

Report No. 22158

IDA's Partnership for Poverty Reduction (FY94–FY00) An Independent Evaluation

May 1, 2001

Operations Evaluation Department

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Abbreviations and Acronyms

AFR	Sub-Saharan Africa Region
APL	Adaptable Program Loan
ARDE	Annual Review of Development Effectiveness
CAE	Country Assistance Evaluation
CAS	Country Assistance Strategy
CDF	Comprehensive Development Framework
CEM	Country Economic Memorandum
CFAA	Country Financial Accountability Assessment
CG	Consultative Group
CGAP	Consultative Group to Assist the Poorest
CPAR	Country Profile of Financial Accountability
CPFA	Country Procurement Assessment Review
CPIA	Country Policy and Institutional Assessment
DfID	Department for International Development
EAP	East Asia and Pacific Region
ECA	Europe and Central Asia Region
ESW	Economic and sector work
GEF	Global Environment Facility
GNP	Gross National Product
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFC	International Finance Corporation
LAC	Latin America and Caribbean Region
LIL	Learning and Innovation Loan
M&E	Monitoring and evaluation
MNA	Middle East and North Africa Region
NEAP	National Environmental Action Plan
OECD	Organization for Economic Cooperation and Development
OED	Operations Evaluation Department
PA	Poverty Assessment
PBA	Performance-Based Allocation
PER	Public Expenditure Review
PREM	Poverty Reduction and Economic Management Network
PRSP	Poverty Reduction Strategy Paper
QAG	Quality Assurance Group
SA	South Asia Region
SSR	Social and Structural Review
WDR	World Development Report

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May 1, 2001

MEMORANDUM TO THE EXECUTIVE DIRECTORS AND THE PRESIDENT

**SUBJECT: IDA's Partnership for Poverty Reduction (FY94-FY00):
An Independent Evaluation**

In the face of increasingly complex development challenges, the IDA10-12 period has witnessed a broadening of the international development agenda and significant efforts by governments, civil society, and external assistance agencies to improve the development effectiveness of development assistance. Against this background, the IDA Deputies commissioned this independent review of IDA's performance in implementing the undertakings of the IDA10-12 replenishment agreements and asked that it draw lessons for the next replenishment.

Over the seven-year period IDA significantly enhanced its relevance and improved its portfolio performance. It recast its mission, repositioned its country assistance programs, increased its responsiveness to borrowers, strengthened its field presence, and diversified its lending instruments. Recently, it has intensified its aid coordination efforts in the context of the CDF and PRSP initiatives.

Hence, IDA in FY00 is very different from IDA in FY94. Still, disappointing progress in poverty reduction, especially in Africa, points to the need to sustain the transformation of IDA in order to respond fully to new views of country ownership, conditionality, and country-based programming of development assistance. Focus on governance, capacity building, and development results; a move from ad hoc to structured donor coordination; and an explicit role for IDA at the global level are also critical to maintain the positive momentum in IDA's development effectiveness.

The IDA10-12 replenishment undertakings have been highly relevant and timely. They have encouraged IDA to move in step with the evolving consensus of the international development community. But they have been extraordinarily demanding for both IDA and its borrowers. Overall, this review finds IDA's implementation of its replenishment undertakings to be satisfactory, but with qualifications; and finds the development outcomes of IDA programs – influenced by exogenous factors, borrower and partner performance, as well as IDA performance – to have been partially satisfactory, with improvement over the period.

With IDA's help, a number of IDA borrowers are in a better position now than at the beginning of the IDA10 period to focus on broad-based growth and poverty reduction goals. Still, the linkages between country programs and poverty outcomes need to be better articulated; clearer private sector development, gender, and environmental/social sustainability strategies need to be better integrated into country assistance strategies; and more still needs to be done to integrate broad-based poverty reduction strategies and governance and institutional development issues into macroeconomic and sector strategies and interventions within specific country contexts.

With management's attention to accelerating organizational changes over this period, IDA's country focus and responsiveness are stronger, with some 24 country directors now in the field.

Innovations in lending instruments have increased flexibility and institutional development impact. Still the translation of key IDA objectives into monitorable programs and verifiable results is largely an unfinished business. In particular, corporate issues of accountability for policy compliance, investment in analytical work and capacity-building, tracking progress, evaluating results, and aligning resources with program priorities all need closer attention and further action, as recent management reviews and proposals themselves indicate.

Clearly the period under review has been one of considerable change – in borrower countries, in IDA, and in the development system. The IDA10-12 policy framework has encouraged IDA to move in directions relevant to the priority development challenges of its borrowers. Both IDA and its partners are still learning to implement the CDF and PRSP initiatives that have been adopted during IDA12.

In looking forward to IDA's next replenishment, what is needed most is to consolidate the IDA mandates, within the context of CDF and PRSP implementation, and to focus on further improvements in the implementation of country assistance strategies and programs. Improved implementation needs to give particular attention to country and program selectivity, a determined move to donor coordination and harmonization so as to reduce the burden of high aid transaction costs on borrowers, as well as systematic monitoring and evaluation, focusing on results and the international development goals. Full, multiyear funding of CAS lending and nonlending services as well as new commitments (including new IDA undertakings) is essential to align resources with program priorities.

Finally, the report suggests fine-tuning of the replenishment process. Although consistent with the evolving development paradigm, replenishment undertakings have been perceived to be both over-determined and overloaded. Greater realism about what IDA and its borrowers could reasonably accomplish in a three-year period is desirable. Equally, the replenishment process needs stronger connections with all development partners. IDA, in consultation with its borrowers, should develop a longer-term vision focused on results. It should engage developing countries in both setting replenishment priorities and monitoring IDA performance; and it should define commitments in terms of monitorable and achievable objectives.

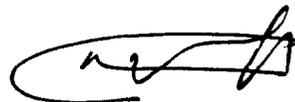
A handwritten signature in black ink, consisting of a large, stylized initial 'M' followed by a series of loops and a final vertical stroke.

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Acknowledgements

This report was prepared by an independent team, situated in the Corporate Management Group of the Operations Evaluation Department under the overall oversight initially of Wendy Jarvie and later Nils Fostvedt. The team was led by Catherine Gwin (task manager and author of the report) and included Stephen Eccles (background study on IDA's performance-based allocation system), John Eriksson (background study on aid coordination), Alison Evans (background study on poverty reduction), Pierre Landell-Mills (background study on governance), Malcolm Rowat (background study on private sector development), John Shilling (background study on environment), Olga Vybornaia (project administration and research assistance), and Georgia Wallen (country consultation report and research assistance).

Additional substantive input was provided by Charlotte Jones-Carroll (budget), Alice Galenson and John Nellis (private sector development), Gita Gopal (gender), Daniel Morrow (country assistance strategies), Sverrir Sigurdsson (social sector development), and Warren van Wicklin (participation). Sohail Malik and Can Adamoglu contributed further statistical advice and research support. Ted Rice, Sylvia Saborio, and Rita Trier-Somazzi assisted with in-country consultations. Annisa Cline-Thomas and Julia Ooro provided invaluable administrative support. The team also acknowledges the help of Caroline McEuen in the drafting of the executive summary, and Meta de Coquereumont and William Hurlbut in the editing of background papers and this report.

The report benefited throughout from advice and intellectual guidance offered by an advisory group of eminent experts: Nancy Birdsall, Inga Bjork-Klevby, Kwesi Botchwey, Jalal Abdul Latif, Mohammed Syeduzzaman, and Bernard Wood. It also benefited from the advice, comments and provision of information from far too many Bank colleagues to acknowledge by name, but whose inputs were essential to the background studies and overall review.

Country consultations were held in Bangladesh, Bolivia, Cambodia, Ghana, Kyrgyz Republic, Mozambique, and Vietnam. In addition, input was drawn from OED consultations carried out in India and Uganda as part of on-going country assistance evaluations. These consultations involved the participation of shareholder groups including government officials, NGO and private sector representatives, academics, and donor agency representatives. The team is grateful to the IDA country directors and other colleagues in the country offices, who helped make the in-country consultations a success.

Two workshops were held at the start and end of the review. The first, held in Bonn in December 1999 to discuss the evaluation design for the review, was hosted by the Center for Development Research and chaired by its director Joachim von Braun. The second was held in November 2000 at World Bank headquarters to discuss emerging findings. The team wishes to thank the many Bank and external experts who participated in these meetings, including in particular C. Sanjivi Rajasingham who participated on behalf of IDA management. Assistance in the funding of the workshops and country consultations was provided by the Royal Ministry of Foreign Affairs, Department of Evaluation, Government of Norway.

Summary

The mission of IDA is to support efficient and effective programs to reduce poverty and improve the quality of life in its poorest member countries . . . the focus must be on sustainability—to achieve enduring development impact with an environmentally sustainable framework—and equity—to remove barriers and open up opportunities for the disadvantaged.

—IDA 12 Replenishment Report

1. The International Development Association (IDA) is a unique instrument of development cooperation, focused on assisting the world's poorest countries. The establishment of IDA in 1960—as a separately funded but integral component of the World Bank Group—represented a bold innovation and an unprecedented commitment by the international community to improving global welfare. Over 40 years, IDA has made substantial and distinctive contributions to growth and poverty reduction in low-income countries through a combination of concessional finance, analytical work, and aid coordination services.

2. Over the seven-year period covered by this review (FY94–FY00), IDA committed just over \$42 billion to some 77 low-income borrower countries. These resources support country efforts to accelerate sustainable economic growth and poverty reduction through improved economic policies and investments; expanded access to basic education, health, and other social services; and strengthened public sector management and governance. IDA has also assisted with the unprecedented challenges faced by countries in transition and the special needs of countries emerging from conflict. While persistent poverty, increasing inequality, and conflict characterize the period, a number of countries where IDA programs are being implemented have recorded declines in the incidence of poverty, strengthened social development, and begun to tackle governance and public sector reforms.

3. At the request of IDA's donor governments and its executive directors, this report reviews the IDA10-11 program and, on an interim basis, IDA12, including IDA's performance in implementing the undertakings set out in the replenishment reports for each of these periods.

SUMMARY OF FINDINGS

4. The IDA10-12 replenishment commitments (summarized in Box 1) have been highly relevant and timely. They encouraged IDA to adapt to a new development paradigm—embodying a comprehensive approach to poverty reduction that reflects the accumulated lessons of development experience. Individually, each area of operational emphasis makes sense. But together they have proven extraordinarily demanding—for both IDA and its borrowers. Even in countries where the commitment to poverty reduction and sustainable development is strong, building consensus for change, reforming policies, and strengthening institutional capacities are formidable tasks, which in countries with limited human and financial resources require tough choices and tradeoffs.

Box 1. IDA10-12 Replenishment Undertakings

In broad terms, the three IDA replenishment agreements—reports that set forth IDA's goals for each three-year funding cycle—endorse poverty reduction as IDA's overarching objective and instruct IDA to:

- Sharpen the poverty focus of its support for country development.
- Direct its assistance, in support of that objective, to expanding access to basic social services, fostering broad-based growth, promoting good governance, and integrating gender and environmental considerations into development efforts.
- Increase its development effectiveness through more selective, more participatory, and better-coordinated country assistance programs.

The specific undertakings related to these instructions center on six program priorities (poverty, social sectors, private sector development, gender, environment, and governance) and four processes (country assistance strategies, performance-based allocation system, participation, and aid coordination).

5. In evaluating IDA's performance, it is important to place its assistance in context. IDA provides a small share of the resources that countries use to pursue their development priorities—the vast share comes from the countries themselves. IDA is also only one among many external assistance agencies, accounting for 14–18 percent of official development assistance in the 1990s. It cannot determine the choices that countries make, although it can and does support and influence them. Nor can IDA alone be held accountable for country development outcomes. The performance of borrowers and other development partners, as well as changes in the global economic environment all play a role in determining outcomes. IDA can and should be held accountable, however, for how well it makes hard choices and necessary tradeoffs in deploying its concessional resources in fulfillment of corporate commitments, including both its lending and nonlending advisory services, and how effectively it shapes its assistance to the priorities and circumstances of borrowers. It is largely in these terms—i.e. of IDA's relevance (that is, whether IDA “did the right things,” taking into account the actions of others) and its efficacy and efficiency (that is, did it “do things right”)—that this review evaluates IDA. (For a concise summary of the report, see Box 2.)

Compliance

6. Overall, IDA's compliance with the formidable list of replenishment undertakings has been satisfactory, albeit with important qualifications. The implementation of IDA undertakings has repositioned country programs to better respond to development priorities. IDA has sharpened the poverty focus of its country assistance strategies, analytical work and lending. It has made a substantial contribution to poverty data collection and analysis; established a strong presence in the social sectors; and improved the poverty and social dimensions of its adjustment operations. More recently, IDA has markedly expanded its work in support of good governance as a key factor in country development efforts.

7. To strengthen the effectiveness of its country programs, IDA has also enhanced the role of its Country Assistance Strategies (CAS) as a tool for comprehensive diagnosis and program planning. It has strengthened the link between country performance and lending; increased stakeholder participation in projects and programs; and accelerated its efforts in aid coordination, especially in the last few years. These are major achievements.

8. Compliance, however, has been uneven across and within areas of program and process emphasis. Governance only recently acquired adequate weight in program priorities. There has been only partial and halting progress in integrating critical private sector development, gender, and environmental considerations into country assistance programs. And neither program selectivity nor coordination with development partners has been achieved to the degree called for in the replenishment undertakings, although the Comprehensive Development Framework (CDF) and the Poverty Reduction Strategy Paper (PRSP) initiatives have provided new momentum in the last two years.

Development Outcomes

9. Clearly, compliance with replenishment undertakings and development outcomes are not the same. Nor is performance in the implementation of replenishment injunctions (which are stated largely in terms of inputs and outputs rather than outcomes) the sole determinant of those outcomes. The global environment has been challenging for countries with weak institutions and poor governance and poverty trends have been disappointing. Against this background, the improved development effectiveness of IDA operations is notable, while, on balance, assessed against its ambitious goals, the development outcomes of IDA programs have been partially satisfactory.¹

Box 2. The IDA Review at a Glance

At the request of IDA's donor governments and its executive directors, OED carried out a review of IDA's implementation performance during IDA10-12. OED found the IDA10-12 replenishment commitments highly relevant and timely, but extraordinarily demanding for both IDA and its borrowers. The commitments include: (1) sharpening the poverty focus of support for country development; (2) expanding access to social services, fostering broad-based growth, promoting good governance, and integrating gender and environmental considerations into development efforts; and (3) increasing its development effectiveness through more selective, more participatory, and better-coordinated CASs.

Overall, OED finds IDA's performance in relation to its commitments to be satisfactory, but with qualifications. IDA has done much to sharpen the poverty focus of its analytical work, policy dialogue, and lending. The quality of lending and nonlending services has improved. Recently, it has brought governance to the fore. Yet it has made limited progress in integrating private sector development, gender, and environmental sustainability into its country programs. Taking account of a host of factors not under IDA's control, the development outcomes of IDA programs are rated partially satisfactory.¹ Much remains to be done by IDA and its partners to meet the multifaceted challenge of supporting sustained, pro-poor, broad-based growth.

In moving forward, IDA should focus on implementation of its existing policy framework, align resources with strategic priorities, and consolidate its mandates. IDA should concentrate more on its areas of comparative advantage—work at the strategic level in support of economy-wide, sector-wide, and government-wide reforms—and make capacity building a core dimension of every aspect of its work. With the full support of its shareholders, it should also play a more proactive role in fostering aid harmonization and coordination—at the global and country levels—to reduce the high transaction costs of aid.

This will require even greater country and program selectivity; expanded work in the critical areas of public sector reform and institutional development, a joint commitment with partners to move from ad hoc to more structured coordination of aid programs, and reinvestment in IDA's analytical work and full funding of approved Country Assistance Strategies.

IDA would also benefit from adjusting the replenishment process. Three changes would improve the process: developing a longer-term vision, focused on results; engaging developing countries in setting priorities and monitoring replenishment commitments; and defining commitments in terms of monitorable and achievable objectives, with realistic costing.

1. Management does not agree with OED's assessment of the development outcomes of IDA's work as "partially satisfactory." This difference in judgment appears to come from two factors. First, the OED rating is an average for the whole FY94-FY00 period and, as such, does not give sufficient attention to the strong improvement in IDA performance on all fronts in recent years (although these improvements are highlighted in the OED review). For example, using independent and self evaluation as a basis for action, IDA has significantly improved CAS quality, lending quality, the quality of implementation of policies, and ESW quality. OED puts a heavy weight on a sample of 24 IDA-country CAEs. By far the majority of years covered by these CAEs fall before or in the first half of the review period. The second factor is the lack of clarity on what OED is measuring in terms of IDA's impact on development outcomes. While OED cites a long list of factors outside the scope and control of IDA programs—including the fact that IDA accounts for substantially less than 20 percent of total development assistance going to IDA countries and far less as a share of overall investment in IDA countries—OED appears not have given these factors sufficient weight in coming to its rating. Independent research by the Bank's Development Economics Department shows that, the poverty reduction impact of IDA was far higher than that of official development assistance on average and that IDA's impact improved in the 1990s. (Dollar, "What Research Can Tell Us About Making Adjustment Lending More Effective?" draft, World Bank, DEC, March 2000.) That said, there is clearly room for IDA to do better. Indeed, many of the "weaknesses" identified by OED (for example, funding for ESW, monitoring and evaluation, further work on governance, and institutional development and capacity building) are precisely the issues that Management has identified itself through self-evaluation and launched actions to further enhance IDA's development effectiveness.

10. Although IDA has done well in helping many countries to lay the foundations for economic growth and poverty reduction, the record of IDA countries in sustaining growth at high enough levels, over long enough periods, and through adequate measures to benefit the majority of the poor has been mixed. This reflects a host of non-IDA influences on development outcomes, including regional conflicts, weak domestic capacities, mixed policy performance, variable quality of aid, and exogenous shocks. But it also highlights areas where IDA's own performance, while generally satisfactory and improving, could be enhanced still further and contribute more positively to development outcomes.

11. IDA made important innovations in its organization, lending instruments, and assistance strategies to increase the responsiveness of its operations to country development priorities. Robust self-evaluation and policy recasting has been put in place, contributing to increased development effectiveness. Most importantly, the performance of IDA lending has shown substantial gains. But the linkage between institutional priorities and country programs has not been strong; and there remain weaknesses in lending and nonlending activities that impede IDA's operational effectiveness at the project and country levels. Declines in the funding of analytical work, the substantial challenge of expanding governance work, the slow pace of improvement in institutional development impact and support for capacity building, inadequate selectivity, and insufficient monitoring and evaluation at both the country and the project levels require stronger remedial action, as acknowledged and, in some cases, pinpointed by management's own self-assessments.

WHY THIS REVIEW?

12. IDA's main goals and basic features have been consistent throughout its history. But IDA has progressively refined and broadened its approach. An intellectual and programmatic watershed was reached with the publication of the *World Development Report 1990: Poverty*, which advocated a strategy of poverty reduction through economic policy reforms and productive investments. The goal was to improve incomes among the poor through labor-intensive growth and to expand their access to social services and social safety nets. The strategy reflected empirical evidence that demonstrated the importance of growth and the central role of human resource development in bringing about significant and sustained improvements in living standards.

13. The IDA10-12 replenishment undertakings adopted the framework of the 1990 strategy, with a call to sharpen IDA's poverty focus. They expanded the agenda to include gender, the environment, and governance as part of a "broad-based framework for poverty reduction" (IDA12 Report). They also urged IDA to increase effectiveness through increased country ownership and improved development partnerships. The diversified and complex policy content of these commitments—a departure from the more general guidance embodied in previous replenishment agreements—is the ultimate rationale for this review. Has IDA acted responsibly to implement its replenishment commitments? Has it changed fast enough and in the right directions? As a result, is it well equipped to assist borrower countries in today's era of rapid technological change, border-less private investment, and an increasingly fragile physical environment? These are the questions that motivated the IDA Deputies call for an independent review of IDA's record.

THE PROGRAM DIMENSION

A Sharpened Poverty Focus

14. IDA has progressively strengthened the poverty orientation of its analytical work, investment lending, and adjustment operations since adoption of the 1990 poverty strategy. Both momentum and

specificity have increased over successive replenishment periods. Internal policy and institutional changes, combined with external contributions from IDA (and other donors), have moved many IDA borrowers into a position to direct greater efforts toward poverty reduction goals than at the beginning of the review period. But substantial and sustainable results for the poor require consolidation and deepening of development and aid reforms.

15. ***Redirecting Country Assistance Strategies.*** IDA undertakings have emphasized poverty reduction as their overarching objective, and this goal has been increasingly reflected in IDA country assistance strategies, particularly since 1997. Broad-based growth, human resource development, and protection of vulnerable groups have become common CAS objectives. CASs are also increasingly based on comprehensive poverty diagnosis and consultations with stakeholders. By fiscal 2000, a growing number of IDA CASs included poverty reduction targets linked to intermediate objectives and benchmarks for tracking country and IDA performance.

16. To underpin the sharpened focus of the CAS, IDA has made major contributions in collecting and disseminating poverty data and analysis. Poverty assessments have been completed in 90 percent of eligible IDA borrowers, and public expenditure reviews have been conducted for almost half. Still, linkages between country programs and poverty outcomes are not always well articulated. More needs to be done to integrate broad-based growth poverty reduction strategies into macroeconomic and sector strategies and interventions. For this, the quality and policy relevance of economic and sector work and the monitoring of linkages between IDA-supported policies and programs and poverty outcomes continues to need attention – with particular emphasis on strengthening borrower capacity to collect and analyze poverty data, monitor progress, and enhance program outcomes.

17. ***Expanding Access to Social Services.*** IDA's commitment to increase social sector lending has been highly satisfactory over the IDA10-12 period. Social sector investment lending is up from 20 percent of total IDA investment lending in the late 1980s to a sustained level of 40 percent since 1995. With the increase, IDA became the largest financier in human development and a major source of analysis and advice, particularly in Africa. Through its analytical work, lending, and technical assistance, IDA has helped countries strengthen their human development policies, increase their level of social expenditures, expand access to basic services, and, particularly in the transition countries, adjust pension and other social protection mechanisms. Overall, IDA has shifted the focus of its assistance from projects to sector-wide reforms, and provided some form of social sector assistance in virtually all its active borrowers.

18. On the whole, IDA has had more success in helping countries to expand access to social services than to improve the quality of service delivery to the poor. The difficult challenge has been to help countries deal with the politically and institutionally complex issues—particularly deficits in public sector management and institutional development—that hobble the sector-wide reforms and programs needed to produce sustainable results. IDA has responded to this challenge with several program innovations, including new, sector-wide and country-wide programmatic and adaptable lending instruments, a stronger field presence, greater priority to institutional change, with a fuller recognition of the importance of partnership and ownership of policy reform. IDA has also increased its participation in country-led, donor coordinated sector-wide programs in education and health; given more attention to multi-country (regional or global) programs; and, most recently, increased its support for linking social sector reforms more closely with poverty reduction goals through assistance to countries in their preparation of poverty reduction strategy papers. Each of these innovations shows significant promise—but presents operational challenges as well which call for further results-based process and procedural changes on the part of IDA, in conjunction with other donors.

The Challenge of Broad-Based Growth

19. In promoting broad-based growth, the second major component of IDA's poverty reduction framework, IDA has traveled a considerable distance in implementing its commitments to improve the poverty and social dimensions of structural adjustment operations and to strengthen its support for private sector development. Nevertheless, acceleration of broad-based, job-creating growth remains a major challenge.
20. **Gains from Adjustment Lending.** Bank-wide project ratings indicate that adjustment operations have improved their development effectiveness. Satisfactory outcome ratings have risen from 65 percent of completed projects during IDA9 to 80 percent in IDA11-12. In countries committed to reforms, IDA adjustment operations have contributed to macroeconomic stability and the removal of key economic distortions, but evidence on income and employment generation for the poor is less clear. Why has it been so difficult for development partners, including IDA, to support countries in moving beyond the intermediate outputs of adjustment programs (new policies, legislation, privatization) to achieve better poverty reduction results?
21. Many IDA countries have been inconsistent in their implementation of reform programs, short-circuiting their ability to sustain high growth rates and to implement the complex structural reforms necessary for long-term poverty reduction. It has also proved difficult to come up with practical policy measures to achieve not just growth, but broad-based growth, and to address the factors that affect the ability of the poor to participate in the opportunities created by growth-oriented policies. Of concern is evaluative evidence—including testimony of stakeholders—that the links between policy change, sector strategy, and the expected pattern of growth are weakly articulated in IDA CASs, and the mechanisms that are to transmit the benefits of policy changes to the poor are not spelled out. There is an urgent need for work on the determinants of pro-poor growth in specific country circumstances, and for greater clarity and specificity in how IDA assistance can best support borrowers in setting and advancing country-specific priorities.
22. **Lags in Rural and Private Sector Development.** Lags in both rural and private sector development are also important contributing factors to the weak broad-based growth outcome. IDA's lending for agriculture and rural development, largely over-looked in the IDA10-12 replenishment agreements, has declined from 23.4 percent of commitments during IDA10 to 9.6 percent during the first year of IDA12. It appears that IDA has withdrawn, appropriately, from unsuccessful efforts—such as top down systems of extension services and complex rural development activities that had higher than average failure rates—but improved approaches have not been put in place. Adjustment lending and related economic and social work (ESW) have contributed to relevant policy reforms in a number of IDA countries, improving agriculture price incentives and exports. This said, reform efforts have not resolved other structural and institutional constraints that impede agricultural productivity and marketing and rural poverty reduction.
23. Relative decreases in rural or agricultural lending over other sectors cannot be assumed *a priori* to be a bad thing, especially since lending levels for social funds, rural infrastructure, and health and education have been robust. However, 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 in aid programs is a cause for concern. The sector requires renewed attention on the part of the international development community, with IDA's role to be determined in coordination with others.
24. In contrast, as efforts to stabilize macroeconomic conditions took hold in the 1990s, IDA increased private sector development (PSD) activities, and in certain subsectors has had some success. But CASs still tend to lack well-articulated PSD strategies, in part a reflection of differences in perspective between IDA and its borrowers and continuing difficulties in linking IDA, IFC, and MIGA activities into a coherent

whole. In the last few years, IDA has forged a closer working relation with the IFC. Still, considerably greater synergies can be tapped and selectivity exercised by further delineation of IDA's role in improving the country policy framework, IFC's connectivity to private corporations, and MIGA's catalytic function in foreign investment; shifting activities among institutions; and dropping activities better pursued by other actors. Although the Bank's prior CAS retrospective did not analyze the treatment of PSD, the 2000 CAS report notes that the increasing early involvement of IFC and MIGA in CAS preparation has improved PSD programming. It therefore proposes a deeper integration of country assistance strategies and work programs in selected countries.

25. While many IDA efforts have met with successful project outcomes, a selection of IDA country assistance evaluations give relatively low ratings to the effectiveness of IDA's PSD work and point to the need for a sharper focus on the investment climate. These evaluations also reflect past weaknesses in support for small and medium enterprises and rural finance—two areas which have undergone change and for which there are new strategies that aim to improve and increase IDA's efforts. Inadequate focus on the institutional and policy framework for privatization operations has meant that the gains from increased efficiency have often not been widely shared—though in line with IDA12 commitments, they are now giving increased attention to social protection and environmental issues. Efforts to increase the private provision of infrastructure are more recent and show promise.

26. The PSD strategy paper now being prepared should make explicit the definition and rationale for a clear division of labor and greater selectivity within the World Bank Group and vis-à-vis others. It should also identify ways to improve IDA's support for the policy and regulatory environment for private investment, the proper institutional foundations for privatization, the expansion of the private provision of infrastructure and social services, and the overall distributional impact of PSD activities.

27. **IDA's strategic role.** IDA's comparative advantage in support of broad-based growth and poverty reduction lies at the strategic level—not only in lending for adjustment programs and key investments in support of broad-based growth, but also in supporting the research and analytical work needed to identify the actions required for the poor share in the overall gains. The Poverty Reduction Strategy Paper (PRSP) initiative, launched after the negotiation of IDA12 and based on CDF principles, represents a major step in realizing these goals. It offers a new way to link poverty analysis, country-led policy design and program choice, partner involvement, and monitoring. In this context IDA should increase support for strengthening borrower capacity to track programs, analyze results, improve program outcomes, and inform broad public debate. In addition, management is now considering how to improve the role of Sector and Thematic Strategy Papers (SSPs) in identifying knowledge and strategic gaps, with a sharpened focus on poverty reduction, as a guide to clarifying the kinds of activities that make the most sense for the World Bank Group.

Integrating Gender, the Environment, and Governance

28. The IDA10-12 replenishment undertakings that called for the integration of gender, environmental sustainability, and good governance into IDA's country assistance programs were highly relevant but progress has been constrained by lack of consensus, within IDA and among its member countries, on the priority of these concerns and IDA's appropriate role in advancing them. While IDA has made important contributions in each of these areas, success has been limited relative to commitments.

29. **Slow Progress in Gender and Environmental Mainstreaming.** In implementing the commitment to reduce gender disparities in health and education, IDA assistance has achieved satisfactory results, in part because of significant country ownership and effective partnerships with other development actors, and also because interventions have been underpinned by rigorous analytical work. In countries with large gender disparities, IDA has integrated gender into virtually all education projects, contributing to positive trends in

girls' school enrollment. It has also contributed to improvements in maternal health. IDA assistance has been weaker, however, in promoting the economic participation of women and in improving borrowers' institutional frameworks for gender. This has undermined the efficacy of the assistance, and led to disappointing results at the country level.

30. Implementation of IDA's environmental undertakings has also been partially satisfactory. By the end of IDA11, national environmental action plans had been completed for nearly all IDA countries, but their quality has been mixed and their use in CASs highly varied. To improve the treatment of the environment in those country assistance programs where environment is a priority issue, the Bank's 2000 CAS review identifies several "next steps," picking up on recommendations in OED, external, and self-evaluations, to better integrate environmental considerations into economic and sector work, strengthen the link between environmental considerations and poverty reduction measures, and better incorporate environmental indicators and trends in CAS diagnoses of country development issues. These steps are essential underpinning to the mainstreaming of environment into IDA activities, but they are only first steps.

31. While lending for environment projects remains at about the level reached in IDA9, IDA has increased the number of environmental components in projects in key sectors. This assistance has helped to increase public and government awareness of environmental issues and contributed, for example, to reversal of land degradation, improved incomes from arid lands, and strengthened environmental capacity. Moreover, IDA has made efforts to help countries improve their environmental assessments. However, failures to adequately implement environmental safeguard policies in a few high-visibility projects have directed attention to strengthening the environmental assessment process. Still, the broader need is for projects in all sectors to be designed to ensure environmental quality and sustainability. Safeguards and mitigation should be a minimum threshold—not the main thrust of the environmental sustainability strategy. But IDA has yet to provide guidance to define, promote, monitor or evaluate this broader objective of mainstreaming.

