OED Conference Note

What Have We Learned?
Some Preliminary Lessons from OED's Country Assistance Evaluations

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This note is an excerpt from the "Country Assistance Evaluation (CAE) Retrospective," which is currently under preparation. It was designed to provide background information for the *Plenary Session: Country Program Retrospective* for the OED Conference on "Effectiveness of Policies and Reforms," Washington D.C., October 4, 2004. The note was prepared by Poonam Gupta, Chandra Pant, Kyle Peters and Rene Vandendries in OEDCR. Individual Country Assistance Evaluations can be found on the OED Website at **www.worldbank.org/oed/** (publications).

What Have We Learned? Some Preliminary Lessons from OED's Country Assistance Evaluations

1. Operations Evaluation Department (OED) began evaluating Bank country assistance programs in FY95. These country assistance evaluations (CAEs) assess how well Bank assistance programs met their objectives over an extended time period, normally a decade.[1] By end FY04, OED had issued CAEs assessing the impact of Bank assistance to 58 countries[2]. These evaluations cover roughly 41 percent of borrowers and 65 percent of total net commitments. This note summarizes some preliminary findings and lessons from the 25 CAEs completed in FY01–03, but also includes some insights gained from the additional eight CAEs completed during FY04[3]. The first section presents overall findings and lessons for development extracted from CAEs. The second section reports on nine major lessons specifically for the Bank. Three of these are general lessons, emphasizing the importance of government ownership and political economy considerations, the role of institution building, and the inter-dependencies in reform efforts. There are three other lessons that have implications for Bank instruments: one each for economic and sector work (ESW), investment/technical assistance (TA) lending, and adjustment lending. The last three lessons relate to strategy formulation by the Bank and its response to down side risks and turn-arounds in country situations.

Findings

2. This CAE Retrospective draws primarily on the findings and lessons generated from 25 CAEs completed during FY01-03. Clearly, the group of 25 CAEs produced during this period is not a random, nor a representative sample. CAE countries are selected based on several factors. The most important factor is the timing of the Bank's next Country Assistance Strategy (CAS), but other factors are also considered, e.g. OED's ability to collaborate with other international financial institutions (IFIs),[4] regional balance, and whether a previous CAE had already covered a country. So, while the group of countries can not be called a sample of Bank borrowers, these 25 CAEs do constitute a reasonable basis for this "findings and lessons" discussion (see Table 1). There is a good mix of low and middle income countries, of International Bank for Reconstruction and Development (IBRD) and International Development Association (IDA) borrowers, and all regions are

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[1] For a brief discussion of the methodology for CAEs, see http://www.worldbank.org/oed/oed_cae_methodology.html

[2] See Attachment A for a complete list of completed Country Assistance Evaluations.

[3] OED has distilled lessons from CAEs in the past. The *Annual Review of Development Effectiveness* (ARDE) distills lessons from the most recent CAEs completed at the time of the ARDE. In 2002, lessons for four African countries were discussed in a workshop organized by the Africa region. In the same year, OED prepared a note on Lessons for LICUS and LICUS like countries for CODE. In 2003, lessons from evaluations in transition economies were synthesized for OED's transition economies study.

[4] In the sample of 25 countries, one CAE was jointly undertaken with the African Development Bank (Lesotho), one with the Islamic Development Bank (Jordan) and one in parallel with the Inter-American Development Bank (Peru).

Table 1: Characteristics of the 25 CAE Countries

A.	***Income level***		***B.***	***IBRD, IDA, or Blend***	
	Low	10		IBRD	14
	Lower middle	12		IDA	8
	Upper middle	3		Blend	2
		25			24 [a/]
C.	***Post conflict or not***		***D.***	***CPIA level***	
	Yes	4		Above average	13
	No	21		Below average	10
		25			24 [b/]
E.	***Region***		***F.***	***OED outcome ratings***	
	Africa	12		Highly Sat	2
	EAP	2		Sat	9
	SA	1		Mod. Sat	8
	ECA	5		Mod. Unsat	3
	MNA	3		Unsat	9
	LAC	2			31 [c/]
		25			

[a/] West Bank and Gaza receives grants.
[b/] No CPIA for West Bank and Gaza.
[c/] Four countries received different ratings for sub periods.

