives are ambitious, and the approach is one that will, inevitably, evolve progressively with experience.

5.6 Not surprisingly, the process raises a number of questions. For one, will it be possible to ensure that the rushed timetable for preparation, in many cases linked to HIPC relief, does not undermine the proposed participatory approach and the quality of analysis underlying countries' strategic decisions? This is an issue that has been raised in discussions of the Boards of both the Bank and the Fund and that has major implications for how well the PRSP process is integrated with countries' other policy and decision-making processes.

5.7 Recent lessons and experience also raise concerns that the requirements of the PRSP will overload already taxed technical and political capacities in IDA countries. The September 2000 PRSP progress report recognized that these weaknesses were affecting the process: "Developing countries face capacity constraints with respect to the institutional and technical demands and the administrative costs of preparing PRSPs, especially in light of apparently rising expectations for coverage."⁷⁷ The subsequent April 2001 progress report further noted that the quality of I-PRSPs has continued to vary widely, reflecting in part whether countries have been able to build on previous home-grown poverty reduction programs and on sufficiently up-to-date poverty data.⁷⁸

5.8 The danger of overload can also affect the content of PRSPs. One of the principles of the PRSP is that it should be comprehensive in nature, taking into account the multidimensional nature of poverty and the need for long-term measures to support complex processes of change. This well-intentioned principle reflects long-standing criticism from NGOs and others of the Bank's and the IMF's narrow focus on the income dimensions of poverty. Yet the danger is that in responding to the call for comprehensiveness—which some members of the Bank's board have argued should be reflected in core content in the PRSP—borrowers will become overloaded with goals and priorities that will seriously complicate implementation and ultimately cause disillusion with the process. Interim PRSPs have revealed a lack of prioritization and selectivity in tentative strategies. At the same time, the joint staff assessments of these documents have pointed to areas where further substantive work will be needed in preparing full PRSPs. These include: developing current and comprehensive information on poverty; improving public expenditure management systems and costing poverty reduction measures within a medium-term budgetary framework; integrating poverty reduction and macroeconomic objectives into a consistent framework; developing monitorable poverty outcome indicators; and institutionalizing broad-based participatory processes.⁷⁹

5.9 The requirements of PRSPs go to the very heart of the ownership debate, a debate in which many views conflict. Few would disagree with the notion that countries need space to formulate their own strategies, or that donors should rally behind these strategies rather than preparing their own,

77. IMF/IDA (September, 2000).

78. Development Committee, "Poverty Strategy Papers—Progress in Implementation," DC2001-0010 (Washington D.C.: Development Committee, April 18, 2001).

79. Development Committee (2001).

often conflicting, strategies. Yet the link to concessional lending eligibility—and the immediate link to debt relief—suggest that ownership in the PRSP process is going to be a complicated matter. As noted in the September 2000 progress report: “[T]here is a tension between the concept of country ownership and the prerogative of the Boards to determine whether an IPRSP/PRSP provides a sound basis for Bank and Fund concessional assistance and/or HIPC debt relief.” Critics also argue that the link between debt relief and poverty reduction is not axiomatic and the concern is real that the PRSP not wind up diverting attention from promoting growth, raising the productivity of investment in developing countries, and reducing poverty —goals that IDA has been trying to consolidate for the last decade.

5.10 These concerns are perhaps inevitable in such a visible and ambitious exercise, but the lessons of the past decade suggest that, if nothing else, IDA needs to move forward with modesty. Despite real improvements, IDA’s poverty record during the 1990s has been marred by a lack of knowledge about the right mix of policies and priorities for achieving broad-based growth, by weak attention to performance monitoring and self-evaluation, and by modest success in institutional development. The same shortcomings may compromise IDA’s involvement in the PRSP process. Yet the PRSP process represents an important shift in IDA operations and has the potential for changing the way donor assistance is organized.

5.11 The April 2001 progress report finds that experience to date has been encouraging with respect to the seriousness with which countries have approached the process, the deepening of participatory processes in some countries, and the willingness in principle of development partners to support the PRSP approach. However, the value added of the process to poverty impact on the ground remains to be demonstrated. In this regard, one of the major challenges that still lies ahead is to better define performance indicators and to establish sound poverty monitoring systems within countries to assess whether the identified priority public actions and the external support of them are having the expected impact.

5.12 In sum, the critical challenge for IDA13 is to consolidate the gains made during IDA10–12 while taking on board the changes implied by the PRSP and the initiative for highly indebted poor countries (table 5.1). Like previous initiatives the added value of the new framework cannot be assumed, and IDA will need to heed the lessons of experience as it sets about the task of establishing program priorities for IDA 13, in partnership with its borrowers and other assistance agencies.