32. Lack of country interest in borrowing from IDA for gender and the environment has been a constraining factor, in part because of the availability of grant resources from other sources. But IDA has also lacked clear accountability for gender and environmental mainstreaming. In both areas, there is need to concentrate on strengthening borrower institutions and policies as a matter of priority. In addition, based on comprehensive diagnoses, IDA should better integrate gender and environment into CASs, and increase gender and environmental diagnoses in the economic and social analysis carried out in preparation of IDA supported projects, especially in situations where gender disparities are high or environmental threats serious. There is also a need to clarify the scope of the Bank's gender and the environmental mainstreaming policy, strengthen the management for gender and environmental issues, and establish monitoring and evaluation systems to regularly track and periodically evaluate IDA-wide progress. New strategies to guide gender and environmental activities, currently under discussion within the Bank, provide an opportunity to deal with these matters.

33. *The critical factor of governance.* Although largely missing from the Bank's 1990 poverty strategy, good governance was identified in the IDA10-12 period as a critical factor that affects all other areas of program emphasis. IDA was slow to comply with its IDA10 governance undertakings. But over the past four years it has given priority to public sector reform in country assistance programs and openly addressed issues of corruption. To strengthen its capacity for expanded operational work, IDA has increased staffing, analytical work, and policy guidance. Country dialogue and reporting on governance issues have picked up. Lending for public sector reform has increased. And institutional development issues are increasingly addressed in lending operations and public expenditure reviews, along with more attention being given to wider issues of public expenditure management—although capacity-building for effective and accountable processes remains a major task.

34. But there are shortfalls. Treatment of governance is not yet consistent across countries, and greater coordination among external agencies is needed in regard to governance conditionality and assistance to make progress on the broad governance agenda. More support is needed, for example, to bolster the rule of law, which is central to an environment conducive to investment, as well as in alleviating personal insecurity, a principal concern of the poor. IDA currently supports this work in only a handful of countries, and does not have the comparative advantage to deal with all aspects of judicial and legal reform (including law enforcement). The strengthening of public financial accountability in borrower countries—a previously neglected area—has gained momentum but still requires a considerably increased effort, focused on capacity-building in borrower countries at all levels of government. Also, governance has become a factor in determining CAS lending levels and there is now a “governance discount” applied to allocations, though it needs rethinking to ensure more effective treatment of governance performance.

THE PROCESS DIMENSION

35. As it has refocused the development agenda, IDA has also been at the forefront of change in the aid “business.” IDA replenishment reports put particular emphasis on greater selectivity in the use of aid and on improving partnerships through increased participation and aid coordination in support of countries’ own development programs.

36. In line with replenishment commitments, this reform agenda has focused on strengthening four key IDA processes: enhancing the role of the CAS in setting program priorities, improving the performance-based allocation system to tighten the link between country policy performance and lending allocation, increasing stakeholder participation in projects and programs, and strengthening aid coordination among donors. The Poverty Reduction Strategy Paper (PRSP) initiative has given a significant impetus to these reforms. But IDA, together with its development partners, has a considerable distance to go in consolidating and institutionalizing improved partnership practices.

Improving Program and Country Selectivity

37. *Enhancing the Role of the CAS.* There has been increasing focus on the country as the unit of account in the design and assessment of IDA assistance. The CAS—as both a document and a process—has become the main program-planning vehicle for this shift. Its self-evaluation content has improved considerably in recent years. Through more comprehensive diagnosis and greater participation in their design, CASs have contributed to program relevance, greater country ownership, and aid coordination. However, as the Bank’s 1998 CAS retrospective highlighted, at the start of IDA12, less than 40 percent of CASs discussed selectivity in key program areas, and fewer linked IDA’s strategy with its comparative advantages, including prioritizing its activities across and within sectors and by instrument. Reflecting member government and management increasing attention to this issue, fiscal 2000 CASs show some improvement in program selectivity, but progress remains uneven. With the introduction of PRSPs, the role of the CAS will change again. As management has indicated, as of July 2002, CASs will normally be based on PRSPs while retaining their identity as business plans for the World Bank Group. But the challenge of program selectivity will remain. There will also be a need to achieve consistency among criteria for assessing the quality of PRSPs, CAS lending triggers, and IDA’s performance-based allocation assessments.

38. *Strengthening the System of Performance-Based Allocations.* IDA’s performance-based allocation system—the principal mechanism for achieving country selectivity—is now better at directing credits to countries with good performance ratings than at the start of IDA10. This reflects increased knowledge about the causes of growth and poverty reduction as well as specific replenishment recommendations, including to give greater weight to governance, environmental sustainability, and non-developmental expenditures in assessing country performance. Since there are relatively few top performers (and most are small

economies), the bulk of IDA lending goes to countries in the middle performance ranges. Some shortcomings remain in the design and implementation of the allocation system, related to two key issues: equitable treatment across countries and the strength of the links between performance assessment criteria and countries' continuing poverty reduction. These issues could be addressed by rethinking the current "governance discount" methodology (which has failed to capture some borrowers with serious governance problems), further adapting the assessment criteria, and increasing transparency and dialogue with partners.²

Building More Effective Partnerships

39. ***From Ad Hoc to Structured Aid Coordination.*** Few of the program and process objectives of the IDA replenishment reports can be satisfactorily achieved without enhanced aid coordination. During IDA10-12, the focus has moved beyond the mechanics of donor agency coordination to improved aid management, preferably led by recipient countries, with donors directing their support to sound, country-designed policies and programs. These changes are reflected in successive replenishment recommendations, culminating in IDA12, with its emphasis on country-led partnerships that combine the objectives of country ownership and donor coordination. But progress thus far has been limited, and uncoordinated aid programs continue to impose heavy burdens on recipient countries and to limit the impact of aid programs.

40. Although progress was modest in IDA10-11, IDA has accelerated its efforts in aid coordination, particularly in the past three years. In-country coordination has been reinforced by the increased placement of IDA country directors in the field. IDA has given increased emphasis to harmonization of procurement procedures and evaluation processes among MDBs. There has been a trend toward country-led coordination mechanisms. IDA has increased its participation in sector-wide approaches (SWAs), an aid mechanism that combines government leadership in the design of a strategy, an agreed medium-term expenditure framework, external assistance provided within that strategic framework, and agreed processes and indicators for monitoring progress on the ground. These SWAs are one of the few examples of formally structured program coordination mechanisms focused on both design and implementation. As such they should serve as key building blocks in support of the recent CDF and PRSP initiatives. Overall, the shift in approach to country ownership and partnership is clear. Still, to consolidate and institutionalize this shift will require far more progress in moving from ad hoc to structured arrangements at the country level and a greater commitment at the corporate level on the part of IDA, the other multilateral development finance institutions (including the IMF), as well as the other international and bilateral assistance agencies.

41. ***Moving Beyond Project Participation.*** Increasing the participation of borrower country governments, civil society, and the private sector in IDA program design, implementation, and monitoring is a second key feature of the move to more effective partnerships. The percentage of IDA projects with at least some primary stakeholder participation nearly doubled from 1994–2000, reaching 83 percent of all IDA projects. Poverty assessments and public expenditure reviews have recently become more participatory, *although clients remain dissatisfied with the extent of local capacity building.* Participation of stakeholders in CAS preparations has also increased, but the impact on CAS design in all but a few cases is unclear. Moreover, in moving beyond project participation to participation in analytical work and strategy design, issues of representation, approach, and costs have intensified.

2. Management questions the analytic underpinnings to the OED conclusions and notes that the facts in the Review and in the background paper support a conclusion that IDA's allocation system has consistently functioned effectively, achieving an allocation that is significantly more performance-based than concessional assistance as a whole. Though there is no room for complacency, it has improved over time and fulfills the donor mandate specified in IDA12. In particular, management believes that the governance discount has served a very useful function. Lending has been reduced sharply in countries with very weak governance. In addition, the process has served to highlight governance weaknesses in countries that do not actually receive a governance discount. While all parts of the performance-based allocation system are reviewed systematically for possible improvements, including the governance discount, Management does not believe it needs to be substantially altered. Management will continue to work to refine the system, in consultation with IDA Deputies and others, including donors that have adopted similar systems.

GETTING TO RESULTS

The Corporate Issues

42. IDA has accelerated organizational changes since the start of IDA10. Its country focus and responsiveness are stronger, with some 24 IDA country directors now in the field. It has introduced innovative lending instruments to increase flexibility and institutional development impact. Along with these transformations has come a strong focus on improving the quality of IDA performance at the project and country levels. This emphasis has begun to show significant results in improvements in the performance of the lending portfolio. Outcomes of completed projects have risen to 70 percent satisfactory, close to par with the IBRD. The institutional development impact and sustainability of IDA projects have also improved, although from very low levels.

43. Project-level performance is an important indicator of IDA's contribution to country development efforts, but it tells only part of the story. In recent years, IDA has significantly shifted its focus from individual projects to the "higher plane" of country programs. OED Country Assistance Evaluations (CAEs) and Bank research results suggest that the two most important determinants of country program outcomes are the level of borrower commitment to the objectives laid out in the country assistance strategy and the extent to which the specific components of the strategy, instrument mix, and the efficacy of country program implementation—including partnerships—are adapted to country circumstances. Reflecting these multiple factors, the 24 most recent OED IDA CAEs (most of which cover assistance over the period of the 90s), found that the development outcomes for a third of the country programs were fully satisfactory and the bulk of the remainder were moderately satisfactory. Both the portfolio and CAE reviews highlight that development outcomes are influenced by exogenous factors, borrower and partner performance as well as IDA's own performance. They also show a dynamic of improvement over the period. Finally, they point to issues at the corporate level that need further work.

44. **Accountability for Policy Compliance.** IDA's policy framework remains highly relevant. But a clarification of the rationale, intent, and scope of IDA policy is needed in certain priority areas, particularly private sector development, gender, and the environment. Recently, IDA management has responded to Inspection Panel investigations by allocating more resources to quality assurance and compliance monitoring of safeguards policies. But there is some way to go in clarifying assignment of accountabilities, improvement of staff training, and realignment of staff incentives. Regular monitoring and periodic evaluation also needs strengthening at the corporate, country, and project levels. These issues underscore the importance of rebalancing the matrix towards the implementation of global priorities and strengthening the role of sector strategies in setting program goals, articulating IDA's role in meeting them, and helping to strengthen implementation strategies.

45. **Investing in Analytical Work and Capacity Building.** Broadening the range of lending instruments has increased IDA's flexibility and responsiveness. Both adaptable lending and new types of adjustment lending facilitate IDA's support of institutional reforms and the tailoring of its assistance to country circumstances. But achieving further improvement in program outcomes still faces challenges, including, in particular, ensuring adequate, high-quality analytical work and enhancing the capacity-building dimensions of IDA's assistance.

46. **Deploying Resources.** Cutting across all other issues is the matter of aligning resources to priorities. Three sets of issues are of particular relevance. First is the availability of budget resources for country priority lending and non-lending services. As highlighted in background studies for this report and discussed in Bank strategic direction papers and related budget proposals, administrative resources declined for both country lending and ESW over the period of this review. Second, despite the Bank's poverty reduction mission, country poverty levels and performance has been a relatively minor consideration in budget

allocations. Regional and country budget allocations do not explicitly distinguish between IDA and IBRD countries. And, while corporate and intra-regional decisions have begun to provide more budget resources to poorer countries, consistent with performance, the impact to date has been small. There are complicating factors in making such a link, for example, the differences in operating costs among countries. However, poverty could be given greater weight in budget allocations through the use of a country norm methodology—an approach that to-date has influenced decisions only at the margin. Third, the programming and budget system has lacked adequate mechanisms for reconciling commitments and budget allocations. This is a particular problem for CASs, which generally serve as a planning instrument for a two- to three-year period, but are approved separately from annual country budgets. It is potentially significant, therefore, that in this year's budget process regions are not only carrying out detailed costing of CASs, but also, for the first time, a three-year rolling budget is being prepared to minimize unexpected movements in Regional funding.

47. ***Recent Management Proposals.*** Over the period covered by this review, there has been a commendable build up of management self-evaluation, learning, and proposed new actions, as identified throughout this report. While it is too early to judge the efficacy and efficiency of many of the recent initiatives, their relevance to IDA's evolving role is clear. In addition, in preparing for this year's budget exercise, management has put forward further proposals, including several highly consistent with major findings and recommendations of this review. They are: 1) establishment of a management committee, whose principal role is to align corporate strategies, ensure institutional selectivity, and manage tensions between corporate priorities and country programs; 2) continued sharpening of the framework for corporate priority setting and definition of criteria for selecting those priorities; 3) the implementation of more accurate tracking and management of non-lending services; 4) the introduction of budget process reforms, as noted above, involving the full funding of CASs within a rolling three-year planning and budgeting horizon for FY02 and beyond; and 5) the further promotion of decentralization and further rebalancing of the management matrix, including further clarification of accountabilities.

Could IDA Have Done Better?

48. IDA's efforts to recast its mission; reach out to engage more broadly with its development partners; and reposition its country staff, country programs, and lending instruments were all highly relevant adjustments that have contributed significantly to increasing development effectiveness. The recent CDF/PRSP initiatives provide important potential for further improving program implementation and results. As a consequence, the IDA program at the mid-point of IDA12 is importantly different from the program in FY94, at the start of IDA10. Its portfolio performance has steadily improved; and its contribution to development outcomes in the future enhanced.

49. The impact of its efforts would likely have been greater, however, if IDA had moved more quickly in the mid-1990s to increase attention to governance and institutional impediments confronting country development, and directed more of its analysis and dialogue to figuring out ways to better foster rural and private sector development and enhance economic opportunities for women—all measures needed to stimulate broad-based, pro-poor growth and poverty reduction. Its impact would also have likely been enhanced if IDA had been more selective in its use of resources—not only among countries based on demonstrated commitment to poverty reduction, but also in its program and instrument choice, based on more adequate diagnoses of country circumstances and IDA's comparative advantage in specific country contexts. Finally, IDA's effectiveness would likely have been further enhanced had it found ways of better supporting capacity-building in borrower countries in partnership with others, developed the necessary indicators and monitoring processes for a sharper focus on results, and, together with partners, moved considerably farther in coordinating efforts at the country level to support country-led programs. These challenges have been described in numerous OED reports and many have been addressed in management's

various self-evaluation reports and proposed future actions. The key to the future will be aligning resources behind responses to them in a process that prioritizes and consolidates IDA assistance going forward, in the context of the CDF and PRSP initiatives.

Looking Forward

50. The period under review has been one of considerable change—in borrower countries, in IDA, and in the development system. The IDA10-12 policy framework has encouraged IDA to move in directions relevant to the needs of its borrowers and remains broadly relevant for the future. But IDA and its partners are still in the process of putting core elements of the framework into practice, reinforced by new initiatives that have been adopted during IDA12. What is needed now is to deepen and broaden the gains from the existing policy framework by:

- Focusing on implementation
- Adequately aligning resources to strategic priorities
- Consolidating the IDA mandates.

51. For this, IDA will need to further adjust its role at both the country and global level, within the limitations set by resources available for its lending and nonlending services. In its primary role of supporting country-based development efforts, IDA should concentrate more on its areas of comparative advantage—which, for the most part, lie at the strategic level in supporting economy-wide, sector-wide, and government-wide reforms—and on capacity building. At the same time, IDA should play a more proactive role at the global level to facilitate achievement of the harmonization and coordination of external assistance needed for greater progress toward the overarching goal of poverty reduction.

Next Steps

52. IDA could take several steps to build on the improvements of the past seven years in the development effectiveness of its dual roles:

- **Be more selective.** More needs to be done to increase IDA's country, program, and corporate selectivity. This calls for further improving IDA's performance-based allocation system and ensuring consistency among the PRSP, CAS, and PBA processes. It also has implications for strengthening sector strategies and better integrating them into CASs, in accordance with countries' poverty reduction strategies, to help define where IDA should be prepared to take a leading or supporting role in coordination with other donors. IDA also needs to clarify its priorities and objectives across sectors and themes to identify more clearly what it can (and cannot) commit to do. This corporate-level selectivity cannot be effectively determined, however, in isolation from the strategic decisions of other agencies. It needs to become part of a broad harmonization action plan among agencies. Quantitative lending targets for sectors, lending instruments, or groups of countries are in practice disincentives to greater programmatic and country selectivity.
- **Focus on governance and capacity building.** Every area of this review highlights the centrality of governance and public sector capacity building, with a view to encouraging borrower governments to be more efficient in providing public goods and services and more transparent and accountable to their publics. In encouraging more effective government and improved program implementation, every aspect of IDA's assistance—analytical work, design and supervision of operations, monitoring for results—should have a capacity-building dimension. This may require expanded IDA grant financing and/or much more structured coordination with grant-giving agencies in support of capacity building in borrower countries. While the governance agenda set out in the

IDA10-12 replenishment reports remains relevant, recent experience suggests that IDA, its borrowers, and other development partners need to make a special commitment to enhance country public expenditure management and financial accountability. IDA should support and link its future lending to commitments of its borrowers to time-bound plans for establishing sound public financial accountability systems.

- **Commit to effective development partnerships.** IDA should work at the country and global levels to move to a new development architecture, including a shift from ad hoc to structured arrangements of aid coordination. The PRSP, as a concrete way of applying the CDF principles, offers a potentially important way forward. Implementation of the initiative is a priority for IDA12 and beyond. Within that context, stronger and wider application of sector-wide programs should be a priority at the country level, following recent lessons on how to make these effective, results-oriented, donor coordinated approaches supportive of country-owned programs. At the global level, IDA donors should ask the Bank's president to facilitate a time-bound process involving the heads of bilateral and multilateral assistance agencies to achieve greater harmonization in aid practices. The agenda should go beyond procedural issues to strategic issues of program and country selectivity. IDA neither can nor should take the lead in all aid coordination efforts, although it can further adjust its own processes and encourage others to do the same to achieve the much greater coordination needed to reduce today's high aid transaction costs.
- **Clarify program objectives and policies.** IDA should articulate what is meant by its "focus on poverty reduction" and clarify its program objectives and policies in relation to that goal. The record of the last seven years shows the need to accelerate broad-based growth and governance reforms as key intermediate objectives of IDA's overarching goal of poverty reduction. It also demonstrates the need to link the objectives and operational policies of the crosscutting themes of gender, environment, and private sector development directly to poverty reduction and to clarify the policy of gender and environmental mainstreaming.
- **Better align resources with program priorities.** Better deployment of resources relative to IDA commitments is essential for applying the lessons of the past seven years, especially in the budget process and full funding of CASs. Poverty has been a relatively minor factor in allocating the budget, although the further application of a country-norm-based methodology could alter this. Efforts to cost CASs more realistically should be accompanied by a process that ensures full funding of board-approved CASs. Also, ways are still needed to ensure funding of appropriate levels of due diligence and program-specific economic and sector work and a greater focus on capacity building.

The Replenishment Process

53. The findings of this review suggest that the IDA replenishment process itself might usefully be fine-tuned. It offers a valuable opportunity to discuss, at a global level, experience and future directions for international development assistance and to mobilize funding in support of key objectives. As currently constituted, the process falls short of fully realizing this potential.

54. Although consistent with an evolving consensus in the international development community, replenishment undertakings have been both over-determined and overloaded (for example, in specifying the shares of lending for sectors and countries and in the number and detail of the recommendations). They have sometimes been unrealistic about what IDA and its borrowers could reasonably accomplish in a three-year period, having focused on inputs rather than results, without addressing budget resources. More important, the replenishment process has been disconnected from development partners—both borrowers and other assistance agencies—to the detriment of priority setting and application of IDA's comparative advantage. Three changes could improve the process, and thus the impact of future undertakings.

55. **Develop a longer-term vision, focused on results.** As part of the IDA13 negotiations, management should be asked to develop, in consultation with borrowers, a long-term vision for IDA, clarifying what is meant by IDA's poverty focus, identifying ways to deploy IDA's resources, and taking advantage of IDA's global role as a complement to its country focus.

56. **Engage developing countries in setting replenishment commitments.** The far more transparent and consultative process planned for the IDA13 negotiations goes well beyond the measures taken in IDA12 and should help to set achievable IDA goals and improve implementation. Beyond the negotiations, IDA should consider how to engage its partners in the monitoring and evaluation of IDA13 performance and results.

57. **Define commitments in terms of monitorable and achievable objectives, with realistic costing.** IDA replenishment undertakings have tended to emphasize inputs and, too often, unrealistic output targets, that do not take adequate account of the need for country ownership if reform efforts are to be sustained. It would be better for replenishment reports to focus on development goals and on identifying the kinds of priority activities that IDA should support in advancing those goals, taking account of IDA's comparative advantage and reflecting realistic costings of replenishment commitments. In addition, replenishment reports ought to agree on IDA performance indicators and on a process of reporting on progress towards desired outcomes, recognizing that operating within CDF principles means moving even further away from a direct measure of the link between IDA activities and country development outcomes to new ways of tracking IDA's performance in partnership with others.

Part I. The IDA Review and Its Context

The mission of IDA is to support efficient and effective programs to reduce poverty and improve the quality of life in its poorest member countries.... To achieve this, the focus must be on: sustainability—to achieve enduring development impact with an environmentally sustainable framework; and equity—to remove barriers and open up opportunities for the disadvantaged.

—IDA12 Replenishment Report (p iii.)

1. Introduction

1.1 The International Development Association (IDA) is a unique instrument of development cooperation. Its establishment in 1960 marked an unprecedented commitment by the international community to improve global welfare. IDA has made substantial and distinctive contributions to growth and poverty reduction in low-income countries through concessional finance, global knowledge, and aid coordination services. The largest source of concessional finance to low-income countries, IDA provided an average of \$6.45 billion annually (in constant 1995 dollars) to some 77 eligible borrower countries through the 1990s.

1.2 The “development crusade” that gave rise to IDA has reached a new consensus in recent years focused on poverty reduction and stronger development partnerships. While IDA’s basic features—as a separately funded but integral component of the World Bank Group—have remained much the same, its support for country development has broadened in line with this evolving consensus and the changing circumstances confronting its borrowers.³

1.3 Has IDA changed fast enough in recent years and in the right directions? Has it acted responsibly to implement commitments undertaken? As a result, is it well equipped to assist its borrowers in an era of rapid technological change, borderless private investment, and an increasingly fragile natural environment? These questions underlie the mandate for this review as set out in the IDA12 replenishment agreement between IDA and its donors.⁴

The IDA10-12 Replenishment Undertakings

1.4 Before IDA10, agreements between IDA and its donors focused largely on resource concerns (size of the replenishment, eligibility criteria for borrowers) and included general endorsement of IDA’s ongoing and planned activities. The extensive policy content of the IDA10-12 replenishment undertakings (IDA10, fiscal 1994–96; IDA11, fiscal 1997–99; and the first year of IDA12, fiscal 2000) makes this review of IDA’s compliance and effectiveness especially important (see Box 1.1).⁵

1.5 The IDA10–12 agreements called for major program transformation to strengthen

Box 1.1. The IDA10-12 Replenishment Undertakings

The IDA12 agreement called for “a review of the IDA program during the IDA10–11 period and an interim review of IDA12, including performance in implementing the recommendations of the Deputies set out in each of these Replenishment reports.”

The specific undertakings related to these broad instructions center on *six program priorities*:

- Poverty reduction
- Environmental sustainability
- Gender
- Governance
- Private sector development
- Social sector development

and *four processes*

- Aid coordination
- Enhanced country assistance strategy design and implementation
- Participation
- Performance-based allocations.

3. See Annex A for a description of IDA’s basic features and the evolution in its program.

4. IDA depends for most of its financial resources on contributions from its wealthier member countries, usually provided on a three-year cycle referred to as a replenishment period. At each funding interval, IDA’s management and donor countries (represented by their IDA deputies) agree on a set of terms and conditions, which are set out in a Replenishment Report. Once endorsed by the World Bank’s Board of Executive Directors and adopted by its Board of Governors, the recommendations become formal commitments of the institution. The current IDA12 agreement was endorsed by the Board in January 1999.

5. A matrix summarizing IDA’s undertakings related to the key recommendations in the three Replenishment Reports is available on request.

the poverty impact of IDA's assistance. In broad terms, the IDA10-12 accords endorse poverty reduction as IDA's overarching objective and instruct IDA to:

- Sharpen the poverty focus of its country assistance programs.
- Direct assistance to expanding access to basic social services, fostering broad-based economic growth through private sector development, integrating gender and environmental considerations into all activities, and promoting good governance.
- Increase operational effectiveness by more selective use of resources, more participatory design of country assistance programs, and better coordination with other development agencies.

1.6 These issues form the agenda of this assessment of IDA's compliance.⁶ Overall, they are highly relevant to the development challenges facing IDA borrowers. The comprehensive approach to poverty reduction and higher quality aid processes that they embody reflect accumulated lessons of development experience.⁷ Individually, each of these areas of emphasis makes sense. Together, however, they have proved extraordinarily demanding for IDA and its borrowers.

IDA's Role in a Changing Development Environment

1.7 Through the 1990s, total official development assistance to IDA-eligible countries amounted to about 8 percent of their combined GDP. Of that, IDA accounted for some 14–18 percent. IDA's assistance cannot, therefore, determine the choices that governments make, although it can support and influence those choices. Nor can IDA alone be held accountable for country development outcomes. The performance of borrowers and other development partners, as well as changes in the global economic environment, all influence those outcomes. IDA can and should be held accountable, however, for how it deploys its resources in fulfilling its corporate commitments (did IDA do the right things, taking account of others?) and how effectively it shapes its assistance to meet borrowers' priorities and circumstances (did it do things right). It is in these terms that this review examines IDA's efforts over the last seven years.

1.8 *Trends in development and aid.* The period covered by this review is very much a transitional one—in terms of both country development and international aid. At the start of IDA10, many developing countries were plagued by slow or negative growth, major economic dislocations, and rising official debt. Internal conflicts were on the rise, and the political liberalization that has come to mark the period was newly underway. Progress since then has not been broad or deep enough to significantly reduce poverty in most IDA countries. Though the share of the population living on less than a dollar a day declined during the 1990s, the number of poor people has remained roughly constant and inequality has worsened. Both slow economic growth and conflict have been major contributing factors (see Box 1.2 and Annex B for details on poverty, growth, and social trends). Governance problems and incomplete social and economic reforms are also serious impediments. Nevertheless, behind these aggregate figures are a growing number of borrower countries that have improved their economic management, increased their rates of economic growth, and strengthened their social development with IDA's help.⁸ And some have begun to tackle governance and public sector reforms.

6. Other replenishment recommendations pertaining to administrative, financial, and membership issues are not covered.

7. See World Bank Operations Evaluation Department (OED), *Annual Reviews of Development Effectiveness (1997–2000)*; World Bank, *Assessing Aid: What Works, What Doesn't, and Why* (New York, NY: Oxford University Press, 1998); Ravi Kanbur and Todd Sandler, *The Future of Development Assistance: Common Pools and International Public Goods* (Washington, D.C.: Overseas Development Council, Policy Essay No. 25, 1999); and Finn Tarp, ed., *Foreign Aid and Development: Lessons Learnt and Directions for the Future* (London: Routledge, 2000).

8; See World Bank, *Global Economic Prospects and the Developing Countries 2001* (Washington, D.C.: World Bank, 2000) for the diversity among and within countries; and World Bank, *Poverty Reduction and the World Bank: Progress in Fiscal 1999* (Washington, D.C.: World Bank, 2000) for detailed discussion on recent poverty trends.

Box 1.2. Poverty, Growth, and Conflict

Some 1.2 billion people—one of every five people—live on less than a dollar a day. The *share* of the population living on less than a \$1 a day fell slowly in developing countries during the 1990s, from 28 percent in 1987 to 23 percent in 1998, while population growth held the *number* of poor people roughly constant. Social indicators improved more, particularly for health and education, but the aggregate gains are heavily influenced by rapid advances in China, which at the start of IDA10 accounted for a quarter of the world's poor (see Annex B for more detail on poverty and social indicators).

Slow growth explains a large part of the weak poverty outcomes: poverty generally declined in countries whose economies grew rapidly and increased in those whose economies stagnated or contracted.^a The overall decline in extreme poverty during the 1990s was driven by high rates of growth in countries with large numbers of poor people—though increasing inequality is now slowing the rate of poverty reduction in several countries.

Civil conflict, which afflicted 17 IDA countries in the 1990s, also explains part of the story. In Sub-Saharan Africa, for example, countries with better policy environments achieved *average* GDP gains of 5.2 percent during the 1990s, while countries experiencing civil strife or major political disruptions registered only 0.2 percent growth.

a. See World Bank, *Global Economic Prospects and the Developing Countries 2001* (2000); and Martin Ravallion, "Growth, Inequality and Poverty: Looking Beyond Averages" (Washington, D.C.: Development Research Group, World Bank, 2000).

1.9 In parallel, the development community has reached a new consensus on aid policies and practices—including a sharper focus on poverty, partnership, and policy performance. The pace of improvement in aid practices remains slow, but there is evident movement in useful directions that reflects the accumulated lessons of development experience (see Box 1.3). These are promising—though incomplete transformations—that require the deepening and broadening of reforms by both donors and recipients.

Box 1.3. Trends in Official Development Assistance

Flows of official development assistance (grants and loans with a 25 percent or greater grant component) to IDA countries exhibited signs of fatigue through IDA10, declining from \$50.0 billion in 1994 to \$37.4 billion in 1997. A slight increase since then has brought ODA flows to \$41.6 billion in 2000, still short of the decade's earlier levels. In addition, key changes in aid programs over the past seven years have included:

- An increase in the share of aid going to poor countries with improved policy performance ratings.^a
- A more concentrated focus on poverty reduction as the objective of assistance programs.^b
- More explicit attention to matters of governance in both aid allocations and programs.
- Greater emphasis on country ownership of externally funded activities, and innovations in the provision of aid in support of country-led efforts.
- Heightened attention to the still elusive objective of aid coordination.
- New interest among the international development community in the provision of global public goods to advance the fight against poverty.^c

These changes—in combination with improving country policies—hold promise for improved development outcomes in the future. Still, greater strides are needed in both country economic and institutional reforms and aid coherence and coordination among assistance agencies.

a. See Paul Collier and David Dollar, "Aid Allocation and Poverty Reduction" *World Bank Policy Research Working Paper* (Report No. WPS 2041), January 1999.

b. As indicated in the recent articulation of international development goals and the linking of the enhanced debt reduction initiative with countries' commitments to improved poverty reduction and social sector expenditures.

c. See, for example, *Poverty Reduction and Global Public Goods: Issues for the World Bank in Supporting Global Collective Action* (DC/2000-16), September 6, 2000.

1.10 This evolving development agenda has posed difficult challenges for countries with limited resource and institutional capacities. It is now widely acknowledged that external assistance, to be effectively

implemented and sustained, needs to be directed to countries' own strategies and programs for change. Building consensus, aligning resources in support of major social and economic reforms, and implementing complex reform programs are formidable tasks—even where government commitments to reform are clear.