covered. In addition, four post-conflict countries are included. But, the coverage of Latin American and South and East Asian countries is small, primarily because evaluations of countries in these regions were fairly complete prior to FY01. The sample also contains a good mix of countries with outcome ratings that were satisfactory (about three-fifths) and unsatisfactory (about two-fifths). It is also fairly evenly divided between good performers and weak performers, as measured by the Bank's country policy and institutional assessment (CPIA) rating. As noted in the Annual Review of Development Effectiveness (ARDE) 2004, there is a positive correlation between CAE outcome ratings and policy performance.[5]

3. CAE outcome ratings can deviate from the aggregate performance of project outcomes. In about a third of the CAEs, the outcome rating of the country assistance strategy was unsatisfactory but the aggregation of project outcomes in a country during the CAE period was satisfactory (Table 2). This is not surprising. The CAE is a comprehensive evaluation of the Bank's program in a country which comprises projects, as well as analytical and advisory services. Moreover, CAEs must make an assessment of overall Bank strategy, including the size, sectoral composition and type of lending. Thus the CAE outcome may be unsatisfactory if, for example, there are critical omissions in the Bank's overall assistance strategy, even if the outcomes of individual projects are rated satisfactory.

Table 2: CAE Outcome Ratings and Project Outcome Ratings

	CAE Outcome Ratings	
Country Portfolio Outcomes	***Satisfactory***	***Unsatisfactory***
Satisfactory	53%	33%
Unsatisfactory	7%	7%

[5] See *2003 Annual Review of Development Effectiveness*, OED, 2004, page 15.

4. CAEs found that Bank programs were more successful in education and health than in other sectors, and least successful in private sector development, rural development and social protection (Table 3). These results are also largely reflected in aggregate project ratings for the same set of 25 CAEs (Table 4). The only divergences between sectoral ratings in CAEs and project outcome ratings were in the case of private sector development (PSD), rural development and public sector management (PSM), where the relatively unfavorable outcomes in the CAEs are in contrast to the high proportion of satisfactory outcomes at the project level.

Table 3: CAEs with Outcome Ratings for Major Sectors (% of CAEs)

	Satisfactory	*Unsatisfactory*	*Mixed*	*Not Assessed*
Education	48	8	4	40
Health	40	20	8	32
Social Protection	12	24	20	44
Environment	16	16	24	44
Rural	12	36	28	24
Financial Sector	24	16	32	28
Infrastructure	36	16	24	24
Public Sector	24	32	28	16
Private Sector Development	12	24	44	20

Table 4: Project Outcome Ratings by Major Sectors (Exit Years FY01-03)

Sector Board	*Total Evaluated ($M)*	*Outcome % Sat ($)*
Education	1,412.6	100.0
Health	2,065.1	86.5
Social Protection	1,327.3	37.9
Environment	460.1	25.5
Rural	1,918.1	87.2
Financial Sector	2,087.1	81.6
Infrastructure	5,860.2	87.7
Public Sector Management	2,659.8	99.9
Private Sector Development	299.7	60.1

Source: World Bank database.

5. The relative success at the project level and lack of it at the sector level in the case of PSD, rural development or PSM could reflect several factors. *First*, the political economy of reforms in these sectors is more problematic and opposition from potential losers and vested interests is likely to be more focused and sustained. Individual projects may be successfully implemented but it will take longer and more sustained effort to overcome political opposition and achieve successful outcomes at the macro level.[6] The relative success at the project level and lack of it at the sector level in the case of PSD, rural development or PSM could reflect several factors. *Second*, even if there was no strong political opposition, these areas are crucially dependent on institutional reforms and capacity building, which take time and are not always captured even in the relatively longer time frame of the CAE. For example, private sector development depends on an effective judicial and court system which takes time to develop. Civil service reform takes time to implement and the results take even longer to materialize. Thus successful outcomes at the sector level will take time to materialize.

[6] For example, in transition economies, the historical antipathy to private business on the part of the nomenclatura had strong ideological roots and is not easily overcome. Despite legal and regulatory reforms, there remains an ingrained bias against private business in many of these countries. In the less developed economies of Asia, Africa and Latin America, major rural development initiatives often involves conflict of interests among powerful groups (big farmers vs. laborers, rural dwellers vs. urban population) that take time and political acumen to resolve.