Table 5.1. IDA's Strategy for Poverty Reduction

<i>IDA 9–11</i>	<i>IDA 12—PRSP</i>
Describing and quantifying poverty, implementation of national poverty assessments.	Emphasis on the locus and nature of poverty, with greater disaggregation by poverty groups
Enhanced poverty focus in country assistance strategies	Nationally owned poverty reduction strategies (PRSPs) with clearly defined targets, supported by a 'business' country assistance strategy <i>cum</i> business plan
Broad-based growth, sound macro-economic performance, increasing employment opportunities for the poor, human capital investments, and safety nets	Broad-based growth through sound macro-economic performance, increased opportunities for the poor, improved governance (empowerment), and a reduction of vulnerability/ and insecurity for the most disadvantaged
Emphasis on pro-poor public spending, especially the provision of for essential social services	Central focus on governance, improved planning, and better expenditure management capacity to deliver pro-poor spending
Poverty targeted investments (PTI) and poverty focused adjustment lending	Identifying priority public actions across sectors with high-impact on poverty
Emphasis on participation by the poor in poverty assessments and the project cycle	Civic engagement in strategy formulation and policy processes
Strengthening local institutions, use of social funds, and demand- driven approaches	Community- driven approaches
Building statistical capacity for poverty surveys, diagnosis, and monitoring at project level.	Poverty monitoring linked to key government decision-making processes, emphasis on outcomes and targets linked to International Development Goals, participatory poverty monitoring. Outcome/ and performance indicators as part of sector-wide and programmatic lending approaches
	Aid coordination and collaboration with IMF International Monetary Fund and other donors under the umbrella of the PRSP

Annex. Implementation Matrix: Poverty Issues

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 poverty issues 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.

Poverty

IDA commitments emphasized poverty reduction as one of its over-arching objectives in IDA10 and this goal has increasingly been reflected in CASSs, analytical work, lending, and recently through the CDF and PRSP initiatives. Poverty assessments took longer to carry out than originally expected, but had been completed for 90% of IDA eligible borrowers by 1999. The volume of poverty data and analysis has increased markedly, but project and program M&E are lagging behind. In countries committed to reforms, IDA adjustment lending has supported macroeconomic stability and the removal of key distortions, but the evidence on income and employment generation for the poor is less clear.

UNDERTAKINGS	COMMENTS
Focus assistance on poverty reduction	
IDA 10: Promote the objective of poverty reduction and increase operational effectiveness.	The Bank's 1990 poverty reduction strategy ⁸⁰ was increasingly reflected in analytical work, policy dialogue and lending; but improvements in operational effectiveness remained modest through period.
IDA 11: Promote poverty reduction as overarching objective of IDA assistance.	Poverty is increasingly 'championed' at highest levels; Bank reorganization provides new 'central' unit for poverty promotion; increase in analytical work and refocusing of lending continue; portfolio performance improves throughout period; but weaknesses remain in links between country diagnoses and programs.
IDA 12: Promote poverty reduction as overarching objective and provide all IDA assistance within broad-based poverty reduction framework.	Increasing focus in analytical work and lending; emphasis on poverty reduction in CDF initiative and introduction of Poverty Reduction Strategy Papers for HIPC countries. Weaknesses remain in forging explicit links between poverty reduction and other sectoral/thematic elements of the broad-based policy framework. Operationalization of WDR2000/2001 may help fill the gaps.
Build-up Poverty Data and Analysis	
IDA 10: Complete poverty assessments (PAs) for all major IDA recipients by December 1994; integrate in Country Assistance Strategies (CASSs); include gender-specific analysis; and involve participation of borrowers.	By end FY94, PAs were completed in only 21 countries. Gender and participatory content was limited. Over time, there has been progress in incorporating results of PAs into CASSs. However, the discussion of linkages between growth and poverty reduction remains weak and there is no clear trend toward improvement over the years covered by this review.
IDA 11: Complete PAs for each IDA borrower (involving participatory activities and considering gender-specific dimensions of poverty issues). Assess more systematically (through analytical work and policy dialogue) how structural and fiscal measures can increase poor people's opportunities and enhance their productivity.	By 1999, PAs were completed for 90% of IDA eligible borrowers, including all major ones, and in many countries more than once. The WDR2000/01 was able to include data from 110 countries, as compared to 60 for the 1990 WDR. Quality and participation improved but weaknesses remained in the treatment of structural and fiscal issues and gender (see below). The same trends are mirrored in Public Expenditure Reviews.
IDA 12: Undertake in-depth analyses of the nature and causes of poverty in borrowing countries; work with borrowers to develop and strengthen capacity and help strengthen ownership by the client government. Make wider use of participatory poverty assessments (PPAs).	There has been a continuing increase in in-depth analysis and use of PPAs. Analysis of links between growth and poverty and of the social and distributional impacts of reforms remain limited. Because capacity constraints are pervasive, more emphasis on capacity building is expected in the context of PRSP.