1.11 *An overview of IDA's assistance.* IDA has been at the forefront of much of the renewal and change in this period.

- Its financial assistance totaled \$42.3 billion in the period. Assistance remained fairly constant through IDA10 and 11 and, after a drop in the first year of IDA12, is expected to increase.
- The bulk of that assistance went to the two regions with the largest number of poor people: Sub-Saharan Africa, which received 38.3 percent of IDA commitments, and South Asia, which received 28.2 percent (see Box 1.4 for three country examples of IDA's assistance).

Box 1.4. Country Examples of IDA's Assistance

Mozambique, which became a member of the World Bank in 1984, emerged from conflict in 1992 and has since made significant and accelerating advances in implementing market-based economic policies, boasting one of the strongest privatization programs in Africa. Following a period of post-conflict assistance, IDA's current portfolio comprises 16 projects estimated at \$737.3 million in commitments. Recent projects include a fast-track Flood Emergency Recovery operation, Railway and Port Restructuring, and efforts to support the Government's HIV/AIDS Plan. Poverty reduction is the overall goal for the Government and IDA in the country. The 2000 Country Assistance Strategy (CAS), which supports the Government's 5-Year Strategy and the Interim Poverty Reduction Strategy Paper (IPRSP), focuses on three core objectives: (i) increasing economic opportunities, (ii) improving governance and empowerment; and (iii) improving human capabilities. Donor assistance plays a vital role in supporting the country's economy and accounts for approximately \$600 million per year—more than 15% of GDP. A Consultative Group (CG), for which IDA is chair, is the main coordinating mechanism for donor activities. IDA is a partner in sector-wide programs (which involve an agreed sector program and coordinated funding among donors) for health, education, transportation and agriculture.

Bangladesh joined the World Bank in 1972. IDA has financed more than 182 operations in the country, with loans totaling more than \$9.4 billion. IDA's active lending portfolio for Bangladesh includes 26 projects, valued at roughly \$2.6 billion. A long-standing population program has substantially contributed to increases in family planning. Strong support in promotion of girls' education has helped to boost secondary school enrollment rates. Effective cooperation with the government, IDA, ADB, and the Japanese Overseas Economic Cooperation Fund has funded the Jamuna Bridge, which connects the north and south of the country. Efforts to build effective institutions underpins the current strategy and core objectives include (i) improving macroeconomic management; (ii) promoting private sector-led growth; (iii) reforming public sector management; (iv) accelerating agricultural growth and rural development; and (v) promoting faster human development. IDA plays a key coordinating role by chairing the annual Consultative Group meeting, and local consultative groups focused on specific sectors also meet periodically throughout the year. It also supports a sector-wide approach (SWAp) in Health that has increased access to health services, and donors are now working together with the government to improve quality of health services in the country. IDA's lending levels in Bangladesh have been constrained in recent years due to absorptive capacity constraints, slow progress on structural reforms, and problems of governance and weak institutions.

Ghana joined the World Bank in 1957 and IDA has since financed some 94 operations in the country, accounting for more than \$3.5 billion in lending. The active lending portfolio of 23 projects is one of the largest in Africa. Recent operations have included a second Economic Reform Support Operation and adaptable program loans for Community Water Supplies, Urban Development, and Agricultural Services. IDA's current CAS is supportive of *Ghana Vision 2020*, the national strategy for reducing hard-core poverty and achieving broad-based economic development. The CAS has two parts—Part I, which sets out the Government's poverty reduction strategy, and Part II, which presents IDA's business strategy. External assistance included some \$1.7 billion in commitments for 2000–2001. The government has been strongly involved in aid coordination and Ghana is credited with being one of the two CDF pilot countries that has made the most overall progress in fostering country-led, long-term development partnership. The widely regarded, ongoing Health SWAp currently involves seventeen donors and is characterized by strong government ownership.

- IDA also provided assistance for the unprecedented challenges of the countries in transition and devised new approaches for assisting countries emerging from conflict.
- Continuing a shift begun earlier in the decade, the largest share of IDA lending supported countries' efforts to expand access to basic social services; another substantial share went to infrastructure development and improved economic management—areas essential to sustainable growth (see Annex C on IDA commitments and disbursements, by region and sector).
- In support of its broadening development agenda, IDA introduced new lending instruments and program approaches to increase its responsiveness, flexibility, and attention to policy and institutional impediments in borrowing countries. It deepened its country focus, by strengthening the role of Country Assistance Strategies (CASs), increasing the program and budget authority of country directors, and decentralizing staff to country offices. In addition, it has tightened the link between country policy and institutional performance and levels of lending.
- Three major new initiatives involving a central role for the IDA—the enhanced Heavily Indebted Poor Country (HIPC) debt relief initiative, the Comprehensive Development Framework (CDF), and the Poverty Reduction Strategy Papers (PRSP)—reinforce the refocusing of the development agenda (see Box 1.5).

1.12 **IDA's performance.** Along with these transformations in IDA's way of doing business has come a strong focus on improving the quality IDA performance at the project, country, and sector levels. This emphasis has begun to show significant results in improvements in the performance of the lending portfolio (Figure 1.1, on page 9). OED evaluations of completed projects exiting the portfolio in the first half of fiscal 2000 suggest that more than 75 percent of IDA projects may be rated satisfactory, reflecting improvements in IDA and borrower performance.⁹ Data from the Bank's Quality Assurance Group (QAG)¹⁰ 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.¹¹

1.13 These gains have been achieved even though projects are becoming increasingly complex and demanding. Over 85 percent of IDA projects evaluated since 1997 were substantially demanding for the borrower, and three-quarters were substantially complex. While this reflects, in part, the broader scope of the reforms countries are undertaking, projects that are too complex and demanding may overwhelm borrower capacity. More than one in three IDA projects show unsatisfactory borrower implementation, including nearly half the projects in Africa. Further progress will require increased capacity building and further adaptation of assistance to borrower circumstances.¹²

9. OED defines *Borrower's Performance* as the extent to which the borrower assumed ownership and responsibility to ensure quality of preparation and implementation, and complied with covenants and agreements, towards the achievement of development objectives and sustainability; and *Bank Performance* as the extent to which services provided by the Bank ensured quality at entry and supported implementation through appropriate supervision (including ensuring adequate transition arrangements for regular operation of the project). Portfolio cleanup efforts may have initially contributed to declining IDA portfolio performance in fiscal 1998–99, as problem projects exited the portfolio.

10. 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.

11. 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.

12. See OED, *Annual Review of Development Effectiveness—From Strategy to Results* (Washington, D.C.: World Bank, 2001).

Box 1.5. Three Key Initiatives of the Late 1990s

The Heavily Indebted Poor Country (HIPC) Initiative: The HIPC Debt Initiative was proposed by the World Bank and IMF and endorsed by 180 governments in the fall of 1996.^a It was the first comprehensive international effort to reduce the external debt—including multilateral debt—of the world’s poorest and most indebted countries. A major review in 1999 produced an enhanced HIPC Initiative which is “deeper, broader and faster” than the original framework. As of February 2001, 22 countries have reached their decision point under the enhanced HIPC and are now receiving debt service that will amount to about US\$34 billion over time, or a reduction of US\$20 billion in net present value of their outstanding debt stock. In the long run, the policy implications of the HIPC Initiative, which includes placing debt relief within the overall framework of poverty reduction and improving the policy dialogue between the poorest countries and their multilateral creditors, may be equally as important as the Initiative’s immediate fiscal impacts.

Comprehensive Development Framework (CDF): Introduced by World Bank President James Wolfensohn in January 1999, the CDF is a holistic approach to development which aims to balance macroeconomic concerns with social and structural development requirements.^b The CDF is anchored in four interrelated principles which guide development assistance on the country level: a long-term holistic vision and strategy; enhanced country ownership of development goals and action; more strategic partnership among stakeholders; and accountability for development results. The CDF approach relies on country leadership, with development partners working selectively according to comparative advantage. Since March 1999, the CDF approach has been piloted in the West Bank and Gaza and the following eleven countries: Bolivia, Côte d’Ivoire, the Dominican Republic, Eritrea, Ethiopia, Ghana, Kyrgyz Republic, Morocco, Romania, Uganda, and Vietnam. The September 2000 progress report found that nine of the twelve CDF pilot countries demonstrate good progress in determining a long-term vision and strategy, though overall progress in fostering the development partnership envisioned by the CDF varies by country. The Bank’s current Strategic Framework puts the CDF at the center of the institutions strategic orientation for the coming years.

Poverty Reduction Strategy Papers (PRSP) program: In September 1999, the Development and Interim Committees of the World Bank and the IMF endorsed PRSPs as the new framework for Bank and Fund efforts to achieve sustainable poverty reduction.^c PRSPs have become the basis for concessional lending from the World Bank and the IMF and for debt relief under the enhanced HIPC; they are a key mechanism for improving the policy performance of the poorest countries through the emphasis on clearly defined, monitorable objectives. Built on the four CDF principles, PRSPs are to be country-owned, grounded in participatory processes, and should serve as the framework for other donor assistance. The PRSP benefits from strong coordination between the Bank and the IMF (the Bank taking the lead on the social and structural framework and the Fund leading on the macroeconomic framework) that includes oversight from a Joint Implementation Committee and joint assessments of PRSPs by staff from both organizations.

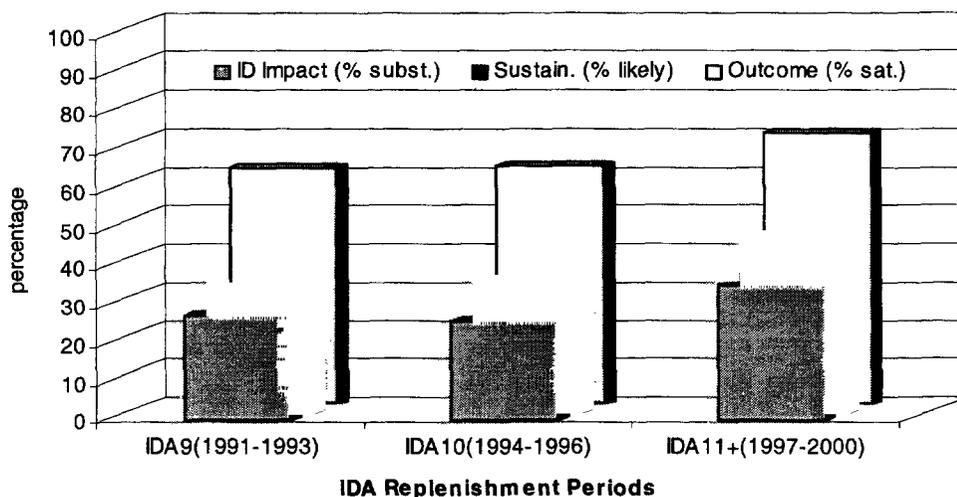
a. See World Bank, “Modification to the Heavily Indebted Poor Countries (HIPC) Initiative” (Report No. IDA/SecM99-475), July 26, 1999 and World Bank, “Update on the HIPC Initiative and the PRSP Program, February 6, 2001,” available at http://www1.worldbank.org/prsp/PRSP_Policy_Papers.

b. See James Wolfensohn, “A Proposal for a Comprehensive Development Framework,” Discussion Draft, World Bank 1999, and “Comprehensive Development Framework Progress Report (Report No. DC/2000-17), September 7, 2000.

c. See “Heavily Indebted Poor Countries (HIPC) Initiative: Strengthening the Link between Debt Relief and Poverty Reduction” (Report No. IDA/SecM99-545), August 26, 1999 and “Building Poverty Reduction Strategies in Developing Countries” (Report No. SecM99-604), August 26, 1999. Also, see Update on the HIPC Initiative and the PRSP Program, February 6, 2001, available at http://www1.worldbank.org/prsp/PRSP_Policy_Papers.

1.14 There is also some improvement in the sustainability (resiliency to risk) and institutional development impact (the contribution of the project to capacity building) of completed projects.¹³ The share of IDA projects that substantially met their institutional development objectives rose from less than 30 percent of projects during IDA9 and IDA10 to 35 percent since the beginning of IDA11. Projects judged likely to be sustained have increased to nearly half, up from a third during IDA9. But long-standing problems with sustainability and institutional development continue to limit impact, more for IDA than for IBRD projects (see Annex D for detailed information on portfolio ratings of completed and ongoing projects).

Figure 1.1. Project Outcomes, Institutional Development, and Sustainability are Improving in IDA/Blend Countries



1.15 Project -level performance is an important indicator of IDA's contribution to country development efforts, but it tells only part of the story. In recent years, IDA has significantly shifted its focus from individual projects to the "higher plane" of country programs. Evaluation and research results suggest that the two most important determinants of country program outcomes are the level of borrower commitment to the objectives laid out in the country assistance strategy and the extent to which the specific components of

13. *Institutional Development Impact* is defined as the extent to which a project improves the ability of a country or region to make more efficient, equitable and sustainable use of its human, financial, and natural resources through: (a) better definition, stability, transparency, enforceability, and predictability of institutional arrangements and/or (b) better alignment of the mission and capacity of an organization with its mandate, which derives from these institutional arrangements. IDI includes both intended and unintended effects of a project.

Sustainability assesses the durability of net project benefits; i.e., the likelihood that they will be maintained or exceeded over the long haul. While the outcome rating is the best estimate of whether an operation justifies the use of scarce resources, the sustainability criterion reflects the evaluator's judgment of its ability to continue producing net benefits in the face of risk and uncertainty.

Outcome, the primary measure of project performance, summarizes the likelihood that the project will achieve its major relevant objectives (do the right things) efficiently (do things right). The relevance check assures that achievements rated satisfactory address the country's current development needs and Bank operational priorities. *Outcome* captures both accomplishments and the expected level of future net benefits.

the strategy, instrument mix, and the efficacy of country program implementation—including partnerships—are adapted to country circumstances.¹⁴

1.16 On a Bank-wide basis, country program outcomes are not strongly associated with country income. Moreover, it appears that with skillful strategy design and effective Bank and partner performance a country strategy can be relevant and a country program outcome can be satisfactory even in countries with weak policies or inadequate institutions. What is important in addition to a government's commitment to reform and capacity development is the extent to which IDA's assistance strategy, projects, processes, and partnerships are judiciously adapted to the country setting.

1.17 More specifically, as reported in the OED *Annual Review of Development Effectiveness 2000*, reviews of completed OED Country Assistance Evaluations (CAEs) identify several key determinants linking country level program outcome with IDA performance.

- *Diagnosis.* IDA diagnosis of major development issues and constraints—what needs to be done—is generally good; but the quality of diagnoses varies by issue and sector. Analysis of macroeconomic issues and constraints is usually strong but links between stabilization and growth are not always articulated; and the overall impact of public expenditure reviews and poverty assessments is strongly correlated with their quality which has been highly varied in the past, though improving in recent years.
- *Poverty focus.* As discussed in chapter 2, IDA has sharpened the poverty orientation of its country programs. Economic growth—a necessary but not sufficient condition for poverty reduction is at the center of nearly all country strategies, as is provision of basic social services. However, OED analysis and Bank policy research suggest that equity affects the poverty impact of growth and that safety nets and empowerment of the poor deserve increased attention. More needs to be done to integrate broad-based poverty reduction strategies into macroeconomic and sector strategies and interventions. Also, inadequate attention by IDA and other donors to poverty monitoring and evaluation has meant that significant knowledge gaps persist regarding linkages between policies and programs commonly supported by IDA and poverty outcomes.
- *Balancing corporate and country priorities.* IDA has improved its client focus. But client ownership does not eliminate divergences between IDA and country priorities as well as conflicting views on "right" policies. OED evaluations have identified inadequate borrower commitment as the most important reason for poor policy or program implementation; and emphasized the level of country consensus about reform as critical to IDA program outcomes. CAEs have pointed to numerous examples in the past of lending to promote reforms—either through adjustment or investment lending—before enough consensus has emerged thus incurring avoidable development risks. *Assessing ownership.* IDA and governments may agree on broad objectives but disagree on measures and timetables to achieve them. Concrete actions and track records are better indicators of ownership than statements of intent. Instruments for assessing ownership are coming into wider use (and lending instruments evolving to better calibrate with their findings), but such assessments are still not systematically mainstreamed into project and program preparation.
- *Institutional development.* IDA's contribution to institutional development at the country level has been modest. This reflects the inherent difficulties of institutional change and capacity building. IDA's diagnosis of institutional, political, and governance constraints has traditionally been weaker than its economic and technical diagnoses. Improvements have recently begun to show at the country level, but further progress is needed to articulate comprehensive institutional and governance strategies.

14. Of the 24 OED IDA Country Assistance Evaluations—most of which cover assistance over the decade of the 90s—about 33 % were rated fully satisfactory, 60 % as moderately satisfactory, and 8 % as unsatisfactory.

- *Over-optimism.* Several CAEs found patterns of over-optimism about borrower government's receptivity to IDA advice, willingness to undertake difficult reforms, and capacity to implement reform measures. In particular, programs have often underestimated the political difficulties and obstacles to rapid change of long-term socio-economic systems, especially in transition countries.
- *Selectivity.* At the country level, selectivity requires identifying interventions that are consistent with IDA's comparative advantage relative to partners. CAE reviews and the Bank's two recent CAS retrospectives suggest that IDA is getting better at establishing priorities for country programs, but there is still room for improvement. Justifying IDA's presence in many sectors by its convening role and capacity for policy analysis may underestimate the capacity of other actors to take the lead in program interventions or may fail to take into account the need to use IDA administrative resources selectively to achieve results.

Drawing on a wide range of OED country and sector evaluations as well as other sources, the rest of this report focuses on IDA's performance in the aggregate with respect to its the sector and thematic IDA replenishment undertakings as well as related process reforms.

1.18 Overall, IDA has made major strides in recasting its mission—to make poverty reduction its overarching objective—and in redirecting its operations in line with its relevant but highly ambitious replenishment commitments. Implementation of those commitments has been, on the whole, satisfactory, with momentum having increased in IDA11. IDA has done much to sharpen the poverty focus of its analytical work, policy dialogue, and lending. It has helped countries lay the foundations for renewed growth and accelerated poverty reduction through improved economic management and increased investments in basic social services. In recent years it has also brought governance to the fore as a critical development issue. Compliance remains uneven, however, across and within areas of program and process emphasis—with limited progress having been made in integrating private sector development, gender and environmental sustainability into country assistance programs.

1.19 Assessed against its ambitious goals, the development outcomes of IDA programs has been partially satisfactory.¹⁵ Although IDA has done well in helping countries to lay the foundations for economic growth and poverty reduction, the record of IDA countries in sustaining growth at high enough levels, over long enough periods, and by measures adequate to benefit the poor is mixed. This reflects a host of non-IDA influences on development outcomes, including: regional conflicts, weak domestic capacities, mixed policy performance, variable aid policies, and exogenous shocks. This said, IDA's own performance, while having significantly improved over the review period, could be enhanced still further and contribute even more positively to development outcomes. Unclear corporate objectives and accountabilities for implementing them remain, especially in some key cross-cutting areas. Still greater selectivity is needed in resource use

15. Management does not agree with OED's assessment of the development outcomes of IDA's work as "partially satisfactory." This difference in judgment appears to come from two factors. First, the OED rating is an average for the whole FY94-FY00 period and, as such, does not give sufficient attention to the strong improvement in IDA performance on all fronts in recent years (although these improvements are highlighted in the OED review). For example, using independent and self evaluation as a basis for action, IDA has significantly improved CAS quality, lending quality, the quality of implementation of policies, and ESW quality. OED puts a heavy weight on a sample of 24 IDA-country CAEs. By far the majority of years covered by these CAEs fall before or in the first half of the review period. The second factor is the lack of clarity on what OED is measuring in terms of IDA's impact on development outcomes. While OED cites a long list of factors outside the scope and control of IDA programs—including the fact that IDA accounts for substantially less than 20 percent of total development assistance going to IDA countries and far less as a share of overall investment in IDA countries—OED appears not have given these factors sufficient weight in coming to its rating. Independent research by the Bank's Development Economics Department shows that, the poverty reduction impact of IDA was far higher than that of official development assistance on average and that IDA's impact improved in the 1990s. (Dollar, "What Research Can Tell Us About Making Adjustment Lending More Effective?" draft, World Bank, DEC, March 2000.) That said, there is clearly room for IDA to do better. Indeed, many of the "weaknesses" identified by OED (for example, funding for ESW, monitoring and evaluation, further work on governance, and institutional development and capacity building) are precisely the issues that Management has identified itself through self-evaluation and launched actions to further enhance IDA's development effectiveness.

among countries and better prioritization of actions linked to poverty reduction within countries. Some familiar implementation challenges persist as well, especially in the area of institutional development, and alignment of resources to program priorities remains incomplete.

Reviewing IDA's Performance

1.20 This is the first independent report on the IDA program. Previous reports have been prepared by IDA management and have provided important background information for this review.¹⁶

1.21 **Questions.** In evaluating IDA's performance, this review asks four main questions:

- How has IDA responded to the recommendations in the IDA10–12 Replenishment Reports?
- Have these responses advanced core objectives at the country level, especially the overarching objective of poverty reduction?
- Which factors have contributed to and which have constrained IDA's performance?
- What lessons can be drawn from the experience of recent years in the major areas of emphasis?

1.22 **Challenges.** These questions present several challenges. First, since neither the replenishment reports nor follow-on instructions from management provided specific benchmarks of compliances,¹⁷ the review addresses whether actions were consistent with the letter and the spirit of the recommendations. It looks at how well IDA acted and institutionalized changes in its processes and programs. For example, on the commitment to making poverty the overarching objective, the review looks at what IDA has done to sharpen the poverty focus of its analytical work and lending and to link other program objectives (such as private sector development and environmental sustainability) to that goal. And it looks at whether IDA has made its processes (such as resource allocations) more poverty focused. The proliferation of instructions and the absence of benchmarks make it difficult, however, for IDA to be consistent and persuasive about its pursuit of objectives. Future replenishment undertakings would benefit from greater clarity and selectivity, followed by more specificity in management's implementation instructions.

1.23 Second, compliance is not the same as effectiveness. Performance on the replenishment recommendations (stated largely as inputs and outputs rather than outcomes) is not necessarily a good measure of IDA's development effectiveness. The timeframe of this review (fiscal 1994–2000) means that the bulk of actions to be assessed are still under way, with effects that will occur over a medium to long term.¹⁸ The review therefore looks at the development effectiveness of the IDA program largely in terms of

16. See World Bank Resource Mobilization Department, *IDA in Action 1993–1996: the Pursuit of Sustained Poverty Reduction*, (Washington, D.C.: World Bank, 1997); World Bank, *IDA11 (Fiscal 1997–99) Implementation Report: Improving IDA's Effectiveness in Reaching the Poor* (Report No. IDA/SecM2000-184), April 2000; *Interim Report on IDA12 Implementation* (Report No. IDA/SecM2000-335), May 2000. In addition, the Bank published an IDA Retrospective in the early 80s. (See World Bank, *IDA in Retrospect: the First Two Decades of the International Development Association* (Washington, D.C.: World Bank, 1982).

17. Following the IDA10 negotiation, the Report submitted to the Board was brought to the attention of regional managers, but no explicit staff guidelines were issued on how to implement the requirements of the IDA reports. After the IDA11 negotiations, management circulated a note to staff summarizing the commitments, in a selective rather than comprehensive way, and including the statement that "Regions are responsible for ensuring that our country assistance strategies take explicit account of these commitments." In mid-fiscal 2000, IDA management prepared a matrix to track implementation of the IDA12 agreement—a useful innovation for raising staff awareness, particularly considering that staff surveys undertaken for this review revealed that few staff were familiar with most IDA commitments.

18. By July 2000, the portfolio cutoff date for the IDA Review, less than a third of expected IDA12 commitments were made and under 5 percent of expected commitments disbursed, 34 percent of IDA11 commitments were disbursed, and 70 percent of IDA10 were disbursed. Projects that have closed and for which there are project completion reports are an even smaller number.

the quality of underlying analysis, the coherence of the program at the sectoral (or thematic) and country level, the fit of lending and nonlending services to country circumstances, the strategic selectivity of resource allocations and choice of instruments, and, as evidence allows, the impact on country policies, institutions, and actions. The limited information on outcomes and results (even for IDA actions over a longer time period than that covered by this review) underscores the need for improved monitoring and evaluation at project, country, and corporate levels and a more results oriented set of IDA commitments.

1.24 Third, many factors bear on outcomes in a country context, making attribution difficult. In addition to such internal factors as institutional practices, accountability structures, and alignment of resources with program priorities, the review has considered how external factors affected IDA's performance. Where progress has been less than expected, the review looked at whether strategy, implementation, or a combination of the two contributed to the shortfall.

1.25 **Approach.** This review is based on major background studies of each of the 10 program areas and process reforms emphasized in the IDA10-12 replenishment reports. The review also draws on the findings from in-country consultations (with representatives of government, civil society, the private sector, and other assistance agencies) in nine "focus" countries; two international workshops including experts from borrower and donor countries; and wide-ranging interviews with Bank management and staff.¹⁹

1.26 The background studies and this report draw on desk-reviews of Bank documents, databases, studies, and evaluations;²⁰ staff surveys; and the country and international consultations. Where evidence was available, a results-based analysis traced IDA inputs (policies, alignment of resources), outputs (volume and composition of lending and nonlending services), and reach (stakeholder participation, coordination with other donors) to outcomes and results. Analysis of the quality of IDA's lending and nonlending services considered their relevance and fit as well as evidence of performance of ongoing and closed projects. And, using the focus country consultations and OED Country Assistance Evaluations, the review examined IDA's performance, taking account of the performance of its partners.

1.27 The sections that follow examine how well IDA has performed in implementing its IDA10-12 replenishment commitments—its authorizing environment—considering changing trends in global development and aid, and how well IDA has integrated program priorities in its corporate policies and country assistance programs (Part II). They also look at how well IDA has institutionalized the recommended process reforms, to improve its effectiveness overall (Part III). The record reflects not only changing country circumstances but also IDA's management of its institutional capacities—its operational policies and procedures, instruments, and budget resources (Part IV) and the consistency and realism of the replenishment mandates themselves (Part IV).

1.28 In drawing together the lessons from these findings, the concluding section of the report suggests ways to better align future mandates, institutional capacities, and program design and implementation to advance IDA's contribution to the overarching goal of poverty reduction.

19. The major thematic studies and reports of country and international consultations are listed in the bibliography of this report and are available on request. In the cases of gender and participation, the analysis was undertaken as an integral part of a concurrent OED evaluation, with IDA specific information disaggregated from the broader Bank-wide assessment. The nine focus countries include: Bangladesh, Bolivia, Cambodia, Ghana, India, Kyrgyzstan, Mozambique, Vietnam and Uganda. The purpose of the review of a subset of countries was to: 1) deepen the analysis of the program and process reviews, 2) test the findings of those assessments against perceptions in the countries, and 3) gain a sense of IDA's overall role and performance taking account of the performance of the borrowing country and its other development partners. The global consultations took place in two workshops, in Bonn in December 1999 and in Washington, in November 2000.

20. These included both self-evaluations undertaken by management and independent evaluations by OED, as well as reference to literature external to the Bank.

Part II. The Program Dimension

In line with IDA replenishment recommendations, IDA has done much to implement the revised poverty reduction strategy adopted in 1990. IDA has contributed to improved economic management, poverty data and analysis, and access to basic social services. Its adjustment programs have also become more attentive to poverty and social issues. These actions have contributed to sounder foundations for economic growth and human development. IDA has had less success in aligning its instruments of assistance to reinforce other measures for sustaining pro-poor, broad-based growth, especially measures supporting agricultural and rural development and development of the private sector.

IDA has also responded to replenishment commitments to broaden its poverty strategy by taking steps to integrate gender, environmental sustainability, and governance in its country assistance programs. This represented a demanding change in IDA's authorizing environment. While IDA has made important contributions in each of these areas, the mainstreaming of gender and environmental issues has been limited relative to commitments, and while the treatment of governance issues has expanded markedly, achieving sustainable governance improvements remains a daunting challenge.

2. Sharpening the Focus on Poverty Reduction

2.1 The IDA10-12 replenishment undertakings commit IDA to sharpen its focus on poverty reduction in accordance with the Bank's 1990 poverty strategy.²¹ They also urge IDA to integrate gender, environment, and governance into that strategy as a "broad-based framework for poverty reduction"²² and to increase attention to poverty in its performance-based allocation system (see section 4 and part III).

2.2 The replenishment commitments calling for a sharper focus on poverty (Box 2.1) instruct IDA to:

- Strengthen the poverty focus of its country assistance strategies.
- Build poverty analysis and monitoring into its analytical work and policy dialogue.
- Increase poverty-targeted and social sector investment lending.
- Promote broad-based economic growth, through poverty-focused adjustment lending and support for private sector development.

Progress on these commitments has gained considerable momentum since the start of IDA10.²³

Strengthening the Poverty Focus of Country Assistance Strategies

2.3 Poverty has received greater coverage in IDA's Country Assistance Strategies (CASs) over the past seven years, especially since 1997, encouraged by strengthened guidelines and follow-up by management.²⁴

Box 2.1. IDA10-12 Commitments on Poverty

IDA10

- Complete poverty assessments.
- Increase share of lending to social sectors and to poverty-targeted investments.
- Include specific poverty reduction measures in adjustment programs wherever feasible.

IDA11

- Incorporate participatory components in poverty assessments and a focus on the gender dimensions of poverty.
- Strengthen poverty monitoring, including the impact of projects with and without targeting mechanisms for reaching the poor.
- Use public expenditure reviews to assess spending in terms of the development needs of the poor.
- Increase attention to structural and fiscal measures to expand opportunities for the poor.

IDA12

- Develop a broad-based policy framework for poverty reduction emphasizing investment in people, broad-based growth, good governance, and environmental protection.
- Broaden participation in policy formulation and program implementation.
- Direct about 40 percent of investment lending to the social sectors.
- Mitigate inequalities.
- Link assistance to poverty reduction targets, including the international development targets.

21. Based on the 1990 *World Development Report on Poverty*, the Bank's strategy advocated a two-pronged approach: 1) economic policy reform and productive investment aimed at increasing incomes of the poor through labor-intensive growth; and 2) expansion of their access to basic social services and social safety nets.

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

23. This section on sharpening IDA's focus on poverty reduction draws on the background study, *Review of Poverty Reduction in IDA10-12* (Washington, D.C.: World Bank, 2001) which is available on request, and Alison Evans, *Poverty Reduction in the 1990s: An Evaluation of Strategy and Performance* (Washington, D.C.: World Bank, 2000).

24. See World Bank, *Country Assistance Strategies: Retrospective and Outlook* (SecM98-242), March 1998, and World Bank, *Country Assistance Strategies: Retrospective and Outlook* (R99-228), December 1999; also see Evans, 2000; and OED, *Review of Poverty Reduction in IDA10-12*, 2001.

