

Précis



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ARDE 2000 From Strategy to Results

This year's Annual Review confirms that significant improvements have taken place in the Bank's development performance over the past five years. Despite a challenging and volatile world economy, portfolio performance is likely to exceed the Strategic Compact target of 75 percent satisfactory in FY00. The ARDE finds, however, that outcomes of country programs frequently differ from the aggregate portfolio performance of the country. Development effectiveness at the country level depends on the adaptation of strategies and instruments—including partnerships—to country conditions, not just on project performance. Moreover, OED reviews of sector and thematic strategies suggest that while the Bank usually articulates a coherent strategic framework, these strategies frequently encounter difficulties in implementation.

ARDE 2000 draws on the findings of the Operations Evaluation Department's (OED's) most recent evaluative work to help guide management of tensions and objectives in projects, country assistance programs, and sector and thematic activities.

An Increasingly Complex Mandate

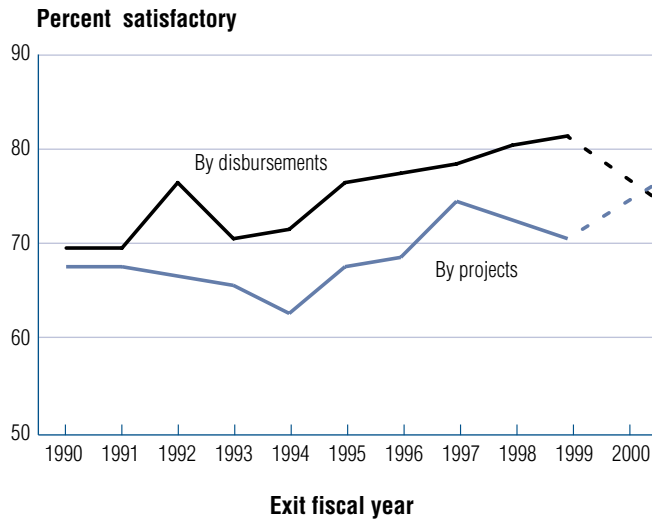
The Bank's mandate has expanded and deepened over the past decade. In response to changes in the international economy and the development system, the Bank is placing more emphasis on institutional development, good governance, social development, post-conflict reconstruction,

debt relief, and global public goods. The Bank has also taken upon itself the goals of generating and disseminating development knowledge, engaging its partners in global policy debates, and dealing with global development challenges that cannot be tackled effectively at the country level. These institutional responses have given rise to tensions and tradeoffs among goals.

Performance Trends

Despite the challenging business environment, the Bank's efforts to enhance project quality in the past five years have borne fruit. Preliminary results for FY00 exits



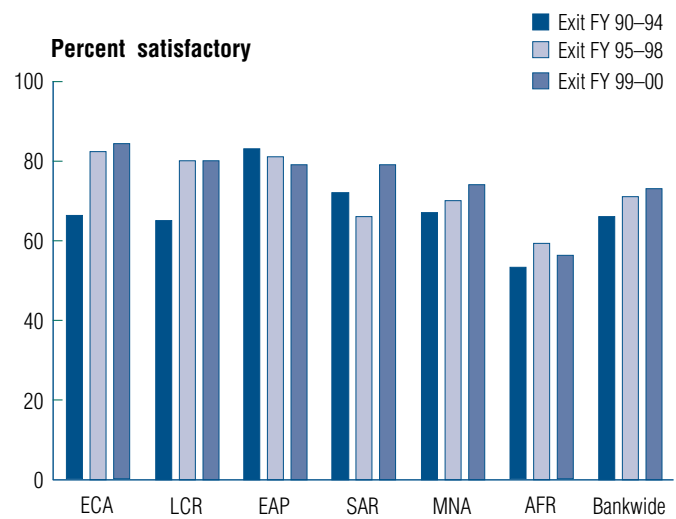
Figure 1. Trends in Satisfactory Project Outcomes

show an increase to 77 percent satisfactory outcomes from 72 percent in FY99. Weighted by disbursements, project performance deteriorated from FY99 to FY00, reflecting the exit of two large, unsatisfactory oil and gas projects in Russia (figure 1). Performance by disbursement is likely to recover once the rest of the FY00 cohort is evaluated. Project performance remains below Bank average in Africa, but Quality Assurance Group (QAG) data from the current portfolio could signal a promising turnaround in response to efforts to improve the portfolio (figure 2).

These gains have been achieved even though projects are becoming increasingly complex and demanding, especially in low-income countries. More than four of every five recently evaluated projects were substantially demanding for the borrower. Since more than one in three projects show unsatisfactory borrower implementation, further progress will require parallel improvements in capacity building and adapting each project's design to borrower capacity.