⁸⁰. World Bank. 1990. World Development Report. Washington, D.C.

UNDERTAKINGS	COMMENTS
Put poverty at center of CAS	
IDA10: Discuss results of poverty assessments (PAs) and public expenditure reviews (PERs).	Few CASs incorporated results of PAs in IDA10, but there has been progress since then. Also, few CASs discussed PER findings in IDA10 and even fewer included an analysis of the level and composition of government's public expenditure program for poverty reduction. This is now changing in countries preparing PRSPs.
IDA 11: Focus CAS on poverty reduction goal; provide thorough diagnosis of the poverty situation; show how IDA assistance will contribute to poverty reduction goals; include monitorable benchmarks for assessing progress and specific measures to evaluate poverty outcomes (in the contexts of the international development goals (IDGs).	Improvement was made in coverage of poverty issues, but weaknesses persist in the quality of the analytical base, the setting of clear priorities for assistance, and the monitoring of outcomes. For 1998-9 CASs, a management review found 64% satisfactory or better in their poverty treatment. ⁸¹ Further progress was achieved at the end of the period by the introduction of the country program matrix -- with benchmarks for tracking country and IDA performance. But few CASs before FY00 contained specific poverty reduction targets linked to intermediate objectives that could be monitored on an annual basis.
IDA 12: Same as above.	Continuing improvement in focus on poverty; though not all CASs by end FY00 included benchmarks and/or monitoring indicators.
Direct lending to pursuit of poverty reduction goal	
IDA 10: Increase social sector lending.	See social sector section below
IDA10: Encourage equitable growth through a balance of adjustment and investment lending.	Adjustment lending accounted for approximately 25% of IDA10 commitments and 19% of IDA11 commitments. In countries committed to reforms and able to sustain adjustment efforts, IDA adjustment lending has helped bring improvements in macroeconomic stability, rates of inflation, and the removal of key distortions in the economy. But evidence about employment generation and the extent to which poor people's access to productive resources has changed remains scarce.
IDA10: Encourage protection of social sector expenditures and organization of social safety nets for the most vulnerable during the adjustment process; and include specific poverty reduction measures in the design of adjustment programs wherever feasible.	Many countries receiving adjustment credits were able to protect and some even to increase their social spending. However, evidence on safety nets and the reallocation of expenditures to services used by the poor is mixed.
IDA 11: The share of poverty-targeted investments (PTIs) should remain at approximately the level reached in IDA10, and IDA should monitor more effectively the poverty impacts of both PTI and non-PTI projects.	PTIs accounted for 45% of projects at the start of IDA10 and remained at approximately that level through IDA11. However, monitoring of PTIs for poverty impacts has lagged, showing evidence of some improvement in the last two years.
IDA 12: IDA's "partnership for poverty reduction" should aim to reduce poverty by increasing the availability of and access to basic social services.	See below.
IDA12: And by creating a policy environment that promotes employment-generating, pro-poor growth.	Same as in IDA10. Commitments for economy-wide projects increased over period, and for most other productive sectors remained fairly stable, though agriculture lending declined significantly.

⁸¹ World Bank. 1998. Country Assistance Strategies: Retrospective and Outlook I. Washington, D.C.; and World Bank. 1999. Country Assistance Strategies: Retrospective and Outlook II. Washington, D.C.

UNDERTAKINGS	COMMENTS
Monitor Poverty Impacts	
<p>IDA 10: Monitor the impact of the entire IDA portfolio on incomes and living conditions of the poor; report in each CAS on plans and progress on poverty monitoring; and indicate how findings are reflected in proposed lending and dialogue on macro policy.</p>	<p>While IDA's effort to increase the volume of available poverty data has been considerable, its work on project and program M&E still lags behind. Capacity building for M&E linked to domestic budgeting and policy formulation is only now increasing with PERCs, PRSCs, and PRSPs.</p>
<p>IDA10: Provide a progress report on poverty reduction.</p> <p>IDA 11: Same as above.</p>	<p>An annual progress report on poverty reduction is provided; but the report focuses more on inputs than outcomes and more on what the Bank will do in the coming years than on what it has achieved in terms of interventions reaching the poor and their impact.</p>
<p>IDA 12: Continue to use the periodic Poverty Report to examine and report on how interventions are reaching the poor.</p> <p>Make greater use of poverty reduction targets, including those developed in the context of the 'Shaping the 21st Century' initiative, strengthening their use in the development dialogue with governments, and incorporating them into the CAS when a government has established such goals as part of its long term development strategy.</p>	<p>Same as above. The progress report reflects the overall lack of information on outcomes/impacts.</p> <p>Increasing use of international development goals in global monitoring; increasing focus on monitoring progress in countries through indicators; emphasis on country use of progress indicators in PRSPs.</p>