- Broad-based growth, human resource development, and protection of vulnerable groups — key elements of the Bank’s 1990 poverty strategy, are commonly stated objectives, where country circumstances warrant.
- CASs increasingly use data and analysis from poverty assessments and public expenditure reviews, which have gradually improved their poverty focus.²⁵
- Greater consultation with borrower governments and other stakeholders in the preparation of CASs has contributed to the strategies’ greater relevance.

2.4 CASs have made less improvement, however, in setting priorities and identifying measures in support of country-specific pro-poor growth strategies. Participants in country consultations commended IDA’s heightened attention to the poverty impact of its assistance while expressing concerns about inadequate priority setting and tailoring to country circumstances and weak governance and institutions (Box 2.2). OED Country Assistance Evaluations confirm the relevance of the greater poverty focus in IDA CASs. But they also emphasize that more needs to be done to integrate poverty objectives into macroeconomic and sectoral operations and to identify the concrete measures needed not only for accelerating growth but also overcoming social and structural constraints to poor peoples’ participation in new economic opportunities. This includes adequate attention to the institutional mechanisms through which policy changes are expected to benefit the poor.²⁶

Box 2.2. Stakeholders’ Views

In country consultations, stakeholders praised the World Bank’s broad strategic perspective on development issues, but expressed concern that the Bank sometimes promoted a “one-size-fits-all” approach. They cited several strengths and weaknesses of the Bank:

Strengths

- Outstanding analytical work and dissemination of information.
- Ability to fold issues of poverty into broader discourses on economic and social development.
- Strong human resource capacity and attractive lending terms.
- Aid coordination and sector coordination.

Weaknesses

- Too little local ownership of ideas and interventions.
- A strategy that is too macro and connects poorly with microeconomic issues and poverty.
- Little involvement in areas that matter most to the poor (agriculture, rural credit, small and medium enterprise development); and insufficient attention to governance issues.
- Processes and procedures that are too rigid to permit true partnership and full participation.
- Insufficient focus on national capacity building for poverty analysis, monitoring, and evaluation.

Source: OED, *ARDE 2001*; and IDA Review, *Report on Country Consultations*, (Washington, D.C.: World Bank, 2001).

25. Although as noted further on, shortfalls in the strategy content of such analytical work has limited its impact on country policies and programs.

26. *Poverty Reduction and the World Bank, 2000*. To encourage increased attention to these concerns, Management has devised more stringent criteria for evaluating the poverty focus of CASs—including whether poverty is at the center of the policy dialogue, whether the CAS assess the impact on poverty of Bank-supported programs, and whether the CAS includes benchmarks and monitoring indicators; and further efforts to improve this performance is under way in the context of the PRSP process.

2.5 CAS monitoring has improved recently, aided by the country program matrix introduced in IDA11.²⁷ By fiscal 2000, more IDA CASs than before contained poverty reduction targets linked to intermediate objectives that could be monitored annually,²⁸ though it is still too soon to know the effect on program outcomes.

Building in More Poverty Analysis and Monitoring

2.6 IDA has made major contributions to collecting and disseminating poverty data and analysis, an essential underpinning for a sharper CAS focus on poverty and an important achievement that might not have happened without IDA (Box 2.3). Still, there is important unfinished business—from improving the quality and policy relevance of much of the analysis to strengthening countries' capacities to collect and analyze poverty data, monitor progress, and enhance program outcomes.

Box 2.3. IDA's Contribution to Poverty Data Collection, Analysis, and Dissemination

- Poverty assessments have been completed for most (90 percent) of IDA's eligible borrowers. Although progress lagged in the overly ambitious IDA10 replenishment undertaking because of severe deficiencies in poverty data and the need to build government support and interest, many countries now collect and use income and consumption data in developing policies.²⁹
- Almost half of active IDA borrowers have a recent public expenditure review, and new approaches in some countries are increasing the capacity for such reviews and strengthening ownership. For example, Ghana and Vietnam, assisted by IDA, have undertaken their own reviews.
- Other economic and sector work, such as social and structural reviews and sectoral analyses, has also strengthened the focus on poverty.
- Following IDA12 recommendations, IDA recently increased analytical work on other aspects of poverty reduction. A notable initiative, responsive to IDA deputies concerns, focuses on child labor through the Global Child Labor Program, a catalyst for research and analysis, pilot studies, and other activities.

2.7 Reviews of poverty assessments,³⁰ public expenditure reviews,³¹ and other economic and sector work highlight the importance of working collaboratively with borrower governments and institutions. They

27. This new feature of CASs lists objectives, the related diagnoses and actions to be taken, and benchmarks for tracking country and IDA performance.

28. Two notable examples of best practice in this regard are the fiscal 2000 CAS for Honduras and Mozambique, both of which identify clear monitorable poverty reduction targets.

29. As an indication of this increase in information, the WDR2000/1's global assessment of poverty was able to use data from 110 developing countries, compared to only 60 countries at the time of the previous poverty WDR in 1990.

30. See OED, *Poverty Assessments: A Follow-up Review*, (Washington D.C.: World Bank, 2000) which found many poverty assessments wanting as an aid to country strategies. Nearly one half did not adequately address the individual elements of broad-based growth, social service provision, and safety nets. Nor did they explain what worked and why and provide adequate justification for the priority rankings contained in strategy recommendations. Treatment of governance issues was patchy, including in regard to the responsiveness of institutions to the poor. The lesson drawn was that Poverty Assessments are much more influential when demand for data is linked directly to domestic policy formulation.

31. On public expenditure reviews (PERs), the most recent evaluation from 1998 concluded that quality had improved since the mid-90s. However, analyses of spending policies were often still too dated to have more than modest impact on IDA lending, country policy or aid coordination. It recommended a stronger demand orientation, use of more selective and sequenced analyses, and sharper focus on service delivery. Recent PERs increasingly show many of these features. See OED, *The Impact of Public Expenditure Reviews: An Evaluation* (Washington D.C.: World Bank, 1998). It is important to note, however, that the total average cost of four key due diligence products—Poverty Assessments, PERs, Country Economic Memorandum and Social and Structural Reviews is approximately \$650,000 per country. Also see *Review of Poverty Reduction in IDA10-12*, 2001.

also note weaknesses that limit the strategic relevance of the work. Poverty assessments and public expenditure reviews have had little impact on country policy where ownership by government and other stakeholders has been lacking.³² Recently, participatory poverty assessments have begun to bring in the views of poor and disadvantaged groups, but it is hard to trace their influence on government policies or IDA assistance programs.³³

2.8 The first year of Poverty Reduction Strategy Papers (PRSPs) exposed continuing weaknesses in countries' poverty data collection and analysis and in public expenditure tracking—despite recent efforts to increase country participation in public expenditure reviews and to focus more on government financial management.³⁴ Intensified efforts are needed to strengthen analysis and monitoring capacities—from short-term measures to credibly track public expenditures to longer-term efforts to strengthen capacities in poverty analysis, performance monitoring, and evaluation of program impacts.

2.9 Projects increasingly include impact evaluation frameworks to assess poverty-related results over time, a sorely needed improvement.³⁵ But monitoring and evaluation by IDA and by borrowers remains fragmented and under-funded. That means that IDA and its partners are not building a reliable database for assessing alternative policy mixes and implementation approaches to poverty reduction in different contexts. The PRSP and new forms of programmatic lending add new dimensions to the need to strengthen monitoring and evaluation. A key priority, as reported in the early PRSP progress reports, is to support the build up of borrowers' capacities to track progress, analyze results, improve program outcomes, and inform broad debate on priorities. (see Part IV further discussion of monitoring and evaluation.)

2.10 Management is aware of these problems in poverty analysis and other economic and sector work and has given them increasing attention in the last two years.³⁶ Resolving the problems is critical to IDA's analytical, advisory, and aid coordination services and involves issues of accountability and resource allocation (see Part IV).

Increasing Poverty-Targeted Interventions and Social Sector Lending

2.11 IDA has met its commitments to increase lending to poverty targeted and social sector interventions, focusing on efforts that benefit the poor directly and expand their access to education and basic health services. A greater challenge has been to help countries with politically and institutionally complex sector-wide reforms and programs. For this, new program approaches—not just higher levels of lending—have been critical.

32. According to a recent OED review of poverty assessments, in Tanzania, for example, despite a fairly extensive participatory poverty assessment exercise in 1996 the dissemination of the PA within government was limited and its implications for policy are only now being discussed in the context of the PRSP—some 4 years later. See OED, *Poverty Assessments: A Follow-up Review*, 2000.

33. Important examples of where participatory Poverty Assessments have worked well are noted in C. Robb, *Can the Poor Influence Policy: Directions in Development* (Washington D.C.: World Bank, 1999).

34. See *Heavily Indebted Poor Countries Initiative and Poverty Reduction Strategy Papers—Progress Reports* (Report No. SecM2000-532), August 2000.

35. The PRMPO thematic group has recently produced a handbook on impact evaluation, with guidance on poverty monitoring and evaluation and a monitoring and evaluation technical note for the PRSP sourcebook. See G. Prennushi, G. Rubio, and K. Subbaro, "Monitoring and Evaluation: Technical Notes," *Poverty Net* (available at [www.worldbank.org/poverty/strategies/srcbook/m & e 0925.pdf](http://www.worldbank.org/poverty/strategies/srcbook/m&e0925.pdf)).

36. See World Bank Operations Policy and Strategy Department, *Fixing ESW: Where Are We?* (Report No. CODE2000-76), May, 2000; World Bank Quality Assurance Group, *Quality of ESW in Fiscal 1999: A QAG Assessment* (Washington, D.C.: World Bank, 2000); and World Bank Operations Policy and Strategy Department, *Report on the Working Group on Improving Quality of Monitoring and Evaluation in Bank Finance Operations* (Report No. CODE2000-72), June 2000.

2.12 **Maintaining the share of poverty-targeted interventions.** In line with replenishment commitments since IDA10, the share of investment lending classified under the Program of Targeted Interventions (PTIs)³⁷ rose after IDA9 and then leveled off (see Annex E.) Monitoring of the poverty impact of these investment credits has lagged, though it has been somewhat better than in other projects. The program remains mainly a way of looking at inputs, however. It says nothing about outputs, outcomes, or impacts, and its focus on direct targeting of the poor may not always be the most effective way of reducing poverty.³⁸ To strengthen countries' own poverty reduction strategies through better knowledge about effectiveness, tinkering with the PTI will be less important than supporting more and better outcome and impact evaluations, not just in projects but also at the country level as well.

2.13 **Investing in social sectors.** Investment in the social sectors has been a large part of IDA's poverty strategy throughout the period under review. This assistance has expanded access to basic services, but the greater challenge has been to help countries improve the quality and efficiency of service delivery to the poor through sector-wide reform.

2.14 Lending in social sectors (health, nutrition, and population; education; social protection; and water supply and sanitation) rose from 20 percent of IDA investment credits in the late 1980s to 40 percent by 1995, where it has remained. That level satisfies the IDA10 and 11 commitments to emphasize the social sectors and the 40 percent investment lending target of IDA12.

2.15 This assistance has varied across sectors and regions, influenced by the presence of other donors and by country commitments and capacities to implement reforms (see Box 2.4 and Annexes C.1 and C.2).

Box 2.4. Where Did Increased Investments in Social Sectors Go?

Most of the increase since the mid-1990s has gone to health, nutrition, and population, whose share rose from a little more than \$2.0 billion in IDA10 to some \$2.3 billion in IDA11. Education commitments remained largely stable, increasing slightly from \$1.85 billion in IDA10 to \$1.91 billion in IDA11 (with number of projects exceeding those in health). Social protection lending was also largely stable, with a strong acceleration in lending in the ECA region; while investments in water supply and sanitation increased in IDA11 after contracting significantly in IDA9 and IDA10.

South Asia and Africa dominate IDA social sector lending. In South Asia, where India and Bangladesh are sizable borrowers, social sectors account for about 45 percent of lending. In Africa, the social sectors account for just over 30 percent of lending, with the amount declining slightly from IDA10-11, though the number of projects has increased. A fiscal 2000 HIV/AIDS initiative will allocate up to \$500 million to countries in Africa over the next three years.

The regional distribution is affected by the fact that as directed in IDA11 and 12, lending to blend countries has concentrated on social and environmental matters, thus influencing sectoral patterns in such countries as India, Pakistan and China. Also, in the ECA region, where countries are "nominal" blends, most of the social sector lending to date has entailed social protection provisions in the context of economic adjustment credits

2.16 The increase in social sector lending has made IDA the largest financier in human development and a major source of analysis and advice, especially in Africa. Through its analytical work, lending, and technical assistance, IDA has helped countries strengthen their human development policies, increase social expenditures, expand access to basic services, and adjust pension and other social protection mechanisms,

37. Investment projects are classified under the Program of Targeted Interventions if they include specific targeting mechanisms for reaching the poor such as a food security component or public works scheme.

38. As reported in the OED study of the Bank's implementation of its poverty strategy, poverty targeted interventions have been neither a particularly reliable indicator of the poverty orientation of Bank lending, nor a particularly accurate measure of who benefits from project investments. See Evans, 2000.

particularly in the countries in transition. Overall, IDA has provided some form of social sector assistance to virtually all its active borrowers.

2.17 The focus of social sector assistance has shifted from projects to sectors, with increased attention on the quality and financing of service delivery for the poor. Through its analytical work and conditions attached to adjustment lending and debt relief, IDA has encouraged countries to protect—and even increase—social expenditures. Available evidence suggests a general upward trend in national expenditures, though often from very low levels, and some improvement in the efficiency of that public spending. This emphasis on countries' own expenditure levels has reinforced IDA investment credits in support of inputs needed for the geographic expansion of basic services (construction of schools and clinics, provision of essential drugs); training for service providers; and improved sector policies and service delivery, among others.

2.18 **Program evaluation.** Country consultations found that governments and civil society welcomed IDA's heightened emphasis on the social sectors, its broadened strategic perspective, the strong contribution of its analytical work, and its increasing coordination with other donors. OED Country Assistance Evaluations also stress the relevance of the increasingly systemic focus of IDA assistance—on the composition of social sector spending, its regional distribution, and inefficiencies in public spending (see Box 2.5).

Box 2.5. Examples of IDA Support for Increased Social Service Expenditures

In Uganda, IDA adjustment and investment lending in the 1990s encouraged the Ministry of Finance to raise public expenditures in health and education. By documenting service performance problems and expenditure leakages, IDA helped strengthen the ministry's efforts to protect public spending.

In Burkina Faso, adoption of minimum budget allocations to health and education as a condition of adjustment lending and debt relief reinforced IDA investments in support of the decentralized health system and a reorientation of the primary education system, resulting in higher school enrollments.

In Mozambique, IDA's presence in the health sector strengthened the dialogue with the government on expanding public spending on health and influenced the balance between investment and recurrent spending.

Sources: OED, Uganda Country Assistance Evaluation (Report No. CODE2000-66), June 26, 2000; OED, Burkina Faso Country Assistance Evaluation (Report No. 20704), November 1999; and Luis Landau, *Rebuilding the Mozambique Economy: Assessment of a Development Partnership* (Washington, D.C.: World Bank, 1997).

2.19 Project portfolio review ratings also showed improvements, particularly during IDA11, with outcome ratings of completed projects rising from 61 percent in IDA10 to 78 percent in IDA11 and the first year of IDA12 (see Annex D). The ratings showed some improvement in sustainability and the institutional development impact of investments, though both these results remain at inadequately low levels³⁹—reflecting what past evaluation findings have shown to be major implementation challenges in social sector reform efforts.

2.20 Where governments have demonstrated commitment and leadership and IDA has effectively tailored its support to realities on the ground, project outcomes have been significant. The recently evaluated Second Technician Education Project in India is a good example. State-level government commitment, ownership, and attention to execution made it possible to overcome the implementation challenges of a very

39. See OED, *Annual Review of Development Effectiveness 1999 and 2000* (Washington, D.C. 1999 and 2000). It should be noted however that the 2000 Review points out that increased attention to these matters by the HD Network may not yet be captured in the most recent figures.

complex project plan.⁴⁰ However, reviews also point to a number of frequently experienced implementation difficulties. For example, an OED evaluation of Bank assistance to health, nutrition, and population over the 1990s and more limited education reviews⁴¹ point to:

- Weaknesses in institutional analysis and institutional development impact, especially in efforts that aim beyond expanding access to social services to improving service quality to the poor, a politically and institutionally complex task.
- Uneven quality of sector work needed to tailor program priorities and implementation strategies to country circumstances.
- Unrealistic expectations about borrowers' institutional capacities and readiness for reform.⁴²
- Insufficient assessment of project impact and cost effectiveness in reaching the poor.⁴³

2.21 The health, nutrition, and population study, covering operations through 1998, concluded that, though the quality of institutional analysis has improved, the Bank has been more successful in expanding service delivery than in improving service quality and efficiency and promoting institutional change. Project designs have also tended to be more complex in countries with weak institutional capacity.⁴⁴

2.22 Moreover, investment projects have often had to deal with systemic governance problems, such as weak budget management, weak financial accountability, and the need for broad civil service reform. The OED Country Assistance Evaluation for Cameroon, for example, found that intended beneficiaries received no more than about half of public expenditures allocated to health and education. These problems cannot effectively be solved project by project. They require progress on public sector reform and institutional development on a broader programmatic basis and at national and provincial levels. While a new emphasis on private provision of social services may alleviate some inefficiency in service provision,⁴⁵ broad governance and public sector management challenges still have to be confronted directly and systematically.

2.23 **Program innovations.** To deal with these implementation challenges, IDA has introduced several program innovations. These include: new lending instruments (designed to deal with the institutional complexities of improving service delivery and getting better results from sector reforms); increased participation in country-led, donor-coordinated sector-wide programs; more attention to multi-country (regional or global) programs; and the PRSP process and its emphasis on linking social sector reforms more closely to poverty reduction goals. Each shows important promise, but also operational challenges requiring further attention.

40. India Second Technician Education Project, Credit Number IDA 22230.

41. OED, *Investing in Health: Development Effectiveness in Health, Nutrition, and Population (HNP) Sectors* (Washington, D.C.: World Bank, 1999); and OED, *Education in Bangladesh: A Country Specific Sector Review*, (Washington, D.C.: World Bank, 1999)

42. On the issue of reform readiness, see Sulaiman Wasty and John Johnson, *Borrower Ownership of Adjustment Programs and the Policy Economy of Reform*, World Bank Discussion Paper No. 199 (Washington, D.C.: World Bank, 1993); and OED, *Annual Review of Development Effectiveness, 2000*.

43. OED's HNP study, for example, found that few project documents presented a coherent analysis of how project interventions would be translated into improved health outcomes for the poor, despite often being classified as poverty targeted interventions. An even smaller percentage of projects were able on closing to demonstrate clear results for the poor. While this does not mean that such interventions did not reach their target groups, it does mean that adequate processes are not in place to assess the extent of project impact and cost-effective in reaching the poor. Similarly, the OED review of education assistance in Bangladesh noted that 11 of 12 projects lacked benchmarks or monitoring indicators.

44. Project portfolio ratings, in Annex D, that show greater increase in the demandingness and complexity of IDA projects compared to IBRD projects underscore this point.

45. See IDA Review, *Review of Private Sector Development in IDA10-12*. (Washington, D.C.: World Bank, 2001).

2.24 Two new *adaptable lending instruments*—Learning and Innovation Loans and Adaptable Program Loans—were introduced in 1997 to provide increased flexibility, especially for investments involving complex institutional change.⁴⁶ Experience shows the usefulness of these new instruments for testing operational ideas and facilitating adjustments and change as projects unfold. But it also shows a need for more supervision (and therefore more budget allocations than anticipated) and better monitoring and evaluation in support of these flexible implementation approaches than have yet been put in place.⁴⁷ In addition, two new forms of lending—the programmatic adjustment credit focused on medium-term social and structural reforms and the more recent poverty reduction support credit focused on providing support for countries medium-term poverty reduction strategies—offer new ways of reinforcing public sector reforms and institutional development (see Chapter 3).

2.25 IDA has also increasingly engaged in *sector-wide approaches* in health and education (about half the total) as well as in areas outside of human development. Sector-wide approaches, which can be supported by a wide variety of lending instruments, typically involve multidonor participation in support of an agreed, country-led reform program and lending framework as part of a medium-term expenditure plan. The rationale for this approach is dramatically illustrated by the situation in Mozambique. Before an integrated education sector program was set up, external assistance to the Ministry of Education was being provided under more than 150 different projects and subprojects, funded by some 16 donor countries, six UN agencies, and three multilateral financing institutions including IDA.⁴⁸

2.26 Consultations in Bangladesh, Ghana, and Mozambique expressed strong support for these approaches, noting that, though they took time to organize, they markedly improved the delivery of development assistance over the traditional fragmented project approach. In a few cases, such as the Ghana Health Sector Program (Box 2.6), there has been sufficient agreement on objectives and approaches for donors to pool their funding. The Strategic Partnership with Africa's (formerly the Special Program of Assistance to Africa, or SPA) tracking of sector programs and other reviews confirm that many sector-wide programs have significantly improved project relevance, consistency of sector expenditures with macroeconomic conditions and institutional assistance; strengthened country ownership of the reform program; and improved country and donor dialogue on priorities and approaches. Progress has been slower on country budget management (at central and decentralized levels), support for improved implementation capacity, donor coordination of procedures and processes through government mechanisms, and the establishment of self-monitoring systems.

46. In fiscal 1998–99, these two new types of loans accounted for 23 percent, 22 percent, and 21 percent respectively of all Bank lending in HNP, education, and social protection.

47. Learning and Innovation loans (LILs) and Adaptable Program Loans (APLs), which together are called “adaptable lending instruments,” were introduced in 1997. LILs support small-scale, innovative projects that have the potential to lead to larger projects; and are used to test new approaches, often in start-up situations and with new borrowers. APLs provide phased support for long-term development programs and are used when sustained changes in institutions, organizations or behavior are key to successfully implementing a program. See World Bank, *World Bank Lending Instruments: Resources for Development Impact*, (Washington, D.C.: World Bank, 2000) and *Adaptable Lending: Review of Experience after Two Years*, 2000.

48. The government was simply unable to monitor this large number of projects. In addition, there were serious inequities under these projects in resource allocations to schools, provinces, and districts. The numerous project implementation units and independent, parallel activities such as audits and supervisions drew heavily on limited government capacity. This was compounded by the use of different procedures and financial management systems by donors in parallel operations. For a discussion of the experience with sector-wide programs as implemented in Africa, see Richard Johannson and Isaac Adams, “Sectorwide Approaches to M&E in the Health Sector in Ghana,” in *Evaluation Capacity Development in Africa: Selected Proceedings from a Seminar in Abidjan* (Washington, D.C.: World Bank Operations Evaluation Department, 1998). Also see SPA (Special Program of Assistance for Africa) Working Group on Economic Management, *Program Report, SPA Plenary Meeting*, June 1999; and Schacter, *Sector Wide Approaches, Accountability and CIDA: Issues and Recommendations* (Hull: Canadian International Development Agency, Policy Branch, 2001).

Box 2.6. Pooling Donor Funds in Support of Health Sector Reform in Ghana

IDA and 16 other assistance agencies have provided integrated support for the Ghana Ministry of Health's five-year sector reform program—including through pooled funding arrangements and a common framework for monitoring and evaluation. Most donor funds, including the IDA credit, are provided as untied contributions to a common health account and managed under existing government procedures. The other resources are earmarked funds, but are included in the government's annual planning and budgeting cycle and channeled through the Financial Controller rather than given directly to program managers, apart from other funding. The health account funds, in a bank account under the control of the Ministry of Health and the Controller and Accountant General, are distributed to all eligible health units that meet minimum "readiness criteria," including submission of annual budgets accompanied by quantified targets and objectives and procedures for authorizing payments, maintaining accounts, and providing monthly reports.

Source: Richard Johannson and Isaac Adams, "Sectorwide Approaches to M&E in the Health Sector in Ghana," in *Evaluation Capacity Development in Africa: Selected Proceedings from a Seminar in Abidjan*; AfDB and OED, 1998.

2.27 These sector-wide approaches have important potential as building blocks in a country's poverty reduction strategy. Early experience with PRSPs has shown the value of revisiting sector strategies in light of explicit poverty reduction goals, to sharpen the focus on equity and efficiency objectives and establish indicators to assess performance in serving the needs of the poor. Sector-wide approaches are a means of aligning external assistance with these strategies to improve access, financing, and accountability mechanisms in ways that benefit the poor.⁴⁹

2.28 *New regional and global initiatives.* Though IDA usually provides repayable credits to member country governments, new regional and global initiatives on specific problems and supported by grant funds have occasionally complemented country-based lending. An early example was the Riverblindness Control Program in West Africa. More recent initiatives include the Global Forum for Health Research, which promotes research to improve the health of the poor; the Stop TB Initiative; and the Global Alliance for Vaccines and Immunization, which works to boost childhood immunization rates and vaccine research for major infectious disease killers in poor countries, including HIV/AIDS. The Bank has also joined a global effort to improve the use of global data and strengthen country monitoring capacity. While such programs look promising for advancing the fight against poverty, expanding IDA's participation poses challenges of priority setting with partners, building partnership mechanisms for program implementation, and mobilizing funding, including grant funds, as needed.

49. See World Bank, *World Development Report 2000/1*, Chapter 11 "Reforming Development Cooperation to Attack Poverty." (Washington, D.C.: World Bank, 2001). The importance of sector-wide approaches as mechanisms of country-led enhanced aid coordination is further discussed in Part III.

3. Promoting Broad-Based Growth

3.1 In promoting broad-based growth, the second major component of IDA's poverty reduction framework, IDA has supported economic policy and structural reforms and productive investments to accelerate job-creating growth. The IDA10-12 replenishment commitments on the importance of growth for poverty reduction emphasize IDA's role in improving the poverty and social impact of adjustment lending (Box 3.1) and promoting private sector development (see Box 3.6 later in this section). IDA has made considerable changes in its adjustment operations over the period. It has also made progress on some but not all of its PSD replenishment undertakings. Nevertheless, the acceleration of sustained, broad-based, job-creating growth remains a major challenge in a large majority of its eligible borrower countries.

Box 3.1. IDA 10-12 Commitments on Improving the Poverty Impact of Adjustment Lending

Replenishment recommendations related to these operations have encouraged IDA to include special poverty measures in the design of adjustment programs, to protect social expenditures, and to see that reform packages are compatible with productive investment.

Evolving IDA's Adjustment Operations

3.2 Adjustment lending has been IDA's major tool for helping countries improve their economic management (Box 3.2). As a share of total IDA lending, adjustment credits fell from 25 percent on average during FY92-97 to 19 percent in FY98-99 and 16 percent in FY00, as adjustment lending to Africa and South Asia slowed. The share of sectoral adjustment operations decreased significantly over this same period (see Annex F).

3.3 In the period under review, adjustment operations have evolved in ways consistent with the replenishment undertakings:

- As countries moved from first generation macroeconomic reforms (trade, exchange rate, monetary policy) to second generation social and structural reforms (in the social sectors, financial and private sector development), adjustment lending evolved to support institutional reforms and increasingly emphasized poverty reduction and social sector reforms. As the share of policy conditions supporting macroeconomic reform declined and the share supporting public sector reforms, financial and private sector development, and social sector reforms increased, the focus has become more long-term, institutional, and microeconomic.

In fiscal 1999, 15 percent of conditions on IDA adjustment credits related to social sector reforms, an increase over previous years.⁵⁰ "Poverty-focused"

Box 3.2. Poverty Impacts of Adjustment Lending in Uganda

Two Structural Adjustment Credits (SAC I and SAC II) in 1991 and 1994 and the Agricultural Sectoral Adjustment Credit in 1990 were among IDA's most potent poverty reduction instruments. SAC I and II continued a focus on stabilization and market-oriented reforms begun in the latter half of the 1980s, but were largely concerned with public sector management and private sector development. The adjustment and agricultural credits supported important reforms in coffee, for example, that have increased poor farmers' incomes. The liberalization of coffee marketing allowed farmers to retain 65-80 percent of export earnings, compared with 30 percent before the reforms—increasing revenues by about \$19 per capita per year.

50. See World Bank Operations Policy and Strategy (OPS) Department, *Adjustment Lending Retrospective, Draft Final Report* (SecM2001-0215), April 2001.

adjustment credits increased from 33 percent of IDA10 operations to 46 percent of IDA11 operations (67 percent by value).⁵¹

3.4 A rising share of adjustment operations has been rated satisfactory during the 1990s, according to Quality Assurance Group (QAG) quality at entry ratings and OED quality at exit ratings. QAG found a decline in adjustment operations at risk from 38 percent in fiscal 1995 to 16 percent in fiscal 2000.⁵² OED found an increase in outcome ratings of satisfactory or above, from 65 percent in IDA9 to 80 percent in IDA11 and the beginning of IDA12. A quarter of the improvement is explained by the lower share of evaluated adjustment operations in the Africa region, which has consistently ranked last among regions in adjustment lending performance.⁵³ In addition, there have been improvements in the design of operations and better Bank and borrower performance.

3.5 On the broader issue of impact on poverty reduction, two findings emerge clearly from a range of studies. One is that many countries receiving adjustment credits have been able to protect (and even increase) social sector spending.⁵⁴ The increase has not, however, always improved results for poor or vulnerable groups.⁵⁵ Corruption, imbalances in allocations between capital and current budgets, and disparities in the distribution of expenditures to services benefiting different income groups undermine the impact of such spending on poverty. The Bank's recent retrospective on adjustment lending points out that the poverty and social focus of adjustment lending has increased over time, but is still inadequate in many cases and remains a major priority.⁵⁶

3.6 The second finding is that adjustment operations have done well, on average, in helping countries lay a foundation for accelerating growth and poverty reduction. Countries have improved macroeconomic stability, lowered inflation, and removed economic distortions,⁵⁷ and trade, price, and regulatory reforms have contributed to higher agricultural output and productivity growth in many countries.⁵⁸ Countries that have sustained reforms have had at least modest increases in per capita income growth and decreases in the incidence of poverty.⁵⁹ Countries with good records of successful adjustment operations include India, Uganda, and Vietnam in the early 1990s and Bangladesh in the mid-1990s. But the record on sustaining growth rates high enough that many of the poor benefit is not broadly positive (see Box 3.3).

51. See OED, *Poverty Reduction in the 1990s: An Evaluation of Strategy and Performance*, 2000. The classification of operations as "poverty-focused" has been used since 1992 and relates to adjustment operations that support government efforts to either reallocate public expenditures in favor of the poor; eliminate distortions and regulations that disadvantage the poor; and/or support safety nets to protect the most vulnerable.

52. See World Bank, *Fiscal 2000 Annual Report on Portfolio Performance (ARPP)* (Report No. R2000-11) January 2001, Table 3.5, p. 47.