Institutional development outcomes have reached a new high, at 43 percent substantial. Sustainability is up to 57 percent. But there remains substantial room for improvement in both Bank performance and borrower capacity development.

Adjustment lending continues to perform strongly, reaching 86 percent satisfactory in FY99/00. But findings from project audits and country evaluations suggest that the achievement of the immediate policy objectives in adjustment loans does not necessarily translate into a long-term impact on incomes and poverty. Such an impact requires government commitment and enough consensus to sustain reform. Outcomes can also be undermined by exogenous factors. As the Bank moves toward a results-based framework, the objectives of

Figure 2. Regional Trends in Satisfactory Operations, by Projects

adjustment programs should increasingly link to explicit development outcomes, with the accountability of various actors clearly delineated.

Addressing Tensions and Tradeoffs

As it seeks to implement an increasingly crowded agenda, the Bank faces a number of tensions and challenges. The Bank must learn to reconcile client ownership of activities with the Bank's corporate priorities; adapt global knowledge to local conditions; support countries with strong enabling environments and those with poor enabling environments, but a high incidence of poverty; and be efficient and selective in implementing a holistic vision of development, making judicious use of partnerships.

The Review concludes that reforms and development programs are more likely to be sustained if there is consensus within the country to support them and a shared vision between the Bank and the country. At the country level, the Bank needs to use its lending and nonlending tools more deliberately to foster consensus through increased local involvement and more widespread dissemination of analytic work; through more use of pilot projects to test new approaches; and through greater use of advisory services and flexible lending instruments to nurture policy change processes. In sector and corporate strategies, the Bank should acknowledge areas of disagreement and identify priorities for knowledge creation, cross-country learning, and strategic use of its convening role.

Development effectiveness also depends critically on adapting institutional priorities and programs to individual countries' constraints and opportunities. Such adaptation requires an up-to-date knowledge base about

each country's operating (and enabling) environment. Despite an increased emphasis on knowledge management, current resource allocation patterns do not give sufficient priority to economic and sector work.

Countries with stronger policy frameworks receive more lending resources per capita. But for each individual country, especially those with poor policies and institutions, the Bank's effectiveness depends not solely on lending volume, but also on the mix of instruments, the timing of policy-based loans, and the judicious use of partnerships.

The Bank has initiated a wide range of productive partnerships, but will realize their full potential only by being more businesslike and selective about what they are intended to achieve, what risks they entail, and how they can yield operating economies for the Bank through sharper delineation of its comparative advantage.

Adapting to Country Context

In recent years, the Bank has sought to shift its focus from individual projects to the higher plane of country programs. The outcomes of country programs often differ from the country's aggregate portfolio performance (see table 1). And country program outcomes are not necessarily determined by country income (figure 2). OED Country Assistance Evaluations (CAEs), project evaluation data, and other evidence suggest that the two most important determinants of country program outcomes are the level of borrower commitment to the country program and the extent to which Bank strategies, programs, processes, and partnerships are adapted to the country setting.

Country evaluations confirm that the Bank has strengthened its poverty focus, but the linkage between Bank country programs and poverty outcomes was not always clear. More needs to be done to integrate broad-based poverty reduction strategies into macroeconomic and sectoral programs and to strengthen poverty monitoring and evaluation. CAEs also find a pattern of over-optimism about borrower governments' receptiveness

to Bank advice, willingness to undertake difficult reforms, and capacity to implement recommended measures. In some cases the Bank has lent to support reforms—either through adjustment or investment lending—before sufficient consensus had emerged. Stakeholder analysis is coming into wider use, but remains the exception rather than the rule.

Lending operations remain the basic building blocks of country programs, but Bank nonlending services—including economic and sector work, aid coordination, and partnerships—also influence the effectiveness of lending and overall program outcomes. The Bank is working to be more selective, relating lending volumes to country performance ratings. But continued lending despite poor performance contributes to unsatisfactory outcomes.

In middle-income countries, particularly those with access to private capital, the Bank's financial contribution tends to be countercyclical and affected by the cost of doing business with the Bank. Of course access to private capital varies by country and sector, and is not binary. But lending trends suggest that the Bank should revise its lending role in countries with strong capacity and ready access to private capital, and refine its approach to nonlending services in countries for which, for reasons of poor performance or external shocks, capital markets have closed. Bank lending and nonlending activities should focus on catalyzing support for selected reforms and institutional development; facilitating cross-national learning; and promoting global public goods.