6. *Finally,* outcomes in these areas are more dependent on economy-wide developments, and on exogenous factors. Thus the growth of the private sector depends not just on the legal and regulatory framework for private sector development. It also depends on progress in other areas of economic policy such as macroeconomic stabilization, infrastructure, and financial sector. Non-economic conditions within the country, such as law and order, and external events (such as prevailing market sentiment in the region) also play a major role in PSD. Rural development and reforms in the public sector are also influenced significantly by economy wide developments.[7]

Lessons

Lesson One: An understanding of the political economy of reforms, including government's commitment and ownership of reforms and the degree of political support or opposition to them, is essential to develop realistic country assistance strategies, specific assistance programs and projects, and analysis of risks.

7. Often economic reforms failed either because the government was not committed to them, or because the government underestimated opposition to reforms and was unable to carry them through. An insufficient understanding of the political economy of reforms and the nature of the state may have led the Bank in some cases to push reforms that stood little chance of success. For example, in Zimbabwe, one of the principal motivations behind the Government's economic and social policy was to ensure indigenous ownership of productive assets. A proper appreciation for the importance of this issue might have led the Bank to give priority to land reforms, and address other reforms, such as parastatal and civil service reforms where commitment was weaker. Privatization and civil service reforms in Peru are threatened by opposition from the middle class. Their opposition could have been lessened by a different sequencing of reforms and social protection measures to mitigate the adverse consequences of privatization and civil service reforms.

Lesson two: Institutional reforms and capacity building for effective governance are critical to successful outcomes. Since capacity building takes time, these reforms need to start early, and be followed through over several years.

8. Institutional development is at the core of development effectiveness.[8] Successful reform outcomes are often undermined by weak institutions or the absence of important institutional arrangements. For example, in the transition economies of central and eastern Europe and the former Soviet Union, the existing institutions were not designed for a market economy. As the command economy collapsed, and market oriented reforms were implemented, the right institutions emerged only after a lag, preventing the full benefits of

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[7] This is not to say that outcomes in other sectors do not depend to some extent on such factors. It is a matter of degree.

[8] One measure of the importance of institutions for development effectiveness is that stronger institutions are associated with a 20-percentage point increase in the likelihood of a project's outcome being rated satisfactory (see *1998 Annual Review of Development Effectiveness*, OED, Report No. 20180, Nov. 30, 1999).

reforms from emerging.[9] Institutional reform goes beyond changing organizational structures and rules; it also involves the discarding of long-established habits and patterns of behavior—a complicated and lengthy process. Major institutional changes may have to be spread over several years.[10]

Lesson three: Successful outcomes from reforms in a sector often depend on complementary reforms and success in other sectors. The sequencing and packaging of reforms need to take account of this complementarity.

9. Several CAEs noted that more successful outcomes could have been achieved had more attention been given to the complementarity of reforms in different sectors. Private sector development cannot be assured simply through privatization. It depends as well on reform of the public sector through de-regulation, changes in taxation policy and administration, anti-corruption reforms etc. For example, in Mongolia, important measures were implemented to promote PSD (such as enabling private property, removal of price and margin controls, reduction in trade barriers, simplification of tax regime, improved framework for foreign investment), but not enough was done to lighten the heavy hand of the state on the economy. Inefficient government regulatory and oversight functions continued to hamper PSD. And as several CAEs noted, the growth of the private sector depends very much on an effective judiciary and court system. Other experience showed that the effectiveness of financial sector reforms in improving financial intermediation depended critically on reforms in the enterprise sector and the public sector.[11]

Lesson four: ESW must be timely, of good quality and be fully integrated into the design of Bank strategy and programs and projects. Timely ESW is particularly important for first time or renewed borrowers and for stop-go reformers.

10. ESW can play an important role in developing Bank's assistance strategy and in enhancing its effectiveness. Two-thirds of the CAEs that reported favorable outcomes also reported that the ESW was timely. The same CAEs reported unfavorable outcomes when the ESW was not timely. In Brazil timely ESW helped the Bank to direct lending towards education, health, and rural poverty projects in the Northeast with maximum impact on poverty reduction. And in Vietnam, ESW demonstrated that rural poverty was strongly

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[9] For example, in many of these countries macro-economic stabilization was undermined because of poor revenue collection reflecting weaknesses in tax and customs administration. Financial intermediation suffered because it took time to develop an efficient payment system and newly privatized banks lacked capacity to make commercial credit decisions. Central Banks lack capacity to regulate banks. Private sector development is hampered because the judiciary and courts system is often incapable of implementing key legislation for private sector development including private property rights, creditor rights, bankruptcy legislation, anti-monopoly laws etc.