53. See OED, *Annual Review of Development Effectiveness—From Strategy to Results*, 2001, p. 11.

54. See OED, *Review of Poverty Reduction in IDA10-12, 2001* and World Bank, *Adjustment Lending Retrospective* (2001), p.15.

55. See OED, *Higher Impact Adjustment Lending, Vols. 1 & 2*, (Washington, D.C.: World Bank, 1999) and 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).

56. According to the Quality Assurance Group's 1999 quality at entry review, 64 percent of a sample of Bank and IDA adjustment operations gave adequate treatment to poverty issues. And according to the retrospective only 22 percent of the surveyed fiscal 1998-2000 operations included poverty and social indicators, though many of those operations covered poverty issues.

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

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

59. Meerman, 1997. In addition, an OED review of adjustment lending showed that 2/3 of a sample of countries that implemented reforms achieved per capita income growth and reductions in the incidence of poverty of some 1 per cent in most cases. Also see Carl Jayarajah et al, 1996.

Box 3.3. In Bolivia and Tanzania, Weak Broad-Based Growth Despite Improved Macroeconomic Stability

Despite dramatic achievements in macroeconomic stabilization and trade liberalization in 1986–91, growth and poverty reduction in Bolivia have fallen short of expectations. The OED Country Assistance Evaluation cites five reasons: incomplete reforms, including in the financial sector; strong opposition by interest groups to privatization and legal, judicial, and regulatory reforms; regional imbalances in growth; inadequate social safety nets; and insufficient investment in human capital.

Boosting agricultural productivity has been on Tanzania's reform agenda since the government agreed to a structural adjustment program in 1986. Yet despite a steady return to macroeconomic stability in the mid-1990s and a well-regarded reform program covering key areas of budget management, privatization, and incentives, agriculture has stagnated. Among the many reasons for the weak supply response are poor infrastructure, lack of credit, price variability, and weak public sector support for agriculture, characterized by the uneven commitment to reform in the early 1990s. Noting the absence of a clear rural development strategy, the OED Country Assistance Evaluation suggests that this may have contributed to the apparent neglect of policies for improving agricultural growth and reducing rural poverty.

Source: OED, *Bolivia Country Assistance Review* (Report No. 17957), June 1998; *Tanzania Country Assistance Evaluation* (Report No. 20902-TA), September 2000.

3.7 Why has it been difficult for countries to move beyond new policies, legislation, and even action (privatization, for example) to better poverty outcomes? One reason is that many IDA countries have not consistently implemented their policy reforms, making it difficult to institutionalize the complex structural reforms needed to sustain growth rates high enough for long-term poverty reduction.⁶⁰ The recent collaborative study *Can Africa Claim the 21st Century?* notes that: "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 made them worse."⁶¹ Sound policies, the study notes, pay off in the medium run but require good economic management over a sustained period, which has been difficult to achieve.

3.8 Research on adjustment lending and reform in Africa also points to the intervening role of the domestic political economy and to the limitations of a conditionality-driven model of adjustment. Conditionality that is useful to governments in the early stages of reform may be too intrusive during second-generation social and structural reforms. Typically, financing has tended to be reduced in that latter phase just as policy reforms are taking hold and resources needed for supporting policy and structural adjustments.⁶² Reflecting these lessons, many adjustment credits since the mid-1990s have had fewer and simpler policy conditions.⁶³ "Floating" tranches have given governments more flexibility in timing reforms, within the discipline of a medium-term expenditure framework.⁶⁴ Introduced in 1998, programmatic adjustment lending promises support for countries facing the institutionally and politically complex demands of second-generation reforms (see Box 3.4). Countries need strong budgetary and expenditure

60. Tony Killick et al., *Aid and the Political Economy of Policy Change* (London: Routledge, 1998) and S. Devarajan et al., *Aid and Reform in Africa*, (Washington, D.C.: World Bank, 1999).

61. See World Bank, *Can Africa Claim the 21st Century* (Washington, D.C.: World Bank, 2000), p. 35.

62. Devarajan, 1999.

63. Though the Retrospective points out that there are still too many and too complex conditions. See World Bank Operations Policy and Strategy (OPS), *Adjustment Lending Retrospective*, 2001, p.15.

64. OED, *Higher Impact Adjustment Lending, Vols. 1 & 2*, 1999.

capabilities to make these new adjustment credits work. Better monitoring of country and IDA performance is needed as well.

3.9 Another contributory factor is the difficulty in identifying practical policy measures for achieving not just growth, but broad-based growth. The poor typically benefit from growth, but how much they benefit varies greatly.⁶⁵ The fight against poverty has to address the factors limiting the ability of the poor to participate in the opportunities created by growth-oriented policies.⁶⁶ The Bank's 1999 *Annual Progress Report on Poverty* notes weak attention in CASs to the transmission mechanisms through which policy changes are expected to benefit poor groups. The August 2000 progress report on PRSPs calls for more work on the determinants of pro-poor growth and for greater specificity about how to support borrowers in setting and advancing country-specific priorities. Weak progress in agriculture and rural development is one continuing factor.

Lags in Agriculture and Rural Poverty Reduction

3.10 World Development Reports 1990 and 2000/2001 point out that reducing poverty requires major investments in areas where the poor live and activities in which they engage. IDA's experience confirms that investing in rural social and economic infrastructure can raise the incomes and living standards of the poor (Box 3.5).

Box 3.4. Programmatic Adjustment Lending to IDA Countries

Introduced in 1998, programmatic structural adjustment loans and credits focus on medium-term structural and social reforms, providing support for a country-owned reform program through sequenced one- or two-tranche adjustment operations over three to five years. Unlike traditional adjustment loans, in which conditionality is based on promised actions, these loans and credits provide funding for completed reforms.

Draft "Interim Guidelines on Poverty Reduction Support Credits were proposed in April 2001, as an adaptation of programmatic adjustment lending. This instrument is conceived as a series of programmatic adjustment credits with a strong focus on poverty. Two to three annual credits in a series will be synchronized with the borrower's annual budget and policy cycle to the extent practicable. Each credit would support the borrower's medium-term program of social and structural reforms and institution building set out in the country's Poverty Reduction Strategy Paper. The credits are also intended to facilitate coordination with the International Monetary Fund. The first one is being prepared to support Uganda's poverty reduction strategy and focuses heavily on public sector reform.

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

66. Ravallion, 2000. See also Vinod Thomas, Mansoor Dalimi, Ashok Dhareshwar, Daniel Kaufmann, Nalin, Lopez, Wang Yan, *The Quality of Growth* (Washington, D.C.: World Bank, 1999); and Ravi Kanbur, "Economic Policy, Distribution and Poverty: the Nature of Disagreements," (Draft paper, Cornell University, December 2000).

Box 3.5. Pro-Poor Rural Development Projects in Bangladesh and India

In Bangladesh, two of IDA's most successful pro-poor investments have been in rural road rehabilitation and rural electrification. The rural electrification project, approved in fiscal 1990, sought to expand distribution networks to underserved areas and to rehabilitate distribution systems taken over from state ownership. The project improved household lighting, increasing opportunities to study and earn income and raising the quality of life, and it led to more efficient energy use in industry and agriculture. At credit closure consumer connections far exceeded original estimates. A socioeconomic study showed that average household income in the program villages is about 50 percent higher than that in non-electrified villages and attributed 22 percent of the difference to electrification. The poverty rate in electrified villages is lower as well. The investment completion report notes that "although electrification has not shrunk the gap between the richest and poorest," the incomes of the poorest 10 percent of households in electrified villages are much higher than those of their counterparts in non-electrified villages.

The forestry project in the Indian state of Madhya Pradesh did not explicitly focus on poverty. Even so, it led to significant improvements in livelihoods and living standards, especially for tribal peoples. While IDA financed activities in 2,500 communities with more than 1 million people, the project expanded to more than 12,000 communities and 6 million people. It increased production (income) for the poor and created conditions for empowering poor communities on the forest fringe. Community protection funds helped to increase public choice and to reduce debt and thus reliance on moneylenders. And the project made substantial progress toward environmental goals. Detracting from the project's major social gains, however, were the conflicts over forest access between villages during participatory planning and the limited participation by women in decision-making.

3.11 Thus the decline in IDA's lending in agriculture and rural development, from 24.3 percent of commitments under IDA10 to 19.1 percent under IDA11 and to 9.6 percent during the first year of IDA12 some questions (see Annex C), especially in the absence of compensating increases by other assistance agencies.⁶⁷ The decline is especially sobering in light of a recent assessment of the "undercapitalization" of African agriculture.⁶⁸ Most of the world's poor will continue to live in rural areas well into the first half of this century, and agriculture still accounts for a sizable share of poor countries' GDP.⁶⁹

3.12 To some extent, the decline in lending is the result of a reclassification of assistance under different sectoral headings (e.g., lending for rural roads, which has increased, is now in the infrastructure portfolio). But much of it also comes from IDA having withdrawn, appropriately, from unsuccessful efforts (such as top down systems of extension services and complex rural development activities which had higher than average failure rates) without improved approaches having been put in place for helping countries make the comprehensive improvements needed to accelerate agricultural productivity growth, market development, and rural poverty reduction.⁷⁰ Adjustment lending and ESW have contributed in many countries to relevant policy reforms which have improved agricultural price incentives and exports. However the Africa collaborative study notes that: "recent reforms have improved agricultural price incentives, but they have not

67. According to IFAD, between 1988 and 1998, total ODA to agriculture fell by almost two thirds in real terms. See IFAD, "The Challenge of Ending Rural Poverty, Rural Poverty Report 2001" (IFAD, Oxford University Press, 2001), p. 229.

68. World Bank, *Can Africa Claim the 21st Century*, 2000.

69. IFAD, 2001.

70. The reasons underlying this decline are currently being assessed as part of a review and updating of the Bank's rural sector strategy, which should feed into a heightened emphasis on broad-based growth in IDA13. OED Country Assistance Evaluations tell a mixed story, with a number noting significant IDA contributions to improved agricultural growth through adjustment lending and others noting the lack of a country-specific strategy for promoting agricultural productivity. OED Country Assistance Evaluations for Uganda, Togo, Albania and Bangladesh found that IDA helped to increase agricultural productivity and rural incomes by supporting improvements in the countries' macroeconomic conditions during the 1990s. Several other CAEs noted, however, that IDA had been less active and effective in supporting specific investments and sector strategies in agriculture. For example, CAEs for Ethiopia, Cameroon, Tanzania and the CFA countries concluded that IDA's development effectiveness had been hindered by the lack of an adequate country rural development strategy.

done as well at addressing other structural and institutional constraints, including rural infrastructure (irrigation, roads, power, telecommunications), agricultural research and extension, and farmer health and education—factors that impede agricultural productivity and output.”⁷¹

3.13 Relative decreases in rural or agricultural lending over other sectors cannot be assumed to be a bad thing *a priori*, especially since lending for social funds, rural infrastructure, and health and education have been robust. Lack of consensus among development partners regarding rural development strategies and the reduced priority given to agriculture in aid programs is, however, a cause for concern. The sector requires revitalized attention on the part of the international development community, with IDA’s role to be determined in coordination with others.

Strengthening Private Sector Development

3.14 Lags in private sector investment are another important part of the weak growth story in IDA countries. For example, the ratio of private investment to GDP is not much higher than 5 percent for Madagascar or Mali, though it is as high as 30 percent in Malaysia. As efforts to stabilize macroeconomic conditions took hold in the 1990s, IDA increased its private sector development activities, with success in some areas. The IDA10, 11, and 12 replenishment reports all urged greater support for private sector development to accelerate job-creating, broad-based growth (Box 3.6). However, private sector development activities have not, on the whole, been well integrated into IDA country assistance programs.⁷²

3.15 There have been some 250 IDA projects with private sector development components approved since the start of IDA10. At the project level, OED assessments show 87 percent of closed projects had satisfactory outcomes, 55 percent were judged likely to be sustainable, and 37 percent had at least substantial institutional development impact, about the same ratings as for IDA projects overall. While the outcome ratings show satisfactory progress, the low institutional development impact is of concern given the importance of well-functioning institutions for achieving the boost to broad-based growth that can come from private sector development. The IDA-supported projects have entailed:

- High compliance in microfinance (Box 3.7) in developing and disseminating best practice globally, including through IDA’s support for the Consultative Group to Assist the Poorest (CGAP).
- Rapidly expanded support for private provision of infrastructure since the start of IDA11, with 60 percent of such activities in Africa.

Box 3.6. IDA10–12 Undertakings on Private Sector Development

The IDA10 replenishment report emphasized improving the enabling environment for business—through legal and regulatory reforms, export promotion, and privatization—with private sector assessments as an analytical underpinning for countries’ efforts. The IDA11 report, while reiterating the importance of the business environment, also emphasized private provision of infrastructure and a shift to a more poverty-focused agenda, including greater attention to small and medium-size enterprises. The IDA12 report intensified the focus on poverty reduction. It called on IDA to ensure that privatization activities were consistent with social equity and environmental sustainability—and took a broader systemic perspective, endorsing the piloting of partial risk guarantees to catalyze private investment and directing IDA to develop a comprehensive private sector development strategy by the end of 1999.

71. See World Bank, *Can Africa Claim the 21st Century*, 2000, p. 187. Based on its findings, this report proposes a “business plan” that focuses on the huge investments required by both the private and public sectors to capitalize African agriculture, increase its competitiveness, and harness the potential of agricultural growth and rural development.

72. This section draws on the background study, *Review of Private Sector Development in IDA10-12*, which will be available on request.

- Assistance for new private sector legal and regulatory frameworks (more support is planned) and for some 131 privatizations (the addition of the transition economies to IDA's private sector work in the mid-1990s vastly increased the scope of this undertaking), but scale and effectiveness are not yet adequate.
- Modest progress in support of small and medium-size enterprises and rural finance. IDA has moved away from using public institutions to provide directed credit and services to small enterprises and from using government-owned rural finance institutions to provide targeted credit. But sound alternatives have yet to be found.⁷³ Thirty-five IDA countries have no programs for increasing access to rural finance.

Box 3.7. Bangladesh: Poverty Alleviation through Microfinance

The Poverty Alleviation Microfinance Project supports an ambitious expansion of microcredit activities in Bangladesh that has increased the outreach of the 171 participating nongovernmental organizations from 440,000 clients in 1996 to 1.8 million by mid-1999. Women account for 90 percent of the clients, and loan recovery stood at 98.4 percent in June 2000. The program is executed by a not-for-profit organization and is governed by a general assembly representing the main stakeholders concerned with poverty alleviation and social mobilization issues in the country.

Today, microcredit reaches 8 million households—60 percent of Bangladesh's poor. An ongoing impact study finds that microcredit has increased borrower incomes and asset accumulation; improved the access to health, education, and sanitation facilities; and enhanced mobility and efficient time use. Through the Poverty Alleviation Microfinance Project, IDA helped to scale up the industry's operations and increase outreach during a time of declining grant financing. The Second Poverty Alleviation Microfinance Project will help the industry achieve sustainability by accessing financial markets through improved creditworthiness. It will improve industry disclosure standards, formalize the regulatory and supervisory system, and strengthen capital adequacy, portfolio quality, and governance systems.

Source: *IDA Review—Private Sector Development in IDA10-12*.

3.16 At the country-level, many OED Country Assistance Evaluations point to a need for better choices of interventions, approaches, and instruments and for more attention to the distributional impact of private sector development activities. The evaluations give low ratings to the effectiveness of private sector development work. Many express concern about weak institutions and the lack of a comprehensive, country-specific private sector development strategy.⁷⁴ The gains from increased efficiency are not always widely shared, in large measure because of inadequate attention to the institutional and policy framework for private sector development activities.⁷⁵

3.17 A review of IDA's private sector development agenda shows a need for improvements in several areas:

- *Business environment.* IDA has focused on the important first steps for improving the business environment through policies on foreign trade, investment, and the financial sector. It has focused less on competition, consumer protection, property rights, insolvency and bankruptcy reform, and

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

74. Several IDA CAEs have noted, in particular, while stabilization and liberalization support had important effects, more attention should have been paid to linkages among financial sector reform, privatization, and judicial reforms as well as underlying constraints due to poor corporate governance.

75. A joint CAS program between IDA and IFC was introduced in fiscal 1997 to foster closer coordination and cooperation between the organizations. See Box 5.2 in this report.

corporate governance, especially where institutions are weak. And while trade policy reform has altered producer incentives and promoted exports, few projects have explicitly supported export development and not enough use has been made of IDA's analytical and advisory services for addressing cross-border trade and investment problems.

- *Financial sector development.* Since fiscal 1994, IDA has approved 70 operations with significant financial sector development components, most in Africa, and Europe and Central Asia. Evaluations point to a need to strengthen the institutional foundations for a fair and robust market-based economy.⁷⁶ Improvements in the policy and regulatory environment for financial markets are needed to increase the access of rural and urban micro, small, and medium-size enterprises to commercially viable financial services.
- *Privatization.* Project ratings show that most IDA-supported privatization efforts have improved results at the firm level, but macroeconomic and distributional results have been mixed. Problems with the methods and sequencing of privatization and weak institutions are partly to blame. Where legal and regulatory institutions are weak, privatization has not improved (and has sometimes worsened) equity and has done little for short-run productivity. But trying to reform state enterprises rather than divest them has not been any more successful. Achieving better results will require more intensive, country-specific diagnosis; a longer-term view; proper institutional foundations; and concentration on key firms and sectors.
- *Private provision of infrastructure and social services.* Improving the efficiency of the delivery of infrastructure and social services is critical to growth and poverty alleviation. In private provision of infrastructure, the recent focus has been on helping governments set up policy and regulatory frameworks that will motivate the private sector to respond to consumer needs and enable poor households and communities to share the benefits of better services. The emphasis has been on developing market structures and regulatory regimes appropriate to institutional and capacity constraints while improving governance and expanding capacity. Private provision of infrastructure shows promise as a growth area for IDA assistance.

3.18 A strategy paper prepared in 1999 laid out a reorganization of World Bank Group PSD work. This step was accompanied by the preparation of sub-sector strategies on small and medium-size enterprises and the financial sector.⁷⁷ But to date there is no overall strategy for Bank support of private sector development linked to its mission of poverty reduction and based on World Bank Group areas of comparative advantage. The strategy paper now being prepared (for completion in 2001) will meet this IDA12 replenishment commitment.

3.19 Clearly, PSD is a complex, multifaceted endeavor and there is need for IDA to exercise selectivity based on country commitment and performance, demonstrated IDA comparative advantage and partnership with other key actors. With countries' increasing economic openness, there is demand for a greater focus on governance, environmental, and social issues related to private investment. In this context, the forthcoming PSD strategy should propose selectivity criteria reflecting the distinctive roles of IDA/IBRD, IFC and MIGA. Considerable synergies can be tapped within the World Bank Group by combining IDA's role in improving the country policy framework, IFC's unique connectivity to private corporations, and MIGA's catalytic function vis-à-vis foreign direct investment. Development rewards would surely be enhanced if the three agencies would work more closely together and with their external partners to generate environmentally and socially

76. An OED review of Bank Group work on the financial sector found that individual project ratings did not capture what was actually happening in the sector as a whole. While the relevance of Bank support was high, with lending operations strongly targeted on sector reforms, efficacy was mixed and overall the assistance was said not to be strong. See *Financial Sector Reform: A Review of World Bank Assistance* (Report No. 17454) March 1998. The study covers 23 countries, ten of them IDA borrowers.

77. See *Sector Strategy Paper: Strategy for Financial Sector*, (Report No. R2000-169) August 2000 and *Small and Medium Enterprises (SME) Sub-Sector Strategy*, (Report No. R2000-67), May 2000.

sustainable development. This will require improved delineation of respective roles, shifting activities among institutions, and dropping activities that are found to be better pursued by other actors. The sector strategy provides a good opportunity to make explicit the definition and rationale for a clear division of labor and greater selectivity within the Bank Group and vis-à-vis others. It should also help identify ways to improve IDA's support for the policy and regulatory environment for private investment, the proper institutional foundations for privatization, the expansion of the private provisioning of infrastructure and social services, and a positive distributional impact from increased private-sector led growth.

Looking Ahead

3.20 Two recent process initiatives—the Comprehensive Development Framework (CDF) and the Poverty Reduction Strategy Paper (PRSP)—could significantly improve the effectiveness of IDA's support for poverty reduction in borrower countries.

- Application of the CDF principles—emphasizing country ownership and coordination of development assistance in support of poverty reduction—should help IDA align its country program priorities with borrowers' poverty reduction efforts through coordination with other development partners.
- The PRSP initiative, by providing a structure for operationalizing the CDF principles, is intended to achieve what the IDA replenishment recommendations have sought for many years: effective country strategies that link macroeconomic policy, sector strategies, and high-impact interventions to enhance opportunities and reduce vulnerabilities of the poor.

3.21 Several lessons from the period under review should inform these efforts:

- Countries' poverty reduction strategies and IDA's support of them must focus as a priority on accelerating broad-based growth. Notwithstanding the uneven country record, many IDA borrowers are in a better position than at the beginning of the IDA10 period to focus on broad-based growth and poverty reduction goals thanks to their policy reforms and the contributions of IDA and other development partners. But rates of growth are projected to remain too low and inequality rates too high across a large number of IDA countries to significantly reduce poverty in the near future. And there is still much to learn about the determinants of sustainable, pro-poor growth in individual countries.
- IDA's comparative advantage is strategic—not only in lending for adjustment programs and key investments in support of broad-based growth, but also in supporting the research and analytical work needed how to ensure that the poor share in the gains. And because of the importance of private sector and rural development to economic growth and poverty reduction, these areas need redoubled efforts—with IDA's role determined in coordination with its development partners.
- IDA's contributions in the social sectors remain relevant and in need of continued effort—particularly the attention to sector-wide reforms. However, IDA and its partners need to sharpen their focus on results and on the institutional issues that impede their achievement. Experience has demonstrated the benefits of working through sector-wide programs. These coordinated, country-led sector reform efforts ought to be more widely used as building blocks of IDA and other agencies' support of countries' poverty reduction strategies.
- Across all areas of activity, IDA has made major and widely regarded contributions to countries' efforts through its analytical work. This work needs to be sustained and adapted to emphasize strengthening countries' capacities to diagnose conditions, analyze and improve policy and program outcomes, and inform broad debate. The availability of adequate resources for this aspect of IDA's role requires priority attention, as recent Management reports have indicated.

4. Integrating Gender, Environment, and Governance

4.1 The IDA10-12 replenishment agreements emphasized gender, environmental sustainability, and good governance as core elements of IDA's broadened poverty reduction framework. While these undertakings were highly relevant, progress has been constrained by lack of consensus, in IDA and its member countries, on explicit priorities and on IDA's role in advancing them.

4.2 IDA has made important contributions in each area, but progress has fallen short of commitments. In the areas of gender and environment, implementation of replenishment undertakings has been partial—with greater progress on some matters than on others and, overall, slow progress on the integration, or mainstreaming, of gender and environmental considerations in all IDA activities. Recently, good governance has received much heightened attention as a critical factor in poverty reduction. Still, the effective treatment of governance issues, though expanding rapidly, remains a challenge, and unresolved issues about IDA's role persist.

4.3 Although these three issues were largely overlooked in the Bank's 1990 poverty strategy, the *World Development Report 2000/2001*—with its emphasis on opportunity, empowerment, and security—broadens the perspective on poverty reduction in ways that suggest linkages to gender, environment, and governance. IDA should build on those insights to help strengthen domestic consensus, policies, and institutional capacity for incorporating these issues into countries' own development strategies.

Addressing Gender

4.4 The Bank's 1994 Operational Policy on "Gender Dimensions of Development" (OP4.20) aims to reduce gender disparities and advance women's economic opportunities. It also requires the Bank to assist countries in strengthening institutions for increased participation of women in development. The IDA10-12 commitments built on these objectives, giving added emphasis to integrating gender considerations into all IDA lending activities (see Box 4.1). In implementing those commitments, IDA assistance has achieved satisfactory results in education and health, in part because of significant country ownership and effective partnership with other development actors, and also because operations were underpinned by rigorous analytical work. IDA assistance has been weaker, however, in promoting the economic participation of women and improving borrowers' institutional frameworks for gender. The shortfalls have undermined the efficacy of the assistance provided and led to disappointing results at the country level. Moreover, the broader intent of integrating gender constraints in all IDA activities has yet to be implemented⁷⁸

Box 4.1. IDA10-12 Commitments on Gender

The IDA10 and 11 replenishment commitments echoed the objectives of the Bank's 1994 gender policy on reducing gender disparities and advancing women's economic opportunities, urging IDA to undertake regular gender analysis, expand support for family planning and social services for women (especially girls' education), and integrate gender in all lending activities. IDA12 called for intensifying and monitoring the mainstreaming of gender in IDA operations, expanding dialogue on gender, undertaking gender equality assessments, and helping countries implement national gender equality plans. It also instructed IDA to prepare a gender strategy in 1999.

78. This section draws on a two-part OED evaluation of the integration of gender in Bank assistance, including 12 in-depth country analyses, 9 of which were IDA countries, and the disaggregation of data related to IDA provided specifically for this review. See OED, *Integrating Gender in Bank Assistance*, (Washington, D.C.: World Bank, 2000) and OED, *The Gender Dimensions of Bank Assistance for Women: An Evaluation of Results. Draft Report*, 2001.

4.5 *Increasing attention to gender in analytical work and monitoring.* Overall, the integration of gender considerations into the full range of IDA economic and sector work has been weak. Analyses in the areas of health and education have increasingly considered gender dimensions, focusing on low enrollment of girls and maternal and child health. Poverty assessments and public expenditure reviews have also increasingly included gender analyses,⁷⁹ but again looking largely at education and health and not women's participation in economic activities. Outside the social sectors, there has been some analysis of gender in agriculture—where women account for a large part of the labor force in poor countries—and recently in transport, but still very little in these areas and even less elsewhere.⁸⁰ The lack of a consistent analytical framework has impeded the integration of gender considerations in general economic and sector work. And gender disaggregated data and analysis remain limited overall, even in the social sectors. The importance of these findings is underscored by recent evidence on the links between analysis and lending, drawn from review of 12 country cases, that confirms the oft made argument that good analytical work leads to improved gender integration in lending.

4.6 Both Bank policy and IDA replenishment undertakings emphasize monitoring policy implementation and impact on the ground, a commitment that needs stronger follow-up. In 1987 the Bank became one of the first agencies to establish a women in development rating system to evaluate the integration of gender issues in projects. The system tracks projects after they have been approved, for the extent to which inputs attend to gender commitments. Taking the next step of monitoring impact at the project level has been harder. Only 20 percent of IDA projects use gender-disaggregated monitoring indicators, and 70 percent of these are in health. And there is still no Bank-wide system to provide feedback on progress in mainstreaming gender.

4.7 *Integrating gender in country assistance programs.* Overall, the diagnostic treatment of gender in IDA CASs has improved significantly over the review period. Some 66 percent of a sample of IDA CASs since 1997 include satisfactory gender analysis, compared with 7 percent in the two years preceding IDA10. But even in CASs with good gender analysis, the link between diagnosis and the proposed lending program remains mainly in the areas of education and health. Moreover, projects and programs show no improvement in integrating gender considerations over the past 10 years. While 46 percent of IDA projects undertaken (compared with 40 percent of IBRD projects) contain at least some gender analysis, only 25 percent include gender-specific actions. Again, most of these projects are in education and some areas of health.

4.8 Support for girls' education, especially in countries where gender disparities are great, stands out as an area of strong Bank commitment (see Box 4.2). Evaluations of projects closing in fiscal 1995–2000 indicate that where there are large gender disparities in enrollments, IDA has integrated gender concerns into virtually all education projects and has contributed to positive trends in female enrollment. Where disparities have been smaller, gender-related issues in education have received little or no attention, a missed opportunity to improve the situation for girls.

79. See OED, *The Impact of Public Expenditure Reviews: An Evaluation*, 1998; OED, *Poverty Assessment: A Progress Review*, 1997; and OED *Poverty Assessments: A Follow-up Review*, 1999; Ann Whitehead, Matthew Lockwood, *Gender in the World Bank's Poverty Assessments: Six Case Studies from Sub-Saharan Africa*. Discussion Paper No. DP 99:1-51 (United Nations Institute for Social Development, 1999).

80. Two recent research reports have, however, given particular attention the links between growth, poverty, and gender. See, Mark Blagden and Chitra Bhanu, "Gender, Growth, and Poverty Reduction: Special Program Of Assistance For Africa, 1998 Status Report On Poverty In Sub-Saharan Africa" *World Bank Technical Paper*, (Report No. WTP428), 1998; and World Bank, *Engendering Development* (Washington, D.C.: World Bank, 2000).

Box 4.2. Increasing Assistance for Girls' Education

IDA's assistance in girls' education has been a strong feature of its poverty reduction efforts in the past decade. The share of IDA education lending going to girls' education rose from 39 percent in 1996 to 48 percent in 1999. And while only 23 education projects targeted girls at the start of IDA9, about half of the 98 projects in IDA's education portfolio at the end of IDA11 did so.

The Bank's 1994 gender policy focused explicitly on girls' education, requiring that the Bank aim to reduce gender disparities in education and take gender into account in its operations in order to remove barriers to girls' school attendance. In 1997, a girls' education program identified 31 active borrowers as having significant gender disparities in education and targeted 15 of them (all in Africa and the Middle East and North Africa) for exceptionally large enrollment gaps between boys and girls. The 1999 education sector strategy maintained a focus on gender.

Analysis of a small sample of countries shows that IDA has supported both demand- and supply-based interventions, including construction of schools in remote areas, training of female teachers, and processes for reducing the opportunity cost of girls' schooling.⁸¹ In the cases reviewed, these efforts have had a significantly positive effect, except where exogenous factors impeded project implementation.

4.9 In the health sector, attention to gender has focused mainly on maternal health, through components to reduce illness and death among women of childbearing age and children by expanding maternal health and family planning services (see Box 4.3). Some of these components have increased women's access to good quality reproductive health services,⁸¹ but others have been highly localized and sustainability is uncertain. Most other project components (such as construction of health clinics) are gender blind. Gender analysis has yet to be undertaken for many health issues with a major impact on women—including those related to environmental degradation. Many projects lack a sharp focus on results.

4.10 In the productive sectors, integration of gender concerns has been very limited, mainly in agriculture and transport. Operations in other productive sectors have virtually ignored gender issues. A review of projects in eight IDA countries designed to increase women's economic participation finds that assistance has been directed primarily to micro-level, ad hoc activities and that governments have not been able to scale-up or replicate most of them, though a few notable successes demonstrate the benefits that can be achieved (see Box 3.7 which describes the successful microfinance project in Bangladesh). In the Gambia a long-standing national commitment to improve women's economic status and to build the institutional capacity for program

Box 4.3. Maternal Health in Bangladesh

The Fourth Population and Health project in Bangladesh adopted a "gendered" approach to maternal and child health. The OED Gender Review found that project outcomes clearly influenced such positive trends for women's health in Bangladesh as sharply declining fertility rates, rising women's life expectancy, and lower rates of under-five mortality. The project resulted in the expansion of family planning—maternal and child health service delivery through satellite clinics in rural areas; a wide range of successful information, education, and communication programs that deal with the responsibilities of both men and women in family health; construction and staffing of an Institution for Mother and Child Health, with women making up half the staff; establishment of a gender issues office headed by a joint secretary for expanding women's involvement in the Ministry of Health; increased efficiency of three intersectoral population programs; and the recruitment and training of 4,500 female health assistants.