In many low-income countries, borrower capacity and local financial resources are binding constraints. In these cases, the Bank should first strengthen capacity for aid coordination, help harmonize donor standards, and assist borrowers in enhancing the coordination and coherence of donor activities. Second, even in "good performing" low-income countries, simplifying project and program design and sequencing reforms is a priority. Third, as confirmed in CAEs for Burkina Faso and Uganda, Bank efforts to strengthen country offices in low-income

Table 1. How Country Program Outcomes Stack Up Against Portfolio Performance

Portfolio performance (% projects satisfactory)	Country program outcome			
	Fully satisfactory	Partially satisfactory	Marginal	Unsatisfactory
>85	Argentina (1996–00) Uruguay (1990–00)	Kazakhstan (1991–99) <i>Burkina Faso (1989–99)</i>		Costa Rica (1990–00)
70–85		Mexico (1989–99) <i>Tanzania (1996–00)</i>	Indonesia (1993–98)	Paraguay (1990–00)
50–69	<i>Ghana (1995–00)</i> <i>Uganda (1986–99)</i>	Egypt (1990–00) <i>India (1990–00)</i>	<i>Tanzania (1986–95)</i>	
<50		<i>Cameroon (1996–00)</i>		Cameroon (1982–95) Papua New Guinea (1989–00)

Note: Income: bold=upper-middle; standard=lower-middle; italic=low.

countries should continue, since this helps to improve project supervision and enhance country dialogue.

A special challenge is to find ways to reduce poverty in low-income countries with weak governance and policy frameworks. The Bank needs to strengthen and clarify its approach, diagnosing the factors affecting weak performance, and using its convening role to build consensus for reform. Adjustment lending should be avoided pending concrete actions that signal commitment to change. Depending on country circumstances, limited, targeted grants or lending operations to strengthen public sector accountability systems or to provide support to targeted and closely monitored poverty programs may be appropriate.

Sector and Thematic Performance

The Bank's shift toward the higher plane of country strategy has been paralleled by a shift toward improving sector and thematic performance at the country and global levels. The challenge has been (1) to strengthen the strategic focus and policy content of Bank lending and nonlending services within particular sectors and (2) to integrate cross-cutting thematic priorities—including poverty, participation, and gender—into a range of Bank activities.

The Bank's ability to articulate a broad strategic vision is one of its strengths, and it has an obligation to provide consistent advice, taking account of the special circumstances of individual countries and regions. Sector and thematic strategies are important vehicles for articulating corporate objectives and achieving international development targets, but must be reconciled with the increasingly demand-driven approach of Bank country programs. Agreement on the priorities identified in the Bank's strategy and those of the borrower—or other stakeholders—fosters the implementation of Bank sector or thematic strategies. But few Bank strategies and policies provide explicit guidance on what instruments to use and what posture to take in the country dialogue if governments do not want to address an issue of global interest—for example, gender equity or forest conservation.

Customizing strategies and policy recommendations is an important determinant of local program success. Country-specific analytic work is crucial to support such adaptation; the decline in funding for economic and sector work is of great concern. So is the chronic weakness observed in monitoring and evaluation arrangements—essential for adapting and updating strategies. While Bank-sponsored economic and sector work is usually of good technical quality, greater emphasis needs to be given to local involvement and dissemination of findings.

To organize and build on the findings of the sector and thematic evaluations, OED evaluators assessed eight recently evaluated sector and thematic strategies

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along several dimensions. Most of the strategies and policies were developed in the early- to mid-1990s. The quality and relevance of the strategic framework receive the highest average rating, and the quality of plans for implementation the lowest.

With the introduction of Sector Strategy Papers in 1996, the Bank began to standardize the process for developing sector strategies and to address some of the weaknesses observed in the earlier policy development process. But most budgetary resources and decisionmaking reside in country departments, and none of the sector strategies evaluated included an explicit, verifiable plan for implementation. Recently, some Strategy Papers have given greater attention to the business implications of sectoral and thematic goals, but the continued imbalance in the matrix structure renders results-oriented management of sector and thematic strategies difficult to achieve. OED's analysis suggests that much remains to be done to deliver on the four "Ps" of successful sector strategies: a clear *Policy* framework; an action plan to improve on past *Performance*; a specific *Program* of development assistance at the country and global levels; and a definition of the Bank's role, taking account of *Partners'* activities.

Confronting Dilemmas

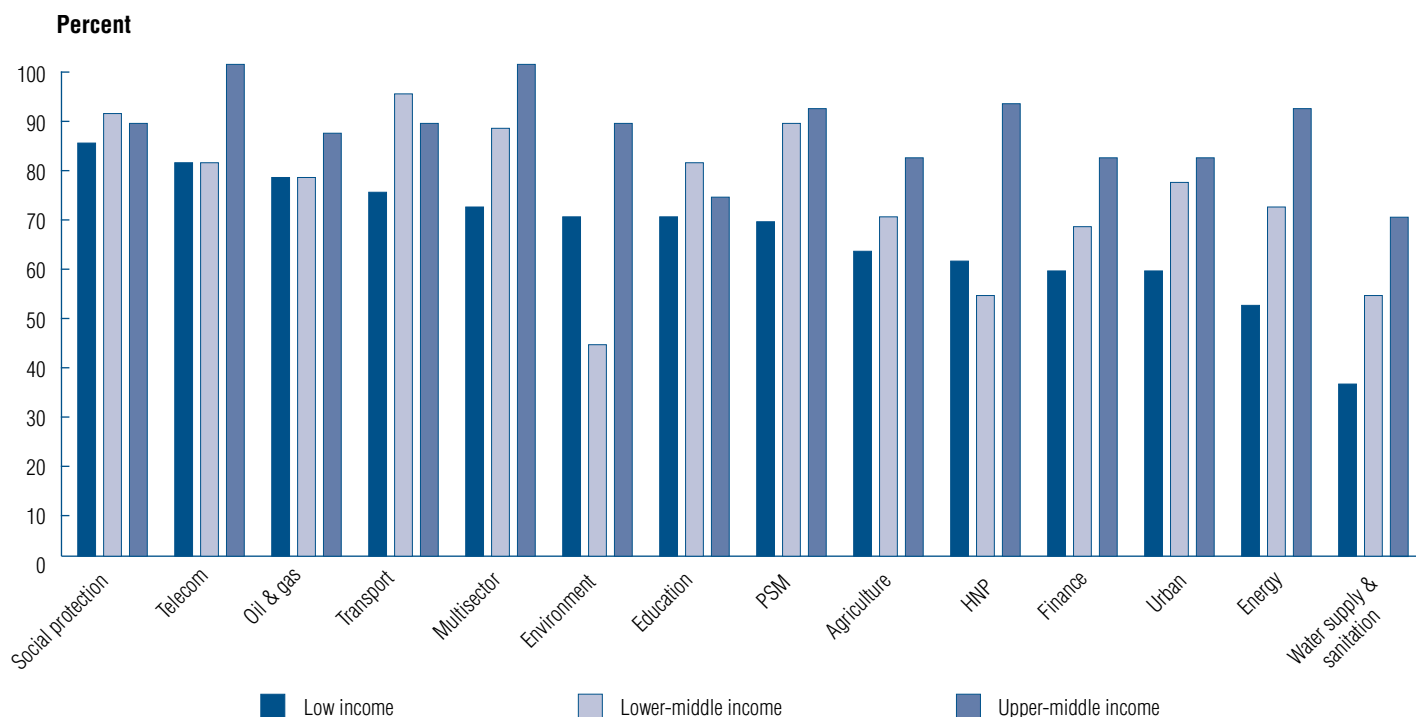
ARDE 2000 concludes that the Bank can further improve its development effectiveness by directly confronting the dilemmas it faces:

- Bank strategies should explicitly acknowledge differences between client and Bank priorities, and Bank instruments should be mobilized more strategically to build consensus at the country and global levels.
- The Bank should concentrate on the effective implementation of its policies and strategies through judicious adaptation to diverse institutional, social, and political environments.
- The Bank should clarify and strengthen its approach to poor-performing countries and to middle-income countries with access to capital markets.

Becoming More Selective

The Bank must also adapt its organizational structure, business practices, and operational instruments to reduce the enormous stress from which the organization is suffering—stress that, unless remedied, could undermine its development effectiveness:

- Bank strategies, programs, budgeting processes, and staff incentives should be more explicitly linked to the achievement of results, consistent with the Bank's mission and comparative advantage. Budget processes should be reformed to align corporate resources with corporate strategies. Approved Country Assistance Strategies, sector strategies, and

Figure 3. Sector Project Outcomes Vary by Country Income

global partnerships should be fully costed, and the costs linked to the annual budget process. Staff incentives should be linked to results and performance, not inputs and processes.

- Maintaining the Bank's knowledge base is critical, but the Bank should strike a more appropriate balance between knowledge management and knowledge creation, at both the country and global levels. It should

monitor and track the quality and coherence of all Bank knowledge activities.

- To be responsibly selective through businesslike partnerships, the Bank must seriously and continuously assess its core competencies and comparative advantage relative to international and client country partners. This may entail letting go of activities other partners can carry out.