[10] Two relatively new instruments, adjustable program loans (APLs), with their ten-year horizon, and learning and innovation loans (LILs), designed to support reforms involving a long learning process, seem to be well suited to the situation in some economies.

[11] For example, experience shows that as long as enterprises are being bailed out by the public sector (through explicit or implicit subsidies and build-up of tax arrears), they have less incentive to borrow from banks. And on the supply side, banks are reluctant to lend to enterprises that survive only because they are subsidized by the public sector. Either way, financial intermediation is stunted.

associated with inadequate economic infrastructure, helping orient the Bank's lending program towards economic infrastructure. Examples of less satisfactory contribution of ESW include the case of Kazakhstan where a social protection project sought to mitigate the social impact of privatization by strengthening the institutional capacity of unemployment services to streamline procedures for registration and payment of unemployment benefits. The poverty assessment that came two years later, however, showed that policies to facilitate labor mobility and to equip workers for changed circumstances were required, rather than a strengthening of capacity of unemployment services. In Bulgaria, a timely poverty assessment might have enabled a social protection loan to more effectively address targeting of social assistance to the needy.

11. In a few countries, ESW was timely and of high quality but findings were either not fully taken into consideration in designing the strategy, or used selectively, thus reducing their relevance and effectiveness. For example, in Jordan, Bank lending during the 1990s did not address the high level of government expenditures, despite analytical work identifying how these expenditures could be reduced and better targeted. In Peru, the Financial Sector Reform Loan (FY99) did not address fundamental problems in the sector, which had been correctly identified in an ongoing assessment of the financial sector.

12. ESW can build a good knowledge base and help the Bank engage the government in its policy dialogue. It can also assist the government to understand the costs and benefits of reforms and help design its reform program. The long term impact of ESW should also be borne in mind, as it initiates debate on policy issues and serves to familiarize civil society with reform issues. But it goes without saying that ESW cannot catalyze policy change when government's lack commitment to reform.

Lesson five: Specific investment and Technical Assistance loans can be useful vehicles for promoting institutional reforms, but for benefits to be sustainable these operations should be part of a broader macro-stabilization and economic reform strategy.

13. About 22 of the 25 CAEs provide strong evidence of the role of specific investment lending and technical assistance loans in promoting institutional development in both low-income and middle-income countries.[12] Twenty of these countries also received adjustment loans. In many countries, specific technical assistance and institution building loans were linked closely to adjustment loans, helping build capacity to formulate and implement policy changes supported in adjustment loans. Strong Government commitment and clearly articulated priorities remained a key factor in the effectiveness of these instruments in promoting institutional development. In this environment the longer time frame of investment loans allowed the Bank to build relationships with counterparts, and to combine

[12] Examples included: strengthening of state secretariats of education, the implementation of information and evaluation systems for primary education, and the implementation of minimum operational standards in all schools in Brazil; development of a legal and regulatory framework, exploration and development rights, and environmental regulations in Peru; introduction of a performance-based private management contract for water supply in Jordan; strengthening the General Directorate of Roads in Guatemala; capacity improvements in the Ministry of Finance and the central bank in Mongolia; administrative capacity to adjust utilities' tariffs, enforce cash collections, and monitor performance in Russia; and strengthening of the Ministry of Agriculture in Zambia.

advice with financial assistance especially to sector ministries. Conversely, when strong and sustained government commitment to institutional reform is absent, Bank assistance is not likely to be successful.[13]

Lesson six: Adjustment lending in the absence of sustained progress on reforms only saddles the country with additional unproductive debt and can weaken the incentives for reforms in the future.

14. The Bank should resist pressures to persist with adjustment lending in the absence of the government's commitment to, and a satisfactory track record in implementing reforms. The rationale for adjustment loans was to provide financing to alleviate the cost of adjustment that occurred when structural reforms were implemented. However, the review of CAEs for this Retrospective showed that adjustment lending was appropriately delayed in only two countries (Bulgaria and Brazil) when reforms stalled. But in as many as seven other countries the Bank went ahead with adjustment loans even though little progress was being made towards the Bank's assistance objectives and corporate goals.[14] In these countries there were pressures to lend for a variety of reasons: to exploit a unique "window of opportunity" (Kenya), show support to the government (Morocco), maintain relationships (Zimbabwe), avert a potential crisis (Peru), avoid a return to communism (Russia) and prevent negative net flows (Zambia). While these factors may well have influenced the Bank, there is little doubt that in some of these countries the pressure to reform may have been further diluted by the Bank's decision to lend, saddling these countries with unproductive debt.[15]

Lesson seven: Through, hard-headed and realistic risk analysis is important to increase the realism of country strategies.

15. The Bank needs to be more realistic and hard-headed in its country assessments and country strategy formulations, including assessing borrower commitment to reforms and its implementation capacity, receptiveness to Bank advice, and the impact of reforms on growth and poverty alleviation. Consistent errors of over-optimism, regarding borrower

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[13] Bank interventions in Brazil, for example in health, education, and infrastructure were relatively successful because the Government defined primary education, health and infrastructure as clear development priorities. On the other hand, in Morocco the Government had not yet established clear priorities or an agenda for implementation in education. Two education projects, which closed in recent years, had unsatisfactory outcomes and negligible institutional impact.

[14] However, OED's IDA review and 2003 ARDE found that the link between countries' policy and institutional performance and lending levels has been strengthened. According to the 2001 adjustment lending retrospective, in the last few years, most—but not all—adjustment lending has gone to countries with above-average policy performance, for sectors where there was a track record of progress (OPCS working paper on Adjustment Lending, June 2001).

[15] In Zambia, withholding disbursements until preconditions for the high case scenario were being met would likely have forced issues of governance, structural reform and debt forgiveness to the forefront at an earlier stage. In Zimbabwe, a Bank stance in the 1997-2000 period rooted in implementation of reforms rather than mere expressions of good intentions would have sent a strong message to the Zimbabwe leadership. In Russia, while the Bank's shift to policy-based lending in 1996-97 was to address systemic reform issues, the message sent to the Russian authorities was that geopolitical considerations would keep the international community's funding window open, regardless of missteps and hesitation in adopting the reform agenda.

receptiveness to Bank advice, its willingness to undertake difficult reforms, and the government's capacity to implement reforms, on the part of the Bank plagued Bank strategies in many of the countries evaluated (Zimbabwe, Kenya, Paraguay, Haiti, Zambia, Kyrgyz Rep., Peru, Jordan, Kazakhstan, Lesotho, Morocco). This optimism often persisted in the face of contrary evidence[16] and contributed to lending decisions by the Bank that failed to meet their objectives.[17]

16. Country assistance strategies in many countries assumed a much stronger growth performance than warranted by past country experience or experience of other countries facing similar constraints and prospects. Evaluations pointed to unrealistic growth projections in several countries (Zambia, Kazakhstan, Jordan, and Kyrgyz Republic). Unrealistic growth estimates contributed to inappropriate Bank assistance strategies and entailed real costs for the country. Had growth estimates been realistic, the Bank would have likely concentrated more analytical work on the sources and constraints to growth, as well as on poverty reduction measures. Realistic growth projections would also have illustrated more clearly debt sustainability issues and greater efforts would have made to seek debt relief or other forms of concessional financial assistance, in order not to impose too high a burden of external debt on the country.[18] And countries may have been persuaded to undertake deeper reforms to accelerate economic growth.

Lesson eight: The Bank should be more prepared to reduce the level of planned assistance when faced with clear evidence of policy slippages.

17. In addition to identifying risks, the Bank needs to be prepared to modify its assistance program to reflect wavering government commitment or policy slippages. A positive example is Bulgaria in the mid-1990s, where lending was scaled down and a major adjustment loan was put on hold in the face of rising macroeconomic risks and a lack of government commitment to address reform issues. But, the review of CAEs suggests this did not happen in a number of cases. In Peru, the Bank's program did not contain triggers to reduce lending if risks materialized. In Kenya, the 1988 strategy also recognized risks and

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[16] For example, in Paraguay, the Bank's strategy in l993 was too optimistic about the potential for reform and country implementation capacity, given Paraguay's poor track record in these areas. In Zimbabwe, strategies overestimated government receptiveness and willingness to undertake parastatal and civil service reforms. In Haiti, the 1996 strategy did not adequately recognize the risks posed to achievement of objectives from unresolved political and governance issues. In the event, these undermined attempts to promote economic development. In Lesotho, despite its experience with the 1993 elections, the Bank was too optimistic in assuming that democratization and stability could be accomplished shortly after the May 1998 elections. As a result, the Bank's assistance strategy did not include contingency plans in the event the democratization process fell apart, as it did.

[17] In Kenya, for instance, the appointment of a Change Team in July 1999 and initiation of long standing economic governance and policy reforms were rewarded with an adjustment loan when conditions for such support as specified in the 1998 country strategy were only partially met. In Zambia, over optimism led to less results oriented or vaguely-worded conditions in adjustment lending. In Morocco, the Bank provided a policy reform support loan in the late 1990s as a way of rewarding the country's movement toward a more open political system and commitment to reform. The loan was too unfocussed to have a major impact on any of the critical reform areas identified in the country strategy. Many of the actions taken prior to Board presentation were first steps, sometimes in the form of studies or plans, and many others did not show concrete results.

[18] OED's HIPC evaluation found that unrealistic growth projections led to debt problems.

the program contained CAS benchmarks, but the bank did not follow through when the benchmarks were not met.

Lesson nine: The Bank should be prudent in turn-around situations. Realistic country assessments rather than wishful thinking should inform its assistance strategy in turn-around situations.

~~19.~~18. Typically, the Bank has difficulty in identifying 'turning points' and in calibrating its response to changing country conditions. It tends to react slowly to deterioration and too quickly to improvements.[19] To overcome this, the Bank needs to keep its ears closer to the ground through its Resident Missions, its contacts with civil society and relevant ESW including a better understanding of the political economy. As far as possible government commitment should be assessed on the basis of its track record in implementing reforms, not declarations of intent. Levels of assistance should be initially prudent and calibrated to measurable outcomes and meeting concrete benchmarks. This is especially the case in situations where there are longstanding issues of implementation failures. Kenya and Zimbabwe in the late 1990s are prominent examples.

[19] In Dominican Republic, the Bank failed to recognize an upturn during FY92–95 and failed to support the government during a crucial period of successful economic reform. This mistake cost the Bank its influence in the country. The Bank failed to recognize the down-turn in Peru in 1977 and continued the support it was rendering earlier when reforms were implemented. In Kenya, initial steps toward reforms in mid-2000 were prematurely identified as an upturn and rewarded with increased lending; in the event reforms remained stalled.

COMPLETED COUNTRY ASSISTANCE EVALUATIONS, FY95-FY04

FY95 (1)	*FY96 (2)*	*FY97 (2)*	*FY98 (10)*	*FY99* (12)*	*FY00 (10)*	*FY01 (8)*	*FY02 (9)*	*FY03 (8)*	*FY04 (8)*
Ghana	Argentina	Morocco	Albania	Azerbaijan	Argentina	Paraguay	West Bank & Gaza	Peru	Tunisia
	Zambia	Poland	Bangladesh	Cambodia	Burkina Faso	Kazakhstan	Lesotho	Zambia	Bhutan
			Bolivia	Croatia	Cameroon	Morocco	Chile	Eritrea	China
			Côte d'Ivoire	Ecuador	Costa Rica	India	Vietnam	Zimbabwe	Bosnia
			Kenya	Ethiopia	Egypt	Kenya	Haiti	Lithuania	Armenia
			Malawi	Indonesia	Ghana	Kyrgyz	Bulgaria	Brazil	Moldova
			Mozambique	Jamaica	Papua New Guinea	Mexico	Mongolia	Dom.Rep.	Croatia
			Philippines	Maldives	Tanzania	El Salvador	Russia	Jordan	Rwanda
			Thailand	Nepal	Uganda		Guatemala		
			Togo	Sri Lanka	Uruguay				
				Ukraine					
				Yemen					

*A Country Assistance Note for Honduras was prepared in FY99 but was converted to an FTB following Hurricane Mitch.
The shaded area represents the 25 CAEs that were reviewed to prepare the CAE Retrospective.