81. For example, the Bangladesh Fourth Population and Health project (Credit No. 2259) required the government to fill 4500 out of 5000 health assistant jobs with women, because experience had shown more effective delivery of family planning and other services when assistants were women.

implementation resulted in a country-led agenda through which IDA provided program and institutional support.⁸²

4.11 IDA assistance has given women greater voice in project implementation and helped strengthen institutions to deliver gender aware programs in selected sectors and in a few countries. But, overall it has not worked concertedly with governments to strengthen institutional capacities for designing and implementing gender policies.⁸³

4.12 *Clarifying the gender policy.* Budget constraints and lack of strong country interest have limited progress in integrating gender into IDA's country assistance programs. But internal shortcomings are to blame as well. Despite the increased visibility of gender issues in the Bank following the 1994 gender policy (formation of the External Gender Consultative Group in 1996, the Gender and Development Board in 1997, and new gender thematic groups in 1998), a recent OED evaluation found no consensus in the Bank or member countries on the scope of the Bank's gender policy and implementation strategy. Many staff are unaware of even those policy elements on which there is consensus; and the Bank has yet to establish adequate support and accountability processes for ensuring policy implementation.⁸⁴

4.13 There are two distinct but related problems with the current policy. First is the lack of consistency among international norms, Bank gender policy, and IDA12 replenishment commitments. Consistent with the platform of the Beijing Conference on Women,⁸⁵ the Bank focuses on reducing gender disparities and furthering women's economic opportunities. But while the Beijing platform places women's advancement within a gender analytical framework, the Bank has not fully made this shift. Even in the health sector, efforts remain focused on the narrower goal of improving women's reproductive health. Yet the IDA12 agreement goes beyond even the Beijing platform by instructing IDA to undertake gender equality assessments and to assist countries in implementing national gender equality action plans. Second, IDA's focus on reducing gender disparities in education and health without simultaneously addressing women's economic participation limits the impact of health and education improvements on women's well being, national development, and sustainable improvements in gender relations.

4.14 *Lessons.* Characteristics of good practice in integrating gender considerations into country assistance are described in Box 4.4. These lessons and the findings from the recent OED gender evaluation lead to the following recommendations for strengthening the integration of gender considerations into IDA activities.

Box 4.4. Characteristics of Good Practices in Gender

Country Ownership, including visible and actively implemented country gender policy or strategy and strong commitment reflected in domestic institutions; and the design of assistance consistent with countries' own action plans.

Analytical work that underpinned and laid a strong technical foundation for IDA operations.

A holistic approach to gender issues within a country assistance program, including attention to institutional issues.

Strong partnerships with other donors and civil society organizations and **systematic monitoring of results.**

82. Evaluation findings also show that the potential adverse impact of gender blind projects was averted in countries with strong policies or with greater gender equality. However, in countries with large gender disparities, women were usually not able to access project benefits equitably and the project impact on men and women was different.

83. In particular, IDA has worked primarily through sector ministries in its support in education and health, and not sought to engage the gender agencies or ministries that now exist in most countries.

84. See OED, *Integrating Gender in World Bank Assistance*, 2000. This report also points to the absence of gender units within Regions other than Latin America and the Caribbean as a particular impediment to fuller integration of gender in country programs, especially where collaborative diagnostic work and dialogue are needed to build national consensus.

85. *The Beijing Platform for Action*, the main document adopted by the Fourth World Conference on Women, seeks to promote the advancement of women. The Platform is available at <http://www.un.org/womenwatch/daw/beijing/platform>.

- **Clarify the scope of the gender policy.** As a guide to IDA's operations, the rationale, intent, and scope of the Bank's gender policy need to be clarified. The statement of objective should make clear that the policy is a core part of the institution's overarching objective of poverty reduction.
- **Strengthen borrower institutions and policies.** Most borrowers have formulated national policies and action plans, which aim to improve the well-being of women and are usually consistent with the principles stated in the Beijing Platform for Action. IDA should strengthen institutions to support the implementation of these policies/plans. In countries where such policies and plans are weak, support for their strengthening (through country dialogue and non-lending services) should be an IDA priority.
- **Integrate gender considerations into Country Assistance Strategies.** Based on a comprehensive diagnosis, the CAS should explain how IDA assistance will take into account the linkages between poverty and gender. This assistance and its underlying strategy should be explicitly related to the borrower's policy framework for gender.
- **Integrate gender analysis into the design of IDA supported projects.** Gender diagnosis should be integrated into the economic and social analysis carried out in the preparation and design of IDA supported projects so that both men and women are able to access the benefits equitably. This is especially critical for countries with high gender disparities.
- **Strengthen management of the gender program and establish a monitoring and evaluation system.** The Gender and Development Board should be provided with the necessary authority to ensure gender mainstreaming across sectors and themes as appropriate, and actions should be taken to ensure that institution-wide progress is regularly tracked and periodically evaluated.

4.15 The Bank's forthcoming Gender Strategy, soon to be released, provides an opportunity to clearly link gender activities with the overarching goal of poverty reduction and provide a clear implementation strategy. Monitorable benchmarks will be needed for measuring progress and effectiveness in implementing the policy for explicitly operationalizing the mainstreaming of gender into IBRD and IDA activities.

Enhancing Environmental Sustainability

4.16 The creation of the Environment Department in the 1987 reorganization marked environmental sustainability as a major objective of the World Bank's work.⁸⁶ Participation in the 1992 Rio Earth Summit and publication of *World Development Report 1992: Environment and Development* reinforced that commitment. Specific IDA 10-12 replenishment undertakings emphasized four priorities for IDA's environmental work (see Box 4.5):

- Integrating environmental concerns into country strategies.
- Lending for environmental objectives.
- Enhancing the application of environmental safeguard policies.
- Increasing attention to global environmental issues.

86. This section draws on the background study, *Review of Environmental Sustainability Issues in IDA 10-12, 2001* which is available on request, and the *OED Review of the Bank's Performance on the Environment* (Washington, D.C.: World Bank, 2001). These two reports were prepared in conjunction with one another and share a set of recommendations.

Box 4.5. IDA10-12 Commitments on Environmental Sustainability

Influenced by assessments leading up to Rio and by negative public reaction to controversial IDA projects, such as the Narmada dam in India, the IDA9 replenishment report elevated environmental sustainability to the same level of importance as poverty reduction and broad-based growth. The IDA10 replenishment report reiterated that emphasis, while the IDA11 and 12 reports revised the emphasis slightly, putting poverty reduction at the center and environmental sustainability and broad-based growth in essential supporting roles.

More specifically, replenishment reports recommended:

- Completion of NEAPs in all IDA countries and their incorporation in CASs and country policy dialogue.
- Continued lending for environment projects and integration—mainstreaming—of environmental considerations in all IDA activities.
- Improved implementation of safeguard policies, including by assisting borrowers to improve the quality and scope of environmental assessments
- Support for projects addressing global environmental issues (climate change, biodiversity, desertification) and integrating global concerns in country dialogue.

4.17 IDA has broadened awareness of environmental issues in borrower countries, particularly at the project and program level. It has supported innovative projects, extended the use of environmental assessments, and conducted significant research and analysis. Direct lending for environmental projects increased in IDA9 and then leveled off, while environmental components of other projects increased significantly (Table 4.1). In many countries, project work developed out of national environmental action plans (NEAPs), usually prepared with IDA assistance. Still lacking, however, is the full integration of NEAPs and environmental sustainability concerns into CASs and country dialogue and the establishment of criteria for mainstreaming environmental concerns in other sectors and linking them to poverty reduction. Weak borrower interest and tight budgets play a part, but so do inadequate guidelines, accountabilities, and incentives for implementing IDA commitments.

4.18 *Integrating environmental concerns into country strategies.* Following replenishment recommendations, NEAPs have been completed in nearly all IDA countries, though more slowly than intended and with mixed quality and follow-up. The combination of high-quality NEAPs, strong government interest, and IDA support resulted in strong environmental programs in some countries (see Box 4.6), but overall the picture is mixed.

Box 4.6. Using the NEAP to Develop Strong Project Works

When the national environmental action plan (NEAP) in Bangladesh was found to be a long shopping list of concerns without adequate priorities, the country department mounted a further mission with the government to establish priorities and translate them into projects. Initially a single environmental project was planned, but the parties decided that it would be more effective to incorporate most of the priority actions identified in the NEAP into other projects. IDA did this in several of its own projects, and the United National Development Programme also conducted a follow-on project to the NEAP to improve environmental management. As a result, the NEAP was translated into an effective program that was mainstreamed into the IDA portfolio.

Source: OED, *Environmental Sustainability Issues in IDA 10-12*.

4.19 In 1999, as throughout the decade, only about half the CASs reviewed treated environmental sustainability adequately.⁸⁷ CASs were not required to include environmental performance indicators, nor

87. See Priya Shyamsundar and Kirk Hamilton, *An Environmental Review of 1999 Country Assistance Strategies—Best Practice and Lessons Learned* (Washington D.C.: World Bank Environment Department, 2000) for a review of 51 CASs from 1993 to 2000 by this

was environmental sustainability a priority in management reviews or a major factor in the policy dialogue for many countries.

4.20 IDA's underlying economic and sector work and other analysis of environmental issues have been good to excellent, but environmental analyses for most IDA countries are more than five years old.⁸⁸ Staff working on environmental issues say that they lack the time, resources, and incentives to apply the analysis. As a result, IDA's environmental actions have been less strategic than they might have been.⁸⁹

4.21 *Lending for environmental objectives.* Direct environmental lending shows no discernible trend since increasing in IDA9, though the number of projects has increased slightly (Table 4.1). However, environmental components in agriculture, urban, water supply, and energy projects increased—both in terms of number of projects and estimated level of financing—in IDA10 and then leveled off.⁹⁰

Table 4.1. Direct IDA Lending for the Environment and Environmental Components, Fiscal 1991–2000

<i>Fiscal Year</i>	<i>Direct Environment Lending (number of projects)</i>	<i>Direct Environment Lending (\$ millions)</i>	<i>Environmental Components, Other Sector Projects (project no.)^a</i>	<i>Estimated IDA Financing of Environmental Components^b (\$ millions)</i>
1990	2	191	13	155
1991	1	179	19	290
1992	5	229	34	554
1993	4	202	23	235
1994	4	172	26	581
1995	3	69	33	552
1996	5	349	34	1,063
1997	12	257	25	435
1998	4	149	28	556
1999	5	213	21	437
2000	7	60	27	608

a. Based on sectoral reviews of the agriculture, urban, water supply & sanitation, and energy portfolios. This includes environmental components in sector projects that have closed over 1990–2000.

b. The value of IDA financing for environmental components has been calculated at the same proportion as the overall IDA commitment in total project costs, as this review did not undertake a component-by-component breakdown. This approach is conservative and likely underestimates IDA's support for environmental components.

4.22 Guidelines for adjustment lending (OD 8.60) suggest consideration of environmental factors but do not encourage environmental reforms through adjustment operations. A recent management review found little increase in environmental coverage in adjustment operations over the period and has now provided the

study. Using a priority-based standard, the 1998–99 CAS retrospective rated closer to 67 percent satisfactory or above. See Annex D, *Country Assistance Strategies: Retrospective and Outlook*, 1998. Also Management's 2000 CAS review finds that the number of Bank-wide CASs with unsatisfactory treatment has declined to 16%, although the IDA management report on environmental mainstreaming, discussed below, finds that treatment of environment in IDA CAS has been only "moderately satisfactory".

88. See World Bank Operations Strategy and Policy Department, *Fixing ESW: Where Are We?* (Report No. CODE2000-76), May 2000.

89. Based on its recent study of Bank-wide ESW, management has indicated that the Bank needs to be diligent in ensuring that environment issues are analyzed for all countries and that ESW-based knowledge should be current where environment is an important development issue. For this purpose, management proposes broadening the due diligence category to incorporate environmental reviews as the first step.

90. From 1996–99, China accounted for about 41% of environment component lending. With China no longer a concessional borrower in IDA12, the aggregate IDA lending level can be expected to decline.

basis for follow-up action.⁹¹ A working group (including ESSD and other units) is currently preparing the conversion of the Operational Directive (OD8.60) that will provide guidance on treating the environment in adjustment operations.

4.23 Beyond direct lending, replenishment agreements have increasingly stressed the need to address environmental concerns in all projects. This emphasis on mainstreaming goes beyond the mitigation (“do no harm”) actions of the Bank’s safeguard policies to encompass positive (“do good”) aspects of project design in all sectors. To date, there are no clear guidelines for promoting, monitoring, or evaluating mainstreaming, suggesting that it is not yet a functional priority, despite the replenishment recommendations. The recent IDA report on mainstreaming finds that sector strategies (notably energy and urban development) have incorporated significant environmental input and commit to better mainstreaming of future sectoral operations. The report finds only moderately satisfactory mainstreaming in CASs, however, and no integration as yet in PRSPs. “While in some cases environment may be missing from client priorities for a good reason, there is much more to be done to ensure that appropriate attention is paid in the country dialogue to the long term sustainability of natural resource use and to the impacts of environmental degradation on development.”⁹²

4.24 Where environmental concerns have been a borrower priority and figured prominently in IDA country strategies, results have been impressive. IDA lending has appropriately addressed natural resource management (the emphasis in IBRD lending is on pollution abatement). Projects have helped reverse land degradation (Sodic Lands project in India, Loess Plateau project in China), strengthened environmental management (through a series of environmental management projects in Madagascar with coordinated donor assistance and in China), and increased income generation on arid lands (Arid Lands Project in Kenya). Environmental project performance and supervision have been on a par with Bank lending in general.⁹³

4.25 *Enhancing safeguards.* OED and management reviews in 1996 and 1997 concluded that safeguard policies and procedures were essentially sound and had often helped to mitigate potentially adverse effects of IDA-funded projects and boost environmental awareness. The reviews also noted major shortfalls. Environmental assessments have come too late in the project cycle to influence design, alternatives were not adequately considered, and supervision of actions recommended in environmental assessments has often been weak.

4.26 Assessments by management and staff have attributed shortfalls in part to inadequate resources for implementing safeguards. Also, decentralization of responsibility for environmental assessments to Bank regions has created an awkward conflict of interest for regional and network staff—making them both promoters of environmental issues and policemen of environmental safeguards.

4.27 The April 2000 Inspection Panel report on the Western China Poverty Reduction Project brought high-visibility attention to these implementation problems. It also revealed widely divergent views among managers and staff on how to apply safeguard policies.⁹⁴ Reviews of safeguard policies and the environmental assessment processes are under way. They seek to improve implementation and find ways to extend safeguards to adjustment and programmatic lending. More resources have been allocated to the

91. See Reed, D., *Structural Adjustment, the Environment and Sustainable Development*, (Earthscan Publications, World Wide Fund for Nature, 1996), *Five years after Rio: Innovations in Environmental Policy*, (World Bank ESSD studies and monographs series; No. 18, June 1997); *Adjustment Lending Retrospective*, 2001.

92. See International Development Association, *How Far into the Mainstream? A Review of Environmental Issues in IDA Activities* (Washington, D.C.: World Bank, 2001), page 4.

93. This finding is based on reviews in the fifteen selected countries of IDA environmental projects completed during the period under review, and of supervision reports of projects under implementation. The focus countries for IDA Review included: Cote d’Ivoire, Ghana, Mozambique, Tanzania, Uganda, Cambodia, China, Vietnam, Bangladesh, India, Nepal, Azerbaijan, Kyrgyz Republic, Bolivia and Yemen.

94. See The Inspection Panel Investigation Report, *China: Western Poverty Reduction Project* (Report No. 20739), April 2000.

safeguard process in the fiscal 2001 budget, and a new central unit dedicated to safeguard policy quality assurance should impose a more integrated management approach.⁹⁵

4.28 But the larger issue of efficacy remains. Despite positive impact at the project level, country effects have been modest because of limited coverage of IDA-funded environment projects, lack of follow-up procedures after project closure, and the slow adoption of effective environmental assessment processes in most countries. Many countries have established their own environmental assessment regulations, but implementation remains weak.⁹⁶ And there has been almost no move toward a more strategic, sectoral approach to environmental assessments. The ongoing review of safeguard policies should identify ways to build greater country capacity (Box 4.7 describes a good case example.)

Box 4.7. Eritrean Environmental Guidelines: Doing the Right Thing Right

In 1995 Eritrea issued a National Environmental Management Plan. IDA provided support for its implementation, with an IDF grant to prepare environmental assessment guidelines, legislation, and training. Although the 1998–2000 border conflict delayed formal enactment of legislation, guidelines have been applied. In 2000, IDA undertook a pilot whereby the Eritrean environmental guidelines would be applied to IDA projects in lieu of Bank guidelines. Three projects have been processed successfully in this manner.

4.29 *Increasing attention to global environmental issues.* IDA countries stand to suffer most from the adverse impacts of global concerns, such as climate change. IDA has provided information on the local costs and benefits of addressing global environmental issues, and Global Environment Facility (GEF) funds have been used to finance such projects.⁹⁷ Analysis has identified where local and global benefits can be mutually reinforcing and tradeoffs minimized.⁹⁸ The emphasis on local impacts of global issues has helped in developing relevant projects and programs. The Clean Fuels Initiative, for example, seeks to reduce locally harmful particulate emissions as well as carbon dioxide emissions.⁹⁹ In addition, IDA has begun to help countries mitigate negative impacts and should expand those efforts where circumstances and interest make this a priority.¹⁰⁰

4.30 IDA also has great potential for addressing regional and transboundary issues, but the strong country orientation of its internal organization makes it difficult to address such issues. Budgets, programs, and incentives are not designed to support this work. Some GEF projects, such as the Lake Victoria project and the Central American MesoAmerican Biodiversity Corridor have effectively addressed regional transboundary problems with global implications. There has also been IDA lending follow-up to the Lake Victoria project. While the GEF and other grant resources offer opportunities for transboundary problem

95. See Part IV of this report for a broader discussion of design and implementation of safeguard policies.

96. One of the more valuable follow-ups to NEAPs has been the establishment of countries' own environmental assessment procedures; but this is happening slowly. For example, less than half of the IDA borrowers in Africa have any such procedures and in many countries they have yet to become effective.

97. GEF projects, which are grant financed and carry their own preparation funding, have often proven to be critical instruments used by environmental staff to convince country directors and countries to include environment projects. Unfortunately, these projects only address a limited number of issues and often substitute for rather than complement IDA's environment lending in support of country development.

98. See Kseniya Lvovsky and Gordon Hughes, *Environmental Challenges of Fuel Use: Pollution Management in Focus* (Washington, D.C.: World Bank, 1999).

99. Only China and India among IDA members are significant contributors to greenhouse gas emissions, but nearly all IDA countries will be impacted by some combination of rising temperatures, rising sea level, and more violent weather patterns.

100. The Bank and IDA supported several projects to help countries minimize damage from the last El Niño, and IDA is working with countries to take anticipatory actions to changes in rainfall, sea level, and other expected climate change effects.

solving, these resources are limited, and IDA should do more to support cross-border programs when there are substantial benefits to neighboring countries. In these cases, IDA should modify as needed its heavily country-focused programming and budgeting in order to bring the countries together to solve shared problems (in watersheds or other ecosystems that span national boundaries). These issues are important to development, and few other agencies can address them effectively.

4.31 **Challenges and constraints.** Environmental sustainability is among IDA's most challenging goals and a source of tension within the Bank and with borrower countries. Using environmental and natural resources is essential to growth and poverty reduction. Abusing them is a threat to health, economic sustainability, and long-term ecosystem integrity. Many environmental impacts are indirect and long term, which makes drawing the line between use and abuse difficult. Debates rage between parties interested in short-term gains and those with longer-term horizons, and those interested in local and national priorities and those in global priorities. Opportunities for enrichment from exploitation of natural resources can lead to corruption and impede sound policymaking.

4.32 IDA's primary external constraint in pursuing its environmental commitments is the lack of interest and commitment among member governments. Many countries do not want to borrow from IDA to address environmental issues either because they do not view them as a priority¹⁰¹ or because they prefer to use grant funds. In several cases the GEF has been the only way to bring environment projects into country programs.¹⁰² But these projects are no substitute for IDA operations, because the GEF has the very different mandate of providing incremental funding for cross-border or global issues, not poverty reduction.

4.33 Internal factors also affect IDA's performance. The environment has been treated conceptually and operationally more like a sector than a crosscutting theme, and the links to IDA's poverty reduction work are still undefined. Frequent reorganizations have confused accountabilities for environmental goals. The Network role in setting, supporting, and monitoring objectives needs clarification and strengthening. While high-profile crises attract attention and galvanize action (as in the follow-up to the Western China project), over the longer term crises appear to make borrowers and managers risk averse in program design.

4.34 **Recommendations.** The review of IDA's assistance in ensuring environmental sustainability points to a number of lessons, some broadly similar to those that have emerged from the evaluation of IDA's work on gender. The lessons include the importance of strengthening countries' own policies and institutions; better integrating environment in country assistance strategies and sector strategies; making environmental sustainability a central feature of policy dialogue, with particular attention to the links between poverty and environment;¹⁰³ integrating environmental analysis into project design to foster environmental quality and sustainability (with safeguards and mitigation serving as a minimum threshold not first line of defense); and further strengthening accountability within the Bank for environment and safeguard policy compliance.

4.35 Specifically, the findings and lessons lead to three main sets of recommendations (outlined in more detail in the environment background study for this review and taken into account in the design of the new of the new environment sector strategy):

101. Most countries have by now established environmental agencies or ministries, often following completion of a NEAP and usually with IDA or other donor support. However, many of these agencies remain weak, environmental regulations are often not well enforced, and the ministries lack input in their countries overall development strategy and planning.

102. GEF projects are funded by grants and carry their own funds for preparation and supervision, so they do not use IDA credits or budget resources.

103. DFID's recent paper, *Achieving Sustainability, Poverty Elimination and the Environment* (London: DFID, 2000), makes a strong case for this linkage as essential for achieving the 2015 International Development Targets.

- IDA should build on its comparative advantage and analytical capacity to demonstrate the critical role of the environment in sustainable development and poverty reduction. It should incorporate environmental objectives into its country assistance and sector strategies; and enhance its efforts at country capacity building, focusing on strengthening institutions, policies and regulatory enforcement.
- Accountability for incorporating environmental goals into IDA activities where the environment is a priority issue and for compliance with the Bank's environmental safeguard oversight system and process should be strengthened. In parallel, the policy framework should be modernized and adapted to the changing practices and instruments being used; and greater emphasis should be given to helping borrowers build their own capacities to formulate and implement environmental policies and manage environmental resources and risks.
- In helping to advance the global environmental agenda, IDA should concentrate its assistance on the local and national benefits, and increase its attention to regional (transboundary) issues in its analytical work and programs.

4.36 Overall, IDA should concentrate its resources, in partnership with other actors, on assisting the efforts and strengthening the institutions of countries that demonstrate by their policies and actions a commitment to environmental sustainability. Where countries are not committed to addressing environmental problems, IDA should work to inform policymakers of the importance of environmental considerations to strategic development priorities through better treatment of the environment in the diagnosis underlying CASs, collaborative analytical work, and policy dialogue.¹⁰⁴ Moreover, experience around the world has shown that government intervention—through regulations and market-based incentives—is essential to safeguarding the environment. Governments have a great deal of control over the allocation of natural resources, so linkages with IDA's efforts to support effective governance are also important to environmental objectives.¹⁰⁵

Improving Governance

With poverty reduction front and center of our agenda, our work at the "rock-face" must be on governance, institutions and capacity-building.

—James D. Wolfensohn, 1999 annual speech

4.37 IDA was slow to implement replenishment undertakings in IDA10, not only on such sensitive matters as the rule of law, transparency, and accountability, but also on capacity building, institutional development, and public sector management.¹⁰⁶ But momentum accelerated in the latter half of the 1990s (see Box 4.8). World Bank President James Wolfensohn gave new prominence to governance issues, emphasizing public sector reform as an integral part of the Bank's poverty reduction mission and instructing country teams to address corruption openly. A major effort followed to expand capacity for operational work in governance through increased staffing, analytical work, and policy guidance; to increase lending for public sector reform and other elements of governance; and to link overall lending more closely to countries' governance performance (discussed in Part III).

104. Consistent with this and other independent as well as self-evaluations, the Bank's 2000 CAS retrospective has recently proposed a set of "next steps" that include better integration environmental considerations into economic and sector work, a strengthened link between environmental considerations and poverty reduction measures, and better incorporation of environmental indicators and trends in CAS diagnoses.

105. Compare for example the experiences in China, which is making an effort, and Bangladesh, where rent seeking activities in the ministry responsible for the environment are an obstacle to any progress.

106. This section draws on the IDA Review background study, *Review of Governance—The Critical Factor, IDA10-12* (Washington, D.C.: World Bank, 2001) which is available on request.

4.38 **Building Bank competencies.** Efforts have been under way over the past three years to build staff capacity in public sector reform. The Public Sector Group, established in 1997, quickly achieved a strong record in developing information and practical guidelines on best practices. The Bank recently recruited experts in public accounting and auditing and is building up its team of legal and judicial reform specialists.

4.39 Analytical and policy work on governance has also expanded in the past three years.¹⁰⁷ The most recent policy statement, *Reforming Public Sector Institutions and Strengthening Governance*, proposes a more proactive approach to governance and institution building. Three Bank regions—Africa, Europe and Central Asia, and Latin America and the Caribbean—have recently produced special regional studies on governance.¹⁰⁸ The Bank's Development Economics Vice Presidency has done valuable analytical work,¹⁰⁹ and the World Bank Institute has made helpful contributions.¹¹⁰ The Bank has increased its analytical work on public financial accountability and related policy guidelines, though it has been slow to take a systematic approach to assessing and strengthening borrowers' public financial accountability systems, repeatedly shown to be important for achieving desired outcomes in governance.¹¹¹

4.40 **Fuller treatment of governance in CASs and lending.** Governance now figures prominently in CASs, which are widely discussed with stakeholders in each country. Governance considerations have also been given greater weight in country performance-based lending allocations, though not as effectively as they need to be (see Part III).

4.41 Coverage of governance and public sector reform in lending programs is still partial, held back by resource constraints and limited country ownership. Nonetheless, the number of public sector reform projects and multisector projects with significant public sector reform components more than doubled from 45 in fiscal

Box 4.8. IDA 10-12 Replenishment Commitments on Governance

Recognizing that governance intersects all areas of IDA's support for countries' development efforts, replenishment undertakings have urged IDA to assist borrower governments in strengthening the rule of law and public accountability systems and becoming more transparent and participatory. Each CAS is to show how governance is being addressed, and public expenditure reviews are to be used to strengthen public expenditure management and to assess whether nondevelopmental spending (such as on the military) is crowding out social expenditures. Replenishment undertakings also urged IDA to assist judicial reform and anticorruption measures, encourage broader participation in governance reform, and tighten the connection between lending levels and governance performance.

107. Two early papers include: the 1983 *World Development Report (WDR) Managing Development and From Crisis to Sustainable Growth—Sub-Saharan Africa: A Long-term Perspective Study*, (Washington, D.C.: World Bank, 1989), which was the first Bank report to raise issues of governance explicitly. The Bank's first policy on governance work was set out in a 1992 report entitled *Governance and Development*, (Washington, D.C.: World Bank, 1992) which was updated in 1994: *Development in Practice: Governance—the World Bank's Experience*, (Washington, D.C.: World Bank, 1994). Since the start of IDA10, further guidance was provided in a policy paper entitled *Helping Countries Combat Corruption: the Role of the World Bank* (Washington, D.C.: World Bank, 1997), which was updated in April 2000. The 1997 WDR on the role of the state was a major effort to bring institutional economics into the Bank's country analysis.

108. See World Bank, *Can Africa Claim the 21st Century?*, 2000, in which a central theme is "improving governance, managing conflict and rebuilding states."

109. Notably, WDR 2000 and WDR 2001 are both heavily oriented to the task of institution building. This year's focus is on institutions to tackle poverty; next year's is on nurturing market institutions.

110. Key WBI inputs have included skill development of staff in the Bank and in borrower governments (on governance generally and in the preparation of anti-corruption action plans specifically), pioneering the use of corruption perception surveys and public service delivery surveys, and improving the measurement of the impact of corruption on development.

111. For example, OED's Country Assistance Evaluations for India, Indonesia, Bangladesh and Country Assistance Note for Kenya underscore the issue of public financial accountability.

1997 to 96 in fiscal 1999.¹¹² Structural adjustment operations addressing public sector reform also more than doubled from fiscal 1998 to 1999, to 22.

4.42 Satisfactory ratings for completed public sector management projects rose as well, from 54 percent in fiscal 1995 to 94 percent in fiscal 1998 (dropping slightly to 91 percent in fiscal 2000). In fiscal 1998–2000 more than 75 percent of the rated projects were considered likely to be sustained, and two-thirds to have a substantial institutional development impact (all ratings exceed the average for Bank projects overall). And because successful reform requires strong ownership, broad participation, modest investment, long implementation, and timely technical assistance, the Bank has experimented with adapting lending instruments for public sector reforms.¹¹³

Box 4.9. Kenya: A Case Study of Withholding Lending to Foster Governance Reforms

The May 1998 OED Country Assistance Note on Kenya concluded that IDA assistance had not been effective in promoting reforms. Given weak compliance with IDA conditionality, and the poor governance situation, the note recommended limiting lending to small poverty-targeted interventions and shifting the focus to nonlending activities.

The September 1998 CAS envisaged Kenya to be in a Low Case lending for the three years fiscal 1999–2001. Base Case lending levels including budget support were *directly* linked to improvements in governance. The focus on governance to trigger the Base Case was a first in IDA history. If the Base Case were triggered, the volume of lending in the first year would be around \$100 million, but *strong* progress in implementation would justify increasing annual lending towards the higher end of the range. The IDA would also invest in nonlending services.

IDA's stance of suspending new lending to Kenya (coordinated with other donors) led the Government to appoint the Change Team in July 1999 and to initiate economic governance and policy reforms. In August 2000, IDA approved a \$150 million budget assistance loan (the EPSRC) though the conditions for such support, as specified in the September 1998 CAS, were not fully met. Following the EPSRC, two AIDS projects and an Emergency Energy Project were also approved. Total IDA commitments between fiscal 1999 and December 2000 have been \$362 million of which \$322 million were approved in the last six months of 2000.

Although some progress has been made in the design of governance reforms, there has not been much progress in terms of effective implementation. Improvements in governance were not sufficient to merit a move to large scale lending because it was predicated on *strong* progress in implementation. There were also several additional factors. (1) The continuing risk of policy reversals as in the past. This risk has now materialized with a delaying of the sale of Kenya Telecom (a central trigger for IDA assistance in the 1998 CAS), the declaration of Kenya Anticorruption Authority as unconstitutional, stripping it of powers to investigate or enforce corruption, and the passage of a bill in the Parliament to cap commercial bank interest rates undoing liberalization in the financial sector. (2) The impact of the governance reforms at the central level had not been felt at the local level of communities. (3) Important laws, bills and circulars expected to be passed have not yet been passed by Parliament.

Fast-track, emergency projects that IDA approved also raise the issue of the role of IDA in a crisis in a country with a poor governance environment. There are good reasons to engage in crisis situations but rapid disbursing program lending should not anticipate reforms but rather be dependent on solid and evident progress in the implementation of the governance reforms, especially where institutional changes are required. For this reason, IDA has held back the disbursement of both the second tranche of the EPSRC and further disbursements under the Emergency Energy Project.

112. This includes public sector reform components only in public sector management and multi-sector projects.

113. The Uganda Poverty Reduction Strategy Credit (PRSC) is expected to be the first in a series of program loans to support public sector reform. In India, a program credit has supported the first phase of a comprehensive public sector reform program in Uttar Pradesh. In Tanzania a Programmatic Structural Adjustment Credit (PSAC) supports the government's medium term strategy for policy and institutional reform aimed at bolstering private sector development in the country. And in Indonesia, the Bank has helped to establish a governance partnership involving civil society, the government, the private sector, and the development partners.

4.43 Still, in most countries the dialogue on governance reform is just beginning. IDA has yet to put governance squarely on the table in a consistent way for all borrower countries. Core elements of public sector reform—from improved budgeting, auditing, and accountability to the rule of law and transparency in public sector activities—do not always receive the attention they deserve in country assistance programs. And strengthening country ownership and political commitment for reform remains a major challenge (Box 4.9). Governance is not an easy agenda—for IDA or for borrowers. Building domestic consensus for reform is critical. Transparency is a key ingredient; IDA needs to do more to “walk the transparency talk.” And progress will require close coordination with the IMF and other development agencies.

4.44 ***Emerging issues.*** Assessment of the country work relating to governance raises four main issues:

- ***Consistency of treatment.*** IDA’s reporting and country dialogue on governance have expanded and become increasingly candid, but country treatment is not consistent. Such inconsistencies are hard to explain to borrower countries and risk undermining the dialogue in those cases where a firmer stance has been adopted. In addition, better harmonization of donor assistance strategies on governance is needed, to avoid undermining efforts to build national ownership and consensus in support of effective government.
- ***Rule of law and judicial reform.*** Many studies show that the rule of law is not only important in creating an environment conducive to investment, but also in alleviating personal insecurity, a principal concern of poor people.¹¹⁴ Until recently, IDA viewed assistance in establishing rule of law largely as part of promoting a conducive environment for private investment.¹¹⁵ In a few countries it has begun to support broader reform of legal and judicial systems and more such efforts are in preparation. Especially given that some key areas of this work (such as law enforcement) are not IDA’s comparative advantage, IDA should, consistent with CDF principles, closely coordinate its legal and judicial reform activities with its development partners.
- ***Institutional capacity.*** IDA has increasingly incorporated institutional concerns in its activities, from public expenditure work to civil service reform and tax administration reform.¹¹⁶ Still, mainstreaming governance concerns in all sectoral work and strengthening public expenditure management remain major challenges. Tackling crosscutting and systemic institutional problems calls for long-term integrated, multisectoral country assistance strategies for institution building that are prepared with development partners.
- ***Public financial accountability and transparency.*** Accountability is a key part of good governance. Weak public financial accountability systems in many IDA countries undercut program implementation. Both fiduciary concerns and development effectiveness call for more attention to this matter. As an underpinning for future IDA lending, borrowers should commit to sound financial accountability systems and agree to put in place—with external assistance if needed—monitorable plans for achieving them. Since establishing such systems will take time, the commitment should be to steady steps toward a robust and transparent system of public financial accountability. Transparency is also important, but IDA (and other assistance agencies) do not demand project

114. See Dollar and Kraay, *Growth Is Good for the Poor*, 2000; and Dollar and Kraay, *Property Rights, Political Rights, and the Development of Poor Countries in the Post-Colonial Period* (forthcoming). Also, World Bank, *World Development Report 2000/1*, 2000.

115. For example, it has provided technical assistance, investment credits, and included elements in adjustment loans to a variety of countries for such things as regulatory reform and privatization, development of legal and regulatory frameworks related to energy and water reform projects, banking, and telecommunications.

116. For example, the African Region collaborated with the African Executive Directors to launch a capacity building initiative (Partnership for Capacity Building in Africa (PACT), 1996). Its evolution was long drawn out, but the outcome, which includes integration with the Africa Capacity Building Foundation, seems promising.

reports from borrowers be made public. As part of a broader effort to harmonize donor reporting requirements, IDA and its development partners should require the public agencies they assist to prepare and make public regular reports on their activities, to inform the public about their performance, and to set monitorable performance targets.

Lessons

4.45 The three issues addressed here—gender, environment, governance—have been highlighted as key components of the IDA 10-12 “broad-based framework for poverty reduction.” *World Development Report 2000/2001: Attacking Poverty*, in drawing together the lessons of development experience over the past decade, confirms their relevance in its emphasis on opportunity, security, and empowerment as the essential elements of a comprehensive attack on poverty. Experience in the last seven years offers three sets of lessons for IDA in moving forward.

1. IDA has provided important support to countries’ development efforts in these cross-cutting areas, but real progress usually hinged on there being a consensus for change in the borrowing country. Positive outcomes have occurred where assistance has responded to or encouraged country policies and actions plans. This implies an approach of country selectivity – which concentrates resources where the greatest opportunity for gains exist – and support directed to strengthening countries’ own institutions as the entry points for IDA support. In countries where national policies are weak, IDA should support their strengthening as a priority through collaborative analytical work, policy dialogue, and institutional capacity building. Strategic selectivity also means leaving the field to other agencies better able to move the agenda forward in specific areas.
2. IDA needs to clarify the intent and scope of its policies for “mainstreaming” both gender and environmental sustainability, linking them clearly to the goal of poverty reduction. It also needs to further strengthen the management of its gender and environment programs. For this, Networks need to articulate strategies that set achievable objectives for which IDA is prepared to commit the necessary resources and develop indicators and processes for tracking performance; Regions need to ensure that these issues are incorporated into CASs where diagnosis shows the issue to be a development priority; and QAG and OED need to give more attention to the mainstreaming of these issues in their evaluative frameworks.
3. Good governance affects all of a country’s development efforts and all areas of IDA’s assistance. Moving governance and institutional development issues to the center of the IDA program has been a major accomplishment of the last several years. But achieving significant reform remains difficult. IDA and its borrowers and other development partners must accept joint responsibility for this agenda and distinct accountabilities for improved outcomes. IDA needs to sustain the recent momentum in attention to governance, while broadening the coverage and increasing the consistency of treatment across countries. With other assistance agencies, IDA needs to improve and deliver on support for institutional development and accept that it is a long-term process. In particular, IDA and its borrowers and other partners need to commit together to a major drive to improve public expenditure management and public financial accountability, reinforced by increased transparency.

4.46 IDA’s support of a broad-based approach to poverty reduction in borrower countries has become increasingly relevant in the period under review. But IDA is still learning about how to set policy priorities that further equitable and sustainable growth that includes the poor, both women and men, and how to help governments become more effective and accountable in delivering public services required for a well-functioning economy. The main task over the next few years is to consolidate such lessons. Much of what needs to be done involves setting sharper priorities clearly linked to the overarching objective of poverty

reduction and strengthening implementation strategies to better take account of institutional and policy weaknesses, country circumstances, and the actions of development partners. These are largely matters of process, which Part III addresses.

Part III. The Process Dimension

Along with refocusing its development agenda, IDA has been at the forefront of fundamental change in the “business” of aid. IDA replenishment commitments, aimed at improving development effectiveness, have emphasized three aspects of aid quality: greater selectivity and increased participation and donor coordination in support of countries’ own development efforts.

IDA’s progress was moderate during IDA10-11, but the Comprehensive Development Framework and Poverty Reduction Strategy Paper initiatives introduced after IDA12 negotiations have given significant impetus to this aid reform agenda. Consolidating and institutionalizing these new processes will require more structured aid coordination at the country level, in support of recipients’ poverty reduction strategies, and greater harmonization of processes and procedures at the corporate level. Equally, IDA needs to further adjust its own instruments and procedures and should be encouraged by its donors to facilitate a time-bound process among agencies to achieve the long overdue harmonization of aid practices so as to reduce the transaction costs borne by IDA borrowers.

5. Improving Program and Country Selectivity

5.1 To improve IDA's development effectiveness, the IDA10-12 replenishment reports urged IDA to enhance the role of Country Assistance Strategies (CASs) and strengthen selectivity in resource allocation (see Box 5.1).¹¹⁷

Box 5.1. IDA10-12 Replenishment Commitments on Improving Development Effectiveness through Selectivity

IDA10-12 replenishment recommendations urged IDA to be more selective within countries, by concentrating on areas of its comparative advantage, and more selective among countries, by directing more assistance to borrowers with sound policy environments.

To achieve greater program selectivity, recommendations encouraged IDA to enhance the role of its Country Assistance Strategies (CASs) in setting program priorities, taking account of country needs and the activities of other assistance agencies. They urged that CASs focus more selectively on actions to speed poverty reduction, provide a comprehensive diagnosis of the country's development challenges—drawing on the results from major building blocks of IDA's analytical work, such as public expenditure reviews, poverty assessments, and environmental action plans—and that they be finalized only after discussion with the Board. They also urged that the borrower government, civil society, and other donors participate in preparing the CAS to better align the IDA program and the country's development priorities. And they recommended that the CAS be made public.

To achieve greater country selectivity, recommendations encouraged IDA to adjust its performance-based allocation system to link lending allocations more closely to countries' policy performance. They also called for assigning greater weight to governance, environmental factors, and non-developmental expenditures; applying performance criteria more transparently and more consistently across countries; and opening the system to more public scrutiny.

To forge more effective partnerships, the recommendations called on IDA to engage greater stakeholder participation in projects and programs; and improve coordination with other agencies and strengthen country-led management of aid.

Enhancing the Role of the Country Assistance Strategy

5.2 IDA has increasingly focused on the country—not just the project—as the unit of account in the design and assessment of assistance. CASs have been the main program-planning vehicle for this shift. To better align IDA assistance programs with replenishment commitments, donor governments proposed during IDA9 replenishment negotiations that IDA prepare a multiyear CAS for each borrower for discussion with the Board of Executive Directors.¹¹⁸ Since then, replenishment recommendations have given increasing attention to the CAS as a planning document and as a process for sharpening IDA's poverty focus and increasing its programmatic selectivity.

5.3 IDA has largely complied with the recommendations to make CASs more poverty focused, more comprehensive in their diagnosis of development challenges, and more participatory as a programming process. The CAS has increasingly become a vehicle for strengthening country ownership and enhancing aid

117. Replenishment report comments about the CAS, and later about the PRSP, are really about the underlying strategy IDA is following in each country.

118. Prior to that decision, the Bank had routinely prepared Country Strategy Papers (CSPs), but these were confidential documents that were neither shared with the Board nor, in most cases, with the borrower governments. From 1991 to 1994, CASs were prepared for Board discussion on a parallel track with CSP preparation for management. Thereafter, the CAS became the single strategy document for both management and Board review.

coordination. But CASs have not yet achieved the degree of strategic selectivity called for in IDA11 and 12—based on greater specialization and coordination with other assistance agencies at the country level.¹¹⁹

5.4 **CAS content and lending programs.** Since the start of IDA10, internal CAS guidelines have evolved broadly in line with replenishment recommendations. Current guidelines call for a comprehensive diagnosis of countries' poverty challenges and identification of measures to speed improvement. They stress selectivity and partnerships and encourage stakeholder participation in CAS preparation. And as of July 1, 1999, they have mandated the public release of IDA CASs.

5.5 Since 1998 management has issued three retrospectives on how well the CAS process meets those guidelines.¹²⁰ These and other reviews find notable improvements in CAS coverage and content. Analytical work is often well reflected in the CAS,¹²¹ though analytical weaknesses still constrain the policy relevance of the diagnosis:

- The poverty focus and diagnosis of CAS documents have been strengthened (as noted in Part II).
- Governance has received significantly more attention in recent CASs.
- Attention to the role of other donors has also improved.
- Problems remain with the timeliness of public expenditure reviews and the uneven treatment of gender, environment, and private sector development (see Box 5.2 on the increasing use of joint IDA-IFC CASs, which should improve attention to private sector development).

Box 5.2. Joint IDA-IFC Country Assistance Strategies Highlight Private Sector Development

Joint IDA-IFC CASs, introduced in fiscal 1997 to foster closer coordination and cooperation with IFC, may lead to more strategic attention to private sector development. More than half of IDA CASs in fiscal 2000 were prepared jointly with IFC. These CASs feature a shared diagnosis and agenda for action for private sector development. The 1999 CAS retrospective study notes that joint CASs have promoted dialogue on IFC's role and strategy in the country beyond individual operations. The Azerbaijan CAS (fiscal 2000) specifies how IFC activities will complement IDA assistance to the financial sector and identifies a number of priority areas for IFC involvement in private sector development. A review of fiscal 2000 IDA CASs found that joint CASs generally contain a more coherent, comprehensive treatment of private sector development and financial sector issues and often include a discussion of past experience and lessons learned in these areas.

5.6 Most CASs are now prepared through a participatory process involving the borrower government and usually civil society and donors. Consultations carried out for this review found that participants in some countries viewed the process as an effective effort that had influenced the CAS design. In other countries, participants expressed frustration with the apparent lack of impact beyond greater information on the IDA program.¹²²

119. This assessment is based primarily on the first two CAS Retrospectives undertaken by the Bank (see World Bank, *Country Assistance Strategies: Retrospective and Outlook*, 1998 and World Bank, *CAS Assistance Strategies: Retrospective and Implications*, December, 1999). In addition, IDA Review team members conducted reviews of CAS coverage in specific program areas of emphasis as part of thematic background reports. A third retrospective, *Country Assistance Strategies: Retrospective and Implications*, has recently been completed.

120. See Bank Procedure (BP) 2.11 Annex A, *Content of Country Assistance Strategy Document*, January 1995.

121. The improvement noted here refers to the CAS document in particular; many of these practices previously occurred in the country strategy papers that did not go to the Board or the countries.

122. The 1999 OPCS CAS Retrospective (World Bank, *CAS Assistance Strategies: Retrospective and Implications*, 1999) found that even as recently as the first half of fiscal 1999, only 40 percent of CASs had "extensive" civil society consultation.

5.7 A review of lending programs in a sample of countries (including the countries visited in IDA Review consultations) showed a reasonably close correspondence between program discussed in the CAS and actual lending, although many projects were not tightly linked to the underlying CAS analysis (see Part II).¹²³ The CAS process was also found to be flexible enough to drop or delay lending when circumstances change or governments prove reluctant to carry out agreed reforms, or to introduce new operations when priorities change, especially in emergencies or when unexpected opportunities emerge, such as a change in government. Nonlending services are less well discussed and prioritized, both the “due diligence” economic and sector work and the program-specific analytical work that underpins lending.

5.8 **Strategic selectivity.** Improvements in coverage and consultation have not yet been accompanied by much increased strategic selectivity in the design of country programs. Many CASs present criteria for choosing among options, but proposed lending operations do not consistently reflect those criteria.¹²⁴

5.9 The CAS retrospective analyses of 1998 and 1999 found that a majority of CASs discuss coordination with other donors and comparative advantage in broad terms, but fewer than 40 percent cover selectivity in program design for key areas. Recent CASs have been more attentive to the activities of other donors, but few link IDA’s strategy with its comparative advantage or prioritize activities by sector and instrument (an IDA12 recommendation). As the 1999 retrospective stated, “while many CASs use the *vocabulary* of strategic selectivity—mentioning comparative advantage, track record, choice of instruments, and so on—few actually use selectivity itself as an analytical tool for focusing on certain sectors or themes and exiting from others. Furthermore, very few spell out why particular lending or nonlending instruments were selected.”¹²⁵

5.10 Several factors have contributed to this limited progress in programmatic selectivity:

- A reluctance to withdraw from activities and to rely on partners to assume responsibility.¹²⁶ Once significant staff and budgetary resources have been invested in identifying and preparing a new area of operation, that activity tends to remain in the program even if it is no longer fully consistent with strategic selectivity. Borrowers also often prefer that IDA stay and that it take the lead across a wide range of issues.
- Contradictory directions set by replenishment commitments. Endorsements of overall selectivity and selectivity within country programs are accompanied by exhortations for IDA to engage in the full range of development issues. Recommendations of new areas of emphasis, such as governance or the financial sector, are not offset by specific recommendations for reduced attention elsewhere. The replenishment reports have adopted the rhetoric of partnership but have not yet consolidated mandates or explicitly recognized where IDA could “comply through others.”

123. For that purpose, the IDA Review Team examined the CAS documents and the actual lending programs for a set of nine focus countries in order to identify differences between the programs as proposed in the CASs and the actual approvals of lending operations in subsequent years.

124. There is an important distinction to be made here between areas of IDA involvement in underlying strategic work—on which not only its own but other lending often depends—and its involvement at a major level in lending. IDA tends to be needed in all critical areas because other agencies are not equipped or willing to do the sharp analytical work needed to map out a sector strategy; but it need not follow that it play a major financing role in all of the sectors. This, however, raises budget resources issues, discussed in Part IV.

125. World Bank, *CAS Assistance Strategies: Retrospective and Implications*, 1999, p. 43. The 2000 CAS review further confirms that this remains an issue in need of greater attention.

126. The recent OPS CAS Retrospective (World Bank, *CAS Assistance Strategies: Retrospective and Implications*, 1999) found that only 38 percent of CASs cited donor involvement as the reason for no Bank activity in a given area. This has in some cases reflected the express preference of clients that IDA stay involved, in other cases reflected competing sectoral perspectives, and in still others resulted from the failure of a partner agency to deliver in an area of assumed leadership.

5.11 Programmatic selectivity is better in fiscal 2000 CASs, though progress is uneven. The Mozambique CAS notes, for example, “to the extent that other partners have a strong presence and comparative advantage [in the social sectors] and are willing to finance activities on a grant basis, the Bank will scale back IDA’s financing contribution.” The proposed lending and nonlending programs seem to apply this principle well. The latest CASs also show a marked increase in performance benchmarks, which should enhance attention to development results. In three self-evaluation pilots (Bolivia, Mali, and Yemen), progress benchmarks that clearly differentiate between country and IDA performance indicators will be used in ongoing evaluations of program impacts by the country teams. Improved monitoring at the country, sector, and project levels will also be needed if more use of benchmarks is to encourage strategic selectivity favoring areas in which IDA is demonstrably contributing to results on the ground.

5.12 ***Building in the CDF and PRSP processes.*** The CDF and PRSP initiatives have major implications for the CAS. The PRSP process is expected to become the vehicle for applying the CDF principles to country assistance efforts and for focusing IDA and other donor support on countries’ own development priorities. PRSPs and joint Bank/Fund assessment of them will also provide comprehensive diagnosis for the bulk of IDA country lending and nonlending programs. The participation built into the PRSP process will lessen the need for participation in CAS preparation. Management has indicated that as of July 1, 2002, CASs will normally be based on PRSPs and will become business plans for the World Bank Group.¹²⁷

5.13 CAS content will change, but not the challenge of achieving greater selectivity in program priorities and instruments and setting performance benchmarks. Countries’ presentations of their own strategic priorities and monitorable targets in their PRSPs should make this easier. But CASs will still need to make strategic choices based on IDA’s corporate goals and comparative advantages and the activities of other assistance agencies.

5.14 Experience shows that IDA’s comparative advantage is mainly at the strategic level—helping countries improve their overall economic management and policy framework, set sector strategies, and implement sector-wide reforms. This view of IDA’s role was widely endorsed in country consultations. New programmatic lending in support of countries’ PRSPs conforms to this strategic role, though to be effective it requires a major investment in improving countries’ public expenditure management systems and financial accountability. Also, as discussed below, IDA should make more use of sector-wide programs as building blocks of the PRSP process, basing its involvement on its corporate objectives and implementation strategies as set out in Bank sector strategy papers.

5.15 Converting the CAS to an IDA business plan supportive of a country’s poverty reduction strategy also has implications for performance-based allocation. The PRSP, CAS, and IDA-performance-based allocation process all need to be reconciled with each other, as discussed below.

Strengthening the System of Performance-based Allocations

5.16 IDA’s performance-based allocation system for rationing lending resources is its principal mechanism for achieving country selectivity. The system has evolved over the IDA10-12 period to reflect new knowledge and IDA replenishment recommendations. These changes have strengthened the link between countries’ policy and institutional performance and lending levels. Further adjustments are needed to fully ensure equitable treatment of countries, to strengthen the links between actions that matter for poverty reduction and CAS lending scenarios and lending allocations, to apply performance criteria

127. See World Bank Operations Policy and Strategy (OPS), *Supporting Country Development: World Bank Role and Instruments in Low and Middle Income Countries* (Report No. DC/2000-19), September 2000.

transparently and consistently, and to open the performance-based allocation system to more public scrutiny.¹²⁸

5.17 Since 1977 the Bank has had a system that generates an indicative allocation of all IDA funds available for the next three years, taking into account country performance. Under the system's current terms, the evaluation of borrowers' performance is based on implementation of sound policies and institutional arrangements conducive to sustainable economic growth and poverty reduction within a framework of good governance—assessed through the Country Policy and Institutional Assessment (CPIA)—and effective implementation of their IDA portfolio (see Box 5.3).¹²⁹

Box 5.3. The Performance-Based Allocation System

The performance-based allocation system annually allocates all IDA funds available over the following three years in a three-step process.

Step one: assessing country performance. Staff prepare two annual ratings of each borrower's performance, the Country Policy and Institutional Assessment (CPIA) rating and the IDA portfolio performance rating, currently combined in an 80 to 20 ratio. CPIA ratings derive from an unweighted average of 20 indicators that relate to four sets of concerns: economic management, structural policies, policies for social inclusion, and public sector management and institutional arrangements. Policies are the key, not actual outcomes. The combined performance rating is reduced by a third for borrowers found to have severe governance problems—the "governance discount."

Step two: determining the indicative allocations. Performance ratings are factored into a formula to arrive at a three-year indicative, or "norm," allocation of IDA resources for each country. The formula ensures that the resource allocation rises faster than the performance rating, allowing a considerable reward for countries at the upper end of the performance scale. Population size and GNP per capita are also factored in. IDA management determines the approved allocations in light of the norm allocations and other relevant factors. Maximum and minimum lending conventions apply, and allocations for some special case borrowers, including effective IDA-blend and eligible post-conflict countries, are not driven by the formula.

Step three: relating the allocations to CASs. The approved allocation generally forms the base case lending scenario for each CAS (or CAS update) presented to the Board for review. But CASs do not provide information on the country performance ratings or the norm and approved allocations underlying the base case lending scenario, and there is no link between the performance-based allocation system and the alternative CAS lending scenarios (the high and low cases).

5.18 Today, the performance-based allocation formula directs more resources to good performance than it did at the beginning of the period.¹³⁰ For every \$1 per capita lent to the median IDA borrower in fiscal

128. Management questions the analytic underpinnings to the OED conclusions and notes that the facts in the Review and in the background paper support a conclusion that IDA's allocation system has consistently functioned effectively, achieving an allocation that is significantly more performance-based than concessional assistance as a whole. Though there is no room for complacency, it has improved over time and fulfills the donor mandate specified in IDA12. In particular, management believes that the governance discount has served a very useful function. Lending has been reduced sharply in countries with very weak governance. In addition, the process has served to highlight governance weaknesses in countries that do not actually receive a governance discount. While all parts of the performance-based allocation system are reviewed systematically for possible improvements, including the governance discount, Management does not believe it needs to be substantially altered. Management will continue to work to refine the system, in consultation with IDA Deputies and others, including donors that have adopted similar systems.

129. This section draws on the background study, *Review of the Performance Based Allocation System, IDA10-12* (Washington, D.C.: World Bank, 2001), which is available on request.

130. Some recent Bank research has indicated that there has also been considerable movement of the totality of ODA in the direction of better performance. According to this work, in 1990 IDA's efforts to link aid to performance were essentially undermined by other aid flows that did not appear to make that linkage. By 1997–98, however, the situation had changed markedly for the better: an increase of \$1 million of aid allocated on total ODA terms would by then have lifted an estimated 284 more people out of poverty, while the corresponding number for IDA was 434. While indicating that the numbers need to be used with caution, the work suggests that the differentials are quite robust. See Collier and Dollar, *Aid Allocation and Poverty Reduction*, 1999.

1993–95, about \$1.20 went to those ranked in the top quintile by performance and \$0.85 to those in the lowest quintile. By fiscal 1998–2000, the spread had widened, with \$2.10 per capita going to the best performers and \$0.60 to the poorest. But there is relatively little difference in lending per capita among the middle three quintiles, and because many in the top quintile are relatively small, the bulk of IDA lending, in absolute terms, goes to the middle rated performers.

5.19 *Complying with design and implementation recommendations for the performance-based allocation system.* Consistent with replenishment recommendations, the design and implementation of the performance-based allocation system has been improved:

- Policy performance criteria have been amended to reflect increased knowledge about the causes of growth and poverty reduction and instructions in IDA replenishment agreements.
- Staff have worked to improve the consistency of assessment and review processes across countries.
- Allocations take into account borrowers' performance on existing IDA credits.

5.20 Country allocations may be raised above normal performance-based allocation levels under certain circumstances, such as for post-conflict borrowers (see Box 5.4). In fiscal 2000, allocations above the norm also continued for many transition economies of Europe and Central Asia and for a few better performing Sub-Saharan African countries. For post-conflict countries, a modified process with explicit criteria for eligibility has been established; in other cases, the CAS will need to explain the rationale for the deviation.

5.21 *Improving the performance-based allocation system.* Notwithstanding the many improvements, shortcomings remain in the design and implementation of the performance-based allocation system. These shortcomings relate to two issues that are fundamental to the system's relevance and credibility: the extent to which the system ensures reasonably equitable treatment across countries, and the strength of the links between CPIA performance criteria and countries' further poverty reduction. To improve the handling of these two issues, further adaptations of the system are suggested.¹³¹

- *Establish a written record.* Staff rating a country should provide written rationales for their ratings on each CPIA criterion. Without them, it is difficult to ascertain whether criteria have been interpreted similarly across countries and regions and applied consistently (despite the significant efforts of IDA management to improve consistency).¹³²

Box 5.4. A New Approach to IDA Allocations to Post-Conflict Borrowers

The performance-based allocation system has been modified to better align IDA allocations with the exceptional financial needs of post-conflict IDA countries while still maintaining a focus on policy performance. The modified allocation process includes:

- Eligibility criteria for countries warranting exceptional treatment.
- Re-engagement criteria to determine the size of the initial allocation.
- Post-conflict progress indicators to assess performance in post-conflict countries eligible for exceptional treatment.
- Limits on the duration and volume of exceptional allocations.

The post-conflict progress indicators consolidate CPIA indicators, refined and regrouped to reflect the realities of countries affected by conflict, with a new cluster of indicators relating to public security, reconciliation, and demobilization and disarmament.

131. Included here are suggestions of broadest implication; the background report also recommends more detailed adjustments and a discussion of some additional issues that might usefully be considered that would: 1) provide for alternative allocation mechanisms; and 2) ideas on how the PBA might need to be adapted in light of the PRSP process now in course of being introduced for all IDA borrowers.

132. Moreover, it is impossible to claim that the system is transparent (a goal urged by the replenishment reports); and in disclosing the PBA process, as discussed below, IDA would be exposed to a credibility risk in the absence of such records. Though this

- *Improve the design of the rating systems.* The CPIA rating criteria, which account for 80 percent of the overall performance rating, have evolved to reflect increased knowledge of the determinants of growth and poverty reduction and IDA replenishment recommendations. There is room for further development of the CPIA and IDA portfolio performance rating systems (as suggested in Box 5.5).¹³³

Box 5.5. Suggested Changes for the Performance Rating Systems

For the CPIA system:

- Remove criteria not shown by research to be important for growth and fund research to identify policies that lead to poverty reduction (beyond that achievable by growth alone).
- Assign appropriate weights to the criteria.
- Ensure that each CPIA criterion consists of just one element that can be appropriately rated and reviewed.
- Develop consistent definitions for each rating level for each criterion, with similar interval values between equivalent ratings for each criterion.
- Ensure that each criterion rates policy performance rather than level of development, rewarding equally all borrowers doing everything feasible in their situation.
- Ensure that each criterion can be objectively assessed and that IDA has the capability to assess it.
- Redefine the governance indicators in light of ongoing consultations and research.

For the IDA portfolio performance rating system:

- Separate the responsibilities of the borrower and of IDA for portfolio performance (a task now being worked on by IDA management).
- Remove the counterintuitive (but substantial) positive effect on ratings resulting from the cancellation of poorly performing projects.
- Adjust the rating scale to make it compatible with the CPIA rating scale, with which it is combined.

- *Rethink the governance discount.* The governance discount, introduced in 1998, is not working as intended, except to show that IDA takes governance seriously. By the second year of operation, only borrowers with the very lowest overall CPIA ratings were affected. Yet the discount did not capture some borrowers whose governance has raised serious concerns, sometimes to the point of curtailing IDA lending. Further study is needed on how to achieve both equitable outcomes and a more substantial cut in lending to countries that fail to improve governance, even if their other performance ratings are average. In particular, more work is needed on establishing better governance indicators, such as that under way within the Bank involving discussion with researchers outside the Bank and IDA's partners.
- *Relate the performance-based allocation system to the CAS and PRSP processes.* Although the approved IDA allocations that emerge from the performance-based allocation process are reflected in most CAS base case lending scenarios, two improvements are needed. First, as recommended in the IDA12 replenishment report, each CAS should discuss the rationale for the base case lending scenario. This is especially needed when the approved allocation differs from the norm allocation or when it is made without applying the allocation formula (as in the case of blend countries). Second, the

suggestion was not formally costed, a rough estimate indicates that implementation of the system costs about \$700,000 per year—a reasonable figure for a system that allocates some \$20 billion annually—and establishing a written record might add 50–100 percent to that amount.

133. IDA management intends to undertake a major review of CPIA design in the coming year. This report recommends that close involvement of IDA's partners might usefully be built into that review.

triggers¹³⁴ recommended in the CAS for moving to higher levels of lending need to be clearly linked to CPIA criteria for measuring performance. And as the CAS becomes focused on support of countries' PRSPs, consistency will be needed between the CPIA criteria and those suggested in the guidelines for Bank/Fund Joint Staff Assessments of PRSPs..

- *Increase disclosure.* More than anything, the process needs greater transparency and dialogue with partners. Recently, the Bank disclosed the performance-based allocation methodology on its Web site and has discussed it with some development partners. But disclosure has not yet led to the two-way dialogue recommended in the IDA12 replenishment report. Individual performance ratings are not disclosed, although countries are publicly listed by performance quintile. A recent Board decision authorized disclosure of ratings to individual borrowers and asked for further analysis of disclosure. Fuller disclosure is needed to ensure equitable treatment of countries, to share the knowledge of outside parties in the continuing appraisal and evolution of the system, and to use the system as a diagnostic tool for enhanced partnership rather than simply a means of rationing IDA resources.¹³⁵ This change fits in well with efforts to build more effective development partnerships through increased country ownership, improved donor coordination, and distinct donor and recipient accountabilities for effective use of aid.

5.22 *Assisting poor performer countries.* As intended, greater selectivity has resulted in lower lending allocations for countries with poor policy performance. Nonetheless, IDA's core objective of poverty reduction requires continuing engagement with these countries. Poor policy performance can be due to weak country capacity as much as to weak commitment by leaders. While adjustments in some CPIA criteria could make this distinction clearer, the main issues are to identify assistance instruments that can be used effectively in weak policy environments and to ensure the adequacy of budget resources for nonlending services where lending is limited.

5.23 The replenishment recommendations encouraged IDA to remain engaged in countries with poor policy performance through well-tailored country strategies and quality nonlending services, complemented by targeted lending where appropriate. They also urged IDA to respond promptly to changes in performance and to develop a comprehensive approach for activities in post-conflict countries. IDA has broadly complied with these guidelines, though project outcomes have been persistently lower in countries with poor performance. A recent QAG review of ESW has also found, based on a relatively small sample of activities over a limited time, that the quality of ESW has also been lower in countries with poor performance ratings, while CAEs and interviews with country staff emphasize the inadequate stock of analytical work in these countries.

5.24 OED evaluations emphasize five main lessons for assisting poor performing countries:

- Giving primary attention to governance issues and weak institutional capacity, which can undermine project implementation.
- Avoiding complex project designs and overestimating implementation capacity—simple, social fund type projects may be best.

134. Triggers define the specific conditions for moving to higher or lower lending scenarios. Most commonly stated triggers are macro-fiscal performance, structural reform and portfolio triggers. For a detailed discussion of trigger content see World Bank, *Country Assistance Strategies: Retrospective and Outlook*, 1998, p. 27–30.

135. There are legitimate obstacles to fuller disclosure—including the need for a written record and the IBRD borrowers concern that disclosure of their ratings could negatively affect their financial market ratings; but these considerations could and should be addressed in the review of the system planned by management in the coming year.

- Using innovative lending instruments (such as adjustable program loans and learning and innovation loans) that sequence assistance over time and use delivery mechanisms that can more directly reach intended beneficiaries.
- Ensuring close supervision and good aid coordination, suggesting the value of having a presence in the field.
- Applying a *differentiated approach to economic and sector work in weaker policy environments, including strong supervision and enhanced quality assurance.*¹³⁶

5.25 One implication of these lessons is the need for a high level of budget resources relative to lending in weak policy and institutional environments.

136. See *Annual Review of Development Effectiveness: From Strategy to Results*, 2001.

6. Building More Effective Partnerships

6.1 Building more effective partnerships with borrowers and other development agencies is the second major process reform emphasized in the IDA10-12 replenishment recommendations. Increasing the participation of borrower countries' governments, civil society, and the private sector and improving coordination in development partnerships are the key features of that reform.

Moving Beyond Project Participation

6.2 As urged by replenishment recommendations (see Box 6.1), participation in IDA projects has increased considerably since the start of IDA10, though staff are still learning how to most effectively engage stakeholders. Participation in analytical and policy work is increasing, but questions of representation, approach, and costs remain.¹³⁷

Box 6.1. IDA10-12 Replenishment Commitments on Improving Development Effectiveness through Partnerships

IDA10 recommendations emphasized increasing the participation of primary stakeholders in IDA-assisted projects, environmental assessments, and Country Assistance Strategies (CASs); giving more attention to governance; and building staff capacity to promote participation. IDA11 and 12 added increasing participation in economic and sector work, particularly the analytical work to underpin a sharpened poverty focus (the poverty assessments, social sector reviews, and public expenditure reviews) and encouraging borrower governments to broaden public participation in their own projects and programs. IDA10 also emphasized better coordination among donors, while IDA11 and IDA12 recommended greater programmatic selectivity based on IDA's comparative advantage. IDA12's emphasized country-led partnerships that combine country ownership and donor coordination.

6.3 **Record on participation.** Stakeholder participation in IDA-financed projects increased substantially:

- In a random sample of 88 IDA projects, the share with participation by primary stakeholders increased from just under 45 percent to 83 percent and the share with a high level of participation (beyond consultations) increased from 29 percent to 50 percent.
- The share of IDA CASs prepared with participation by members of civil society groups rose from 20 percent to nearly 70 percent.

6.4 Yet the Bank has no overall policy on participation and has produced no major policy statement since the 1994 report *The World Bank and Participation*.¹³⁸ Some 15 operational directives and operational policies address participation, but the lack of clear policy guidelines is particularly evident in economic and sector work and in support to governments to broaden participation in policy and sector program design. Thus, progress has been more limited in new areas of emphasis in the replenishment mandates:

- Participation has been greatest in poverty assessments, though the share has remained at 60–70 percent since IDA10 despite repeated directives to do even more. There has been less participation

137. This section draws on the *OED Participation Process Review* (Report No. CODE2001-0031) April 2001. Additional review was conducted of IDA specific participation issues and reported here.

138. Prepared by the Participatory Development Learning Group, which was established in 1990.

in public expenditure reviews and other economic and sector work,¹³⁹ though borrower governments, civil society, and other donors have been more involved in recent initiatives.

- Efforts have increased to encourage governments to include broad participation in their own activities and to create an enabling environment for participation. However, there is little guidance on this matter and little evidence on what has been done.¹⁴⁰ The PRSP process represents a significant departure by including broad-based participation in its formulation, implementation, and outcome-based monitoring as one of five core PRSP principles. Experience with this enhanced participation at the strategic level should be tracked and evaluated with IDA's partners.

6.5 Quality and effectiveness have not always kept pace with participation in projects, CASs, and underlying diagnostic work. Best practice participation efforts in projects have often remained islands of success. Government participation in preparing CASs has become routine, but the quality and impact of civil society engagement remain highly variable. In the best cases, both IDA staff and stakeholders have noted an improved focus in the CAS. But examples of best practice are still infrequent, and participants receive little feedback. Much the same can be said about participation in economic and sector work. When efforts have been made to work collaboratively, quality and capacity building have benefited, but the costs are high and examples of best practice are few.

6.6 ***Constraints on effective participation.*** Perhaps the key obstacle to effective participation is the lack of understanding by IDA and government agencies of what needs to be done to help communities organize to contribute meaningfully to project design and to build institutions for project implementation that represent diverse interests. Weak governance also plays a role. Government resistance remains a major constraint to participation in countries, while staff incentives and resources are the biggest constraint in the Bank.

6.7 Costs are another significant factor. Wide consultation is expensive, for borrowers and IDA. For stakeholders (including government and communities), the costs of participation averaged between 2 and 12 percent of total costs in eight case study projects.¹⁴¹ Only limited information is available on Bank costs, which come mainly during the preparation of operations, but they appear to be substantial, though less than costs to governments. Three case study projects had preparation costs of \$22,000–\$75,000, much of it covered by trust funds. Costs of participation in CAS preparation ranged from 4 to 30 percent of the total (as high as \$50,000–\$60,000, when participation was extensive).

6.8 These factors suggest a need to build and disseminate best practices in participation and to guard against requirements or expectations that are too high. Particularly for institution building reforms, the strategy articulated by government has to be internalized at administrative and sub-national levels. Consultation with the private sector and civil society needs to reinforce, not conflict with, democratic political processes, including parliamentary processes.

6.9 ***Implications for IDA policy.*** While efforts to build participation into IDA-financed projects continue, more emphasis is needed on building countries' capacity to make their own policy and program processes more participatory. It is not clear that this is an area of IDA's comparative advantage; its support in this regard may, therefore, need to be worked out in closer partnership with others.

139. See OED, *The Impact of Public Expenditure Reviews: An Evaluation*, 1998.

140. The PRSP process represents a new and significant departure—including as one of five “core principles” a broad-based participatory process in formulation, implementation, and outcome-based monitoring.

141. Governments bear most of the costs, often financing them with resources from the project loan. Communities also bear significant costs for project participation, contributing labor, materials, cash, and time.

Improving Aid Coordination

6.10 Few of the program and process objectives emphasized in the IDA replenishment reports can be achieved without better aid coordination. During IDA10-12, the focus expanded beyond the mechanics of donor agency coordination to improved aid management, led by recipient countries, with donors directing support to sound country-designed policies and programs. Replenishment recommendations reflect this evolving perspective. Still, progress has been limited, and uncoordinated aid programs continue to impose heavy burdens on recipient countries and to limit the impact of aid agencies' programs.¹⁴²

6.11 *Compliance in building partnerships.* Until the past few years, IDA had made only modest progress in complying with commitments that entailed actions within its own control. But the momentum has accelerated recently, with the Partnership Initiative of 1998¹⁴³ and the CDF and PRSP processes. IDA's initial translation of these initiatives into operational policies, procedures, and organizational changes and its work with other multilateral development banks on harmonizing processes and procedures are encouraging developments.

- Most of the progress in strengthening coordination with bilateral aid agencies has occurred in the field. Weak commitment has slowed procedural and policy reforms at the agency level.¹⁴⁴ Posting IDA country directors in the field has improved in-country coordination, and greater use of in-country coordination groups of donors and government has shown some positive results. Still, complaints persist about IDA's inadequate consultation with other donors on country programs and its lack of transparency and timeliness in sharing information and providing feedback.
- IDA management has conveyed to staff the need to address programmatic selectivity at the country level in consultation with borrowers and other assistance agencies. Management has also provided increased guidance through directives on the CASs and the sector strategies. A recent report on the eight country CDF pilots notes progress, though still limited, in achieving greater selectivity on the ground.
- IDA-led Consultative Groups and local coordination forums are moving toward country-led partnerships. Some Consultative Group meetings are now held regularly in borrower countries (Bolivia, Ghana, Tanzania, and Uganda).
- The Strategic Partnership with Africa (SPA), launched in 1987 and chaired by the Bank, has continued to evolve and deepen coordination processes. While its initial focus was on quick-disbursing resources to support economic reforms, sector programs are now receiving significant emphasis.¹⁴⁵

142. This section draws on the OED IDA Review background study, entitled *Review of Aid Coordination in an Era of Poverty Reduction Strategies, IDA10-12* (Washington, D.C.: World Bank, 2001) and OED, *Review of Aid Coordination and the Role of the World Bank* (Report No.19840), October 1999.

143. See *Partnership for Development: From Vision to Action*, Partnerships Group, Strategy and Resource Management, World Bank, 1998.

144. With other multilaterals, improvements, though limited, have come at the headquarters level, while results in the field have been mixed.

145. This informal forum was originally known as the "Special Program of Assistance for Africa" and largely involved discussions among donors; but both purposes and processes have changed over time. See OED, *The Special Program of Assistance for Africa (SPA). An Independent Evaluation* (Washington, D.C.: World Bank, 1998).

- Work with other agencies is moving forward on a comprehensive approach to guide assistance to post-conflict countries, and a new operational policy statement has been issued based on extensive consultations with other donors, civil society, and NGOs.¹⁴⁶
- As discussed in Part II, IDA has increased its participation in sector-wide approaches, which combine several reinforcing elements: government leadership in the design of a strategy set within a medium-term expenditure framework; external assistance in support of the strategy objectives; and agreed indicators for monitoring performance and progress.¹⁴⁷ Donor support takes various forms—from pooled financing in a few cases to separate investment projects within the sector-wide framework—and the open discussion of differences in approach gives governments an opportunity to choose among alternatives. Sector-wide approaches also provide an important means of advancing sector reforms and addressing implementation capacity problems in countries' poverty reduction strategies. Both governments and donors support this approach, but harmonization of donor procurement and other procedures remain a problem.¹⁴⁸
- The PRSP process has increased coordination between the Bank and the IMF in low-income countries. A Joint IMF–World Bank Implementation Committee was established in May 2000 to oversee the Heavily Indebted Poor Countries (HIPC) debt relief initiative and the PRSP program. A primary concern has been to establish a common approach to the HIPC initiative and PRSP and to ensure that countries receive consistent messages from both organizations. PRSP missions are conducted jointly, and a joint staff assessment accompanies the documents to the Bank and IMF Boards. The PRSP process, strongly supported by borrowers and other assistance agencies, could become the major vehicle for increasing donor coordination at the country level.

6.12 Overall, the principles of country ownership and partnership now inform IDA's strategies and priorities on many fronts. Still, IDA has not yet fully aligned its own practices and procedures with these new approaches. Nor have IDA and other assistance agencies adequately harmonized their policies and procedures to fit this framework.

6.13 **Implications for IDA's future role.** Moving forward depends on the acceptance of mutual responsibility and distinct accountabilities for achieving development outcomes on the part of IDA, its borrowers, and other development partners. Borrower countries need to take responsibility for implementing sound policies and building effective institutions, underpinned by transparent, accountable systems of financial management and evaluation. And development agencies need to take responsibility for the predictable delivery of quality aid—through coherent support for agreed objectives, better coordination and division of labor along lines of comparative advantage (including a willingness to gear up to provide diagnostic work in areas of leadership), and efficient aid delivery aligned with capacity building and country-led efforts.

6.14 More concretely, IDA should concentrate on three interrelated measures:

- Carrying through with the IMF on institutionalizing joint support of the PRSPs, including strengthening collaboration with other agencies supporting countries' poverty reduction strategies.

146. IDA Review, *Review of Aid Coordination in an Era of Poverty Reduction Strategies*, IDA10-12, para. 43–46.

147. Ibid, para. 59–64. New SWAp initiatives being pursued by IDA in Cambodia and Vietnam are explicitly justified by expectations that they will simultaneously result in enhanced country capacity and ownership, more coherent donor support to country sector strategies, and, once established, greatly reduce aid delivery transaction costs.

148. See Richard Johanson, 2000; Stephen Jones, *Increasing Aid Effectiveness in Africa? The World Bank and Sector Investment Programmes* (forthcoming), and *Tracking of Support Provided under Sector Programs*, 1999. Special Program of Assistance for Africa (SPA) Working Group on Economic Management—Report prepared by the Task Group. SPA Plenary Meeting, June 1999.

- Promoting expanded use of sector-wide programs as building blocks of the PRSP process, drawing on experience to refine and strengthen core processes, encouraging a lead donor model to reduce transaction costs for recipients and donors, and adjusting its own processes and procedures to facilitate effective participation.
- Pursuing strategic selectivity at the corporate level, based on sound sector strategies, and the integration of those strategies into CASs consistent with countries' own poverty reduction strategies.

6.15 In addition, this review recommends that IDA be asked by its donors to assume a stronger role in accelerating donor coordination to reduce transaction costs for recipients of aid from multiple sources and to strengthen country capacity for managing and coordinating aid resources. The forces working against donor coordination and harmonization are strong. As the preeminent multilateral development finance institution focused on poverty reduction, IDA has the potential to facilitate change. The agency-level agenda goes beyond important procedural issues, such as procurement and reporting, to the policy and strategic issues of division of labor, aid delivery mechanisms to enhance ownership and capacity, and performance-based allocations. The time for real progress is long overdue. Yet there is still no standing mechanism to ensure high-level agency commitment. IDA should be encouraged to initiate and manage a conference of bilateral and multilateral agency heads to agree to a time-bound, monitorable plan of action.

Directions for the Future

6.16 The process reforms reviewed here—in program and country selectivity and partnerships based on greater participation and better aid coordination—are essential for greater development effectiveness. These reforms need to be pursued simultaneously to maximize their impact. Most of the improvements are needed at the country level, in the design and implementation of assistance projects and programs. But agreement is also needed at the agency level to adjust policies and procedures to support improved country assistance programs. Part IV turns to internal adjustments that IDA needs to make to support these development effectiveness measures.

Part IV. Getting to Results

IDA replenishment commitments have been broadly consistent with an evolving consensus in the international development community¹⁴⁹ and have encouraged IDA to move in directions relevant to the needs of borrower countries. As a result, IDA in FY00 is very different from IDA in FY94. Still, translating key objectives into monitorable programs and verifiable results remains unfinished business. Issues of accountability for policy compliance, instrument choice and program monitoring, and alignment of resources with priorities need closer attention. Further organizational change, as recent management reviews and proposals indicate, is required if the broad policy framework laid out in the IDA replenishment reports is to bring desired results.

While the period covered by this review has been one of considerable change—in borrower countries, in IDA, and in the international development system—IDA and its partners are still putting core elements of the IDA10-12 framework into practice, reinforced by the new initiatives that have come into play in IDA12. For the immediate future, the principal needs are to consolidate mandates, focus on implementation strategies, and direct resources to agreed new program priorities and processes.

149. IMF/World Bank Development Committee Communiqué, 2000. Available at <http://wbln0018.worldbank.org/dcs/devcom.nsf>.

7. Corporate Issues

7.1 Over the seven-year period covered by this review, IDA management has repositioned IDA and recast its mission statement in line with its replenishment commitments. It has:

- *Refocused and broadened the development agenda.* As discussed in Part II, IDA has sharpened its poverty focus, though helping countries accelerate equitable and sustainable growth remains a challenge. IDA has also expanded its agenda, giving more attention to governance and institutional impediments, devising new approaches for aiding post-conflict countries, and assisting in the unprecedented challenges facing transition economies.
- *Increased responsiveness to borrowers.* The World Bank Group has moved program staff to the field, including 24 of 51 country directors. This has enhanced aid coordination at the country level and improved dialogue—with government and civil society—about policies and priorities.¹⁵⁰ For many IDA countries, Bank leadership in implementing the enhanced HIPC debt relief initiative has also responded to a key development impediment. In addition, project preparation, appraisal, and approval have been accelerated—thus dealing with a long-standing complaint of borrowers.
- *Diversified instruments.* IDA has introduced new lending and nonlending products and services—including Adaptable Program Loans, Learning and Innovation Loans, new programmatic adjustment credits, more sector-wide programs with development partners, and due diligence analytical work. It has also stepped up efforts to build more effective partnerships in support of country development—through the CDF and PRSP initiatives, though both are too new to assess. In addition, several new global and regional initiatives are important to IDA countries—including the new \$500 million African HIV/AIDS program.
- *Improved quality of the IDA portfolio.* Better outcomes have raised the overall performance of IDA’s portfolio close to that of the IBRD. This is a major achievement. Of course, quality at entry remains below 100 percent; and the long-standing issues of uncertain and unlikely sustainability and limited institutional development continue to impede long-term impact. Performance in Africa has improved but has not yet reached the level in other regions; and some sectors remain problematic, including rural development.

7.2 While these changes have positioned IDA to advance core commitments, implementation remains a challenge. Three main implementation shortfalls—in strategic selectivity, support for country ownership and capacity building, and focus on and accountability for results—need to be addressed through adjustments in the following corporate management issues.

Accountability for Policy Compliance

7.3 A recent management report to the Development Committee stated “while the country must ‘own’ its vision and program, the Bank must ‘own’ and be accountable to shareholders for

150. In-country consultations conducted for this Review strongly commended the increased representation in the field, especially noting improvements in content and timeliness of policy analysis and dialogue as well as enhanced coordination with other agencies.

its diagnosis and the program it supports.”¹⁵¹ For the Bank, the relevance and implementation of corporate policies is a key starting point. Yet policy objectives are not enunciated clearly enough to guide country programs, and mechanisms of accountability for policy compliance are weak. These shortcomings leave a gap between corporate policies on IDA commitments and country programs.

7.4 Lack of clear policy objectives has particularly constrained effective integration of cross-sectoral themes such as gender, environmental sustainability, and private sector development, into country assistance strategies. Sector and thematic strategy papers (SSPs) are intended to articulate policy objectives and guide their implementation at the country programming level. However, OED evaluations show weak integration of sector and thematic strategies into country assistance programs.¹⁵² Through a thorough review of the role and effectiveness of past SSPs, Management is now seeking to sharpen these documents’ strategic role and strengthen their linkages to the CAS process.

7.5 Strategies are now in place for nine sectors and thematic areas, but as of this writing are still being prepared in three areas of significant lag in IDA compliance: gender, environment, and private sector development. Typically, they assess the development rationale for Bank participation in the sector and identify best practice approaches. They are weaker in giving direction to Bank activities based on the Bank’s record and comparative advantage. OED has emphasized that SSPs should specify the policy framework, taking account of global experience and best practice; assess the performance of Bank programs to improve development effectiveness; describe the future program of assistance in the aggregate—including monitorable global goals, countries of concentration, deployment of instruments, and skill and budget requirements; and assess ongoing and planned activities of partners, the need for new alliances, and the comparative advantage of the Bank.¹⁵³ Management’s review of SSPs is focusing on these issues, and will identify cost-effective ways to address them. Consistent with CDF principles, the review will recommend wide-ranging consultation with partners with regard to assessing past performance, defining comparative advantage, and setting out the vision and strategic directions for sectors and thematic areas. With these reforms, SSPs can and should play more of a role in helping to guide replenishment undertakings as well.

7.6 Weaknesses in accountability procedures have also impeded compliance with IDA commitments. The gender review study, for example, found no requirements to assess how gender issues are treated at any stage in the project cycle, including supervision.¹⁵⁴ Nor have accountabilities for the mainstreaming of environmental issues been clear – a constraint likely to be addressed in the new environment sector strategy.

7.7 Accountability for quality—which has received extensive management attention—also requires improvement¹⁵⁵ although QAG has done pioneering work since its creation in 1997 in the ex post tracking of the quality of ongoing Bank operations.

151. See World Bank, *Supporting Country Development: World Bank Role and Instruments in Low and Middle Income Countries*, 2000.

152. See OED, *A Review of the World Bank’s 1991 Forest Strategy and its Implementation*, (Washington, D.C.: World Bank, 2000). OED, *Rural Development: Vision to Action*, (Washington, D.C.: World Bank, 1999).

153. See OED, *1999 Annual Report on Operations Evaluation* (Report No. 19902), November 19, 1999; and OED, *Annual Review of Development Effectiveness—From Strategy to Results*, 2001.

154. See OED, *Integrating Gender in World Bank Assistance*, 2000.

155. See OED, *1999 Annual Report on Operations Evaluation*, 1999.

7.8 More rigorous scrutiny of quality safeguard supervision (for both social and environmental aspects) was introduced in last year's QAG assessments. And safeguard aspects are now widely addressed in Bank operations. Yet, while serious neglect appears to be rare, the quality of Bank oversight during appraisal and supervision could be improved in about 20 percent of cases.¹⁵⁶ In support of this objective, the Bank is now in a process of revising its management systems for safeguards policies, with a view to maintaining decentralized responsibility while strengthening central coordination. This process should lead to an improvement in the accountability mechanisms for safeguards compliance, although some issues remain to be addressed.¹⁵⁷

7.9 In addition, both background studies for this review and a Bank task force on the cost of doing business have called for a shift to a long-term, country-based capacity-building approach to accountability for safeguards and public finance. This would entail systematic rather than project-by-project emphasis on capacity building. And it would require broad discussion of the harmonization of environmental safeguard and financial accountability policies among clients and donors (beginning with assistance to countries to meet their own national standards).¹⁵⁸

Instrument Choice

7.10 IDA uniquely combines the provision of global knowledge with financing and advisory services. As reported in OED's *Annual Review of Development Effectiveness 2000* (hereafter ARDE 2000), the choice and mix of instruments—matched to the development objectives, consensus on reform in the borrower country, and the country's policy, institutional, and political context—are a key determinant of effective Bank assistance.¹⁵⁹

7.11 ARDE 2000 finds that lending instruments perform better in countries with better policy and institutional environments (as measured by the Bank's CPIA ratings), but the sensitivity varies by instrument. Technical assistance loans, which support targeted capacity building, perform well in countries with above-average performance ratings, but only half are satisfactory in countries with lower ratings. Investment loans fare slightly worse, likely reflecting what project evaluations show about the influence of weak policy environments on investments, as well as inadequate adaptation of projects to weak institutional contexts. Sector adjustment loans, which support economy-wide policy changes, perform well in both high and medium-performance rated countries, but considerably worse in low-rated countries—possibly because of weaker sectoral ministries and capacities, the complexity of sectoral reforms in poor performing countries, and a multiplicity of donors providing different and overlapping advice and assistance. Studies of adjustment lending suggest, however, that some policy reforms – particularly first

156. See World Bank Quality Assurance Group, *Fiscal 2000 Report on Portfolio Performance (ARPP)*, 2001.

157 Under the revised system, the Regions will retain responsibility and accountability for safeguard certification and compliance for most ("normal risk") projects; the responsibility will be shared between the ESSD Networks and the Regions, with outstanding issues to be resolved by the relevant Managing Director for "special risk" projects; and a quality assurance role is exercised by the central Quality Assurance and Compliance Unit in ESSD. These arrangements offer some improvement but still face three problems: there are as yet no defined criteria for the identification of "special risk" projects; no provision for above-regional resolution of unresolved issues for "normal risk" projects; and the funding and dual reporting arrangements do not fully resolve the potential conflict of interest, since the regional safeguards compliance team will still depend on cross-support from project task managers for a substantial portion of their work.

158. See OED, *IDA Review—Environment Report*, 2001 and OED, *IDA Review—Governance: The Critical Factor Report*, 2001.

159. See OED, *Annual Review of Development Effectiveness—From Strategy to Results*, 2001.

generation macroeconomic reforms involving primarily the central ministries, can be successfully implemented in countries with a weak track record when there is a turnaround and adequate government commitment. But the conditions for successful, complex second-generation structural and sectoral change are far more demanding.

7.12 Instrument choice raises several important issues:

- *Analytical work.* IDA's contribution to country policy analysis is widely regarded as a major area of comparative advantage.¹⁶⁰ Yet each thematic background paper prepared for this review raised concerns about the quality and adequacy of analytical work—including the core due diligence and country-specific sectoral and thematic work that underpins operations (Table 7.1).¹⁶¹

The declining resources and quality problems of economic and sector work are cause for concern. QAG's recent finding that the value added by country management exceeds that by sector management and that the quality of ESW is especially weak in thematic areas shows a need for a further rebalancing of the management matrix.¹⁶² The Networks are supposed to lead economic and sector work, as well as support it. Structural obstacles that prevent this need to be addressed. Ways also need to be found to fund good due diligence economic and sector work without crowding out country-specific project and program analysis. Two core products, poverty assessments and public expenditure reviews, continue to receive lower than average QAG ratings, and key fiduciary due diligence assessments are lagging in some areas (Table 7.2). Yet staff are concerned that due diligence work has squeezed resources for project and program analytic work as total resources for economic and sector work have declined.¹⁶³

Table 7.1. Breakdown of Operational Country Service Costs by Activity

(Direct Costs only, in \$millions)			
<i>Use</i>	<i>FY93</i>	<i>FY96</i>	<i>FY00</i>
Lending	150	142	118
Economic and sector work	99	64	72
Supervision	111	119	152
Other ^a	50	66	96

a . Includes TA and aid coordination, country program support, and client training.

Source: World Bank, "Assessment of the Strategic Compact" (March 13, 2001), Annex 1, p. 11.

160. The value of IDA's ESW was emphasized in country consultations both by borrowers and by other assistance agencies.

161. "Due diligence" ESW has been identified by management as a core set of underlying analyses that need to be kept up-to-date for work in borrowing countries, including: Poverty Assessments, Public Expenditure Reviews, Country Economic Memorandum, Country Profile of Financial Assessments, Country Financial Accountability Assessments, Country Procurement Assessment Reviews, Social and Structural Reviews.

162. See OED, *Annual Review of Development Effectiveness—From Strategy to Results*, 2001.

163. A specific concern, as noted in Part III, is the low allocation of resources and low quality of economic and sector work in poor performing countries. If lending to weak performing countries is to be limited and good quality economic and sector does not fill in, it is hard to see what role IDA can claim in these countries.

**Table 7.2. Due Diligence Economic and Sector Work in IDA Countries
By Region (fiscal 1998–2000)**

	PER		CPFA		CFAA		CPAR	
	98-99	Planned 2000	98-99	Planned 2000	98-99	Planned 2000	98-99	Planned 2000
Africa	20	10	29	-	2	7	7	6
East Asia and Pacific	2	2	2	1	-	-	-	1
Europe and Central Asia	3	2	-	-	2	2	-	1
Latin America and the Caribbean	1	-	-	-	-	1	1	4
Middle East and North Africa	1	-	-	-	-	-	-	1
South Asia	4	2	12	-	-	7	-	4
Total	31	16	43	1	4	17	8	17
Number of IDA borrower countries with item completed	28		33		4		8	

* In addition to the number of completed economic and sector work items in this table, there are a number of reports under preparation and listed as "planned" for fiscal 2001.

Source: World Bank, *Fixing ESW: Where are we?*, Volume II. (2000), Annex B.

- *Adjustment, programmatic, and investment lending.* Each of these lending instruments serves specific functions and has its own implementation challenges (see Box 7.1). Selectivity in lending instrument choice is a strategic matter and ought to be treated that way. This becomes particularly important with the sharper division of labor among donors that the CDF promises. At a minimum, the rationale for instrument choice should be made explicit in CASs and effectiveness carefully monitored and evaluated.

Box 7.1. Features of Alternative Lending Instruments

Adjustment program lending. Adjustment lending can support policy changes and reforms at the economy-wide or sectoral level, but only when a critical mass of stakeholders become convinced of the need and direction for reform. Conditionality can be effective as an instrument of mutual commitment, shared objectives, and reciprocal obligations, but not as coercive tool. Cash-strapped poor countries may be coaxed into accepting externally imposed conditions, but policies are likely to be poorly implemented and subsequently reversed. Adjustment lending has traditionally supported "stroke of the pen" reforms involving limited public consultation, but is increasingly used to support more complex second generation reforms, involving many stakeholders, reported in the Bank's recent adjustment lending retrospective. Bank efforts to use adjustment lending to promote civil service reform have been mostly unsuccessful, but the Bank has begun to experiment with more flexible and consultative programmatic approaches. These new programmatic efforts support a borrower's medium-term program of reforms, often through a series of single tranche operations based on agreed actions taken.

Investment lending. Investment lending can allow experimentation and joint problem solving of specific development constraints and is more appropriate for certain kinds of targeted capacity building. But investment projects are more likely to be hampered by shortfalls in counterