OED

Précis

WORLD BANK OPERATIONS EVALUATION DEPARTMENT WINTER 2002 NUMBER 219

# ARDE 2001: Making Choices

In response to a complex and rapidly changing development agenda, the World Bank has adapted and expanded its operational toolkit. New lending instruments, analytical tools, and partnership arrangements have been crafted to address the myriad needs and preferences of borrowers and to meet the challenge of the Bank's mission of poverty reduction. As the *2001 Annual Review of Development Effectiveness* (ARDE) demonstrates, selecting the right combination and sequencing of activities in a given setting can make the difference between success and failure. How can the Bank and its clients make the best selection from the available instruments?

## A Task of Growing Complexity

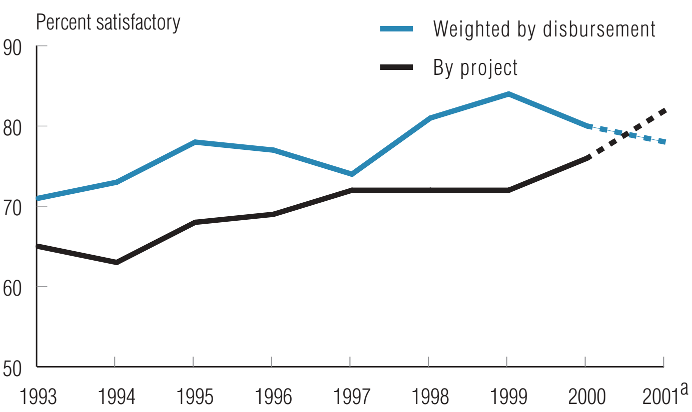
The challenge of development, never a straightforward matter, has become more complex as the number of actors has grown and the desire—and pressure—to produce demonstrable results has intensified. In seeking to implement its projects and programs, the Bank must match over 100 client countries tackling innumerable development issues with a financial product line ranging from small grants to large loans; a diverse nonfinancial product line; and a growing number of public, private, and civil society partners.

The Bank is equipped to approach this challenge through the lessons of experience, a store of accumulated knowledge, and a diversified toolkit. These assets have been recently enhanced in three significant ways. First, research has demonstrated that country policies, institutions, and governance are critical to development success, and these factors are now central in the allocation of aid resources. Second, attention to quality assurance and evaluation has helped lending and nonlending products to deliver improvements in performance. Third, new development paradigms and aid processes (such as the Comprehensive Development Framework, the Poverty Reduction Strategy process, and sectorwide approaches) have been created to address problems collaboratively—at the country, regional, and global levels. It has also become increasingly clear that if the Bank is to continue to improve its development effectiveness, it will have to increase selectivity—make the right choices about how, when, and with whom to engage or disengage.

## Performance Continues an Upward Trend

As forecast in the 2000 ARDE, the Bank has met the Strategic Compact target of 75 percent satisfactory outcomes for lending, and will likely surpass that target shortly (see figure 1). The latest project evaluation data confirm significant improvement in the Bank's lending performance, particularly for projects exiting in FY00. Preliminary results show the upward trend continuing, and it is expected that roughly 80 percent of projects will earn a satisfactory rating in

## Figure 1: Trends in Lending Outcomes




a. Preliminary data.

FY01. Solid improvements are also seen in sustainability—71 percent of projects are likely or highly likely to be resilient to future risks—and institutional development—half of all projects show substantial or better institutional development impact. Recent evaluations also show strong performance in the Africa Region, a continuing improvement fostered by an internal portfolio performance drive.

The Strategic Compact goal for nonlending services—of 85 percent satisfactory—has also been met, according to the most recent assessment by the Bank's Quality Assurance Group. There has been broad improvement in economic and sector work as it has become more participatory, client-oriented, and results-focused. But there is room for improvement in the poverty focus of these instruments, as well as in the their quality and impact in poor-performing countries.

## Finding the Right Mix

Many innovations have been introduced into the Bank's financial and nonfinancial toolkit, including adaptable lending instruments (Adaptable Program Loans, Learning and Innovation Loans) that promise to increase the Bank's flexibility, reduce risks to borrowers and the Bank, and facilitate exit from foundering operations. Nonfinancial services (Poverty, Environmental, and Gender Assessments; Public Expenditure Reviews; Poverty Assessments; and the like) became more diversified and participatory, with a greater emphasis placed on nurturing reform and enhancing the quality of partnerships.

The Comprehensive Development Framework and the Poverty Reduction Strategy initiative are designed to center the Bank's mission on poverty reduction through support of a country-driven, results-oriented framework jointly owned by the public, private, and voluntary sectors. In turn, the individual country's framework (as articulated in the Poverty Reduction Strategy papers for low-income countries) provides the grounding for the Bank's assistance strategy and constitutes a key platform for articulating the country's development goals.

These relatively new mechanisms are beginning to influence country assistance strategies and gain country ownership. Two country cases illustrate this point. Initially seen as a Bank requirement for further adjustment lending, the April 2001 Interim Poverty Reduction Strategy paper for Vietnam developed into a central component of the government's ten-year development strategy. In Ghana, the government's "Ghana Vision 2020" provided a long-term holistic vision of development, which has underpinned the Comprehensive Development Framework and has helped to solidify country ownership.

## Untapped Potential

There is substantial untapped potential for better selectivity to deliver performance improvements at all levels of Bank assistance: the individual instrument, the country assistance program, and the Bank's global, sectoral, and thematic priorities. The ARDE review of selectivity has identified three themes common to the project, sector, and country levels of analysis.

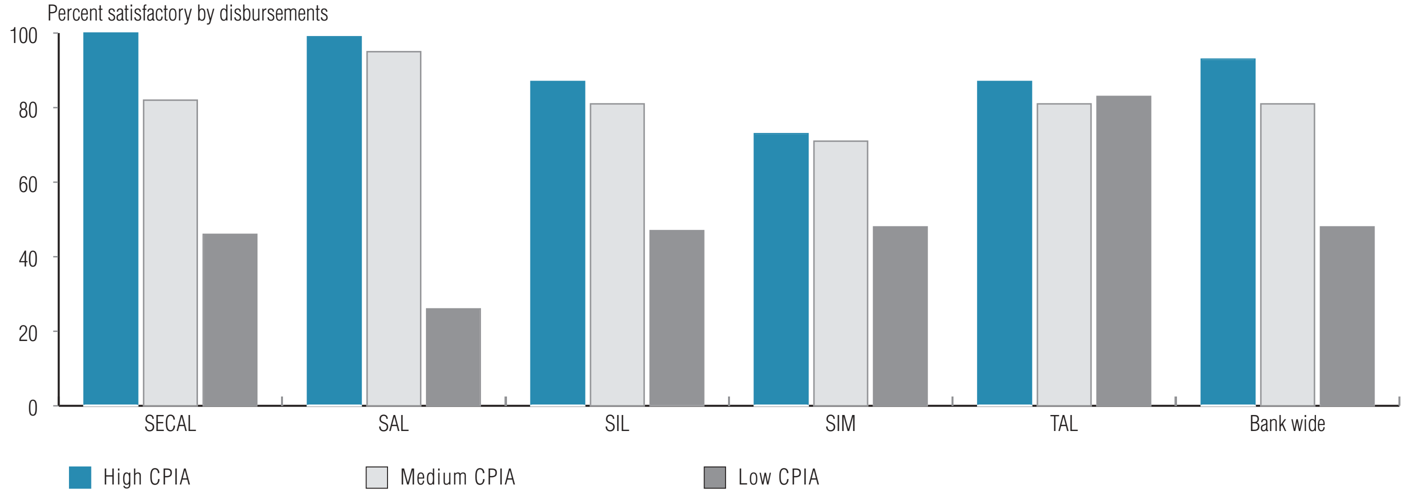
*Good diagnosis, provided by high-quality economic and sector work, is critical in establishing realistic development objectives. Country assistance strategies, sector strategies, and operational guidance all inform the matching of instruments with objectives, in light of country and sector characteristics.*

An example of good diagnosis can be seen in Lesotho, where economic and sector work in education had significant impact on project outcomes. Bank analytical services in the education sector were highly relevant, timely, and in line with government and country assistance strategy objectives. The FY90 report *Improving Quality and Efficiency in Education* helped to establish a coherent policy framework for education reform in the 1990s. This framework overcame past problems in prioritizing goals and coordinating donor activities. Strong analytic work also provided a platform for subsequent Bank lending, leading to satisfactory outcomes in education, despite the weaker quality of the rest of the lending program. It also led to a strong and sustained relationship with the Education Ministry, which endured even through a time of political turmoil.

*The choice of instrument should reflect not only the objectives of the individual operation, but also past performance in the country and sector context. Appropriate sequencing and tapping of complementarities among instruments improve outcomes.*

An illustrative case of complementarity is the restructuring of the coal mining sector in Ukraine. The Ukraine Coal Pilot Project, rated highly satisfactory, played a crucial role in setting in motion a major restructuring program, in combination with the virtually parallel Coal Sector Adjustment loan (SECAL). Although the SECAL (see box, "Defining Terms") was the first to be launched, once the results of the pilot pro-

**Figure 2: Instrument Performance Is Sensitive to Country Conditions (exiting the portfolio in FY96–01)**




gram were known, it was restructured to incorporate lessons from the pilot. The pilot demonstrated a feasible process for closure of mines, triggering an accelerated closure program that substantially reduced the drain on the national budget for operation of uneconomic mines. The investment pilot project focused on the technical, political, and social issues of mine closure, building understanding and consensus through consultation, information sharing, and social assessments, and by demonstrating approaches that were technically, financially, environmentally, and socially viable. The SECAL facilitated acceleration and scaling up of the program.

*A weak policy and institutional environment compromises the effectiveness of both lending and nonlending interventions and calls for a nuanced selection of instruments. The outcomes of projects are closely correlated with the Bank's Country Policy and Institutional Assessment (CPIA) ratings, as is the success rate of individual instruments (see figure 2). In weak country environments, signified by low CPIA ratings, stand-alone technical assistance operations have performed best, while structural adjustment lending tends to be the riskiest instrument. Simple project designs—or a series of simple interventions—provide better results than complex, multifaceted undertakings. Even if lending is constrained by poor performance, carefully selected nonlending activities can be useful, especially to keep the Bank prepared for possible re-engagement.*

The Bank's nonlending instruments comprise diagnostics and advisory work. Diagnostics are critical in poor performers for the assessment of ownership and risks, and diagnostic exercises should be planned to ensure coverage of countries where potential vulnerability is the greatest. There is also a need for increased focus on the nonlending process and product to further enhance quality and poverty focus.

## Defining Terms

**Instruments** refer to specific forms of Bank development assistance, and can be classified into two broad groups: financial and nonfinancial. Financial services include IDA and IBRD lending, guarantees, and grants. Nonfinancial services include a diverse group of activities such as diagnostic and advisory economic and sector work, research, aid coordination, and other partnership services.

**SALs** (Structural Adjustment Loans) support reforms that promote growth, efficient use of resources, and sustainable balance of payments over the medium and long term.

**SECALs** (Sector Adjustment Loans) support policy changes and institutional reforms in specific sectors.

**SILs** (Specific Investment Loans) support the creation, rehabilitation, and maintenance of economic, social, and institutional infrastructure. SILs may also finance consultant services and management training programs.

**SIMs** (Sector Investment and Maintenance Loans) focus on public expenditure programs in particular sectors to bring sector expenditures, policies, and performance into line with a country's development priorities by helping to create an appropriate balance among new capital investments, rehabilitation, reconstruction, and maintenance. They also help the borrower develop the institutional capacity to plan, implement, and monitor an expenditure or investment program.

**TALs** (Technical Assistance Loans) are used to build institutional capacity in the borrower country. They may focus on organizational arrangements; staffing methods; and technical, physical, or financial resources in key agencies.

When the Bank remains engaged in poor policy environments, it should focus on knowledge services that encourage debate and engage stakeholders. Another important lesson is the need to leverage analytic work conducted by partners. Drawing on analytic work conducted by partners allows the Bank to strategically direct its resources to maximize impact. Finally, experimentation with outcome-based operations and innovative partnerships with private and voluntary sector organizations should be encouraged.

Nonlending activities are an important long-term investment, even in countries where the Bank is not currently lending. Maintaining nonlending activities enables the Bank to keep its body of knowledge current, remain engaged with policymakers, and form accurate assessments of ownership and risks in the anticipation of future lending. In Haiti, for example, the Bank has suspended lending twice in the past ten years, from 1991 to 1994 and from 1997 to the present, but has carried out nonlending activities throughout both periods. During the first hiatus, economic and sector work was part of a multi-donor effort to examine development and assistance needs. More recently the Bank has focused on social sector issues, with the intention of having an impact on policies and in the expectation that lending will eventually resume. These activities have had negligible direct impact on the policy dialogue thus far, but benefits could be expected to surface when lending is resumed, in addition to the more immediate impact on donor coordination.

## Findings and Recommendations

As the quality of individual operations improves, judicious selectivity can further leverage these gains into country-level development impact. The ARDE identifies three steps the Bank can take to improve results:

- Strengthen country assistance strategies and sector strategies. A logical framework should be used (and results chains specified) to link instruments with country/sector objectives, taking full account of past performance.
- Emphasize the role of nonlending activities in country programs, in recognition of the current residual nature of budgeting for nonlending services and the overemphasis on lending. Nonlending services are crucial for adequate diagnosis (for example, of lending) and the nurturing of ownership and partnership. They also deserve special attention in poor-performing countries. In addition, the coordination of fiduciary products should be improved.
- Strengthen guidance in instrument selection. Synergies among instruments need to be fully exploited, with lessons of experience made transparent for staff and borrowers alike to better inform plans to select, combine, and sequence instruments.

## Recent OED Précis



OED

Director-General, Operations Evaluation: *Robert Picciotto*
Director, Operations Evaluation Department: *Gregory Ingram*
Manager, Corporate Evaluation and Methods: *Victoria Elliott*
Task Manger: *William Battaile*

This *Précis* is based on the *2001 Annual Review of Development Effectiveness: Making Choices*, Report No. 23342, by William Battaile, Senior Economist, Corporate Evaluation and Methods Group, OED.

*Précis* are available to Bank Executive Directors and staff from the Internal Documents Unit and from regional information service centers, and to the public from the World Bank InfoShop. *Précis* are also available at no charge by contacting the OED Help Desk: eline@worldbank.org or calling 1-202/458-4497.

Précis

Manager, Partnerships and Knowledge: *Osvaldo Feinstein* • Editor-in-Chief: *Elizabeth Campbell-Pagé* • Series Editor: *Caroline McEuen* • Dissemination: *Juicy Qureishi-Huq*



*Précis aussi disponible en français*
*Précis en español tambien disponible* @ http://www.worldbank.org/oed/arde2001

 ISSN 1564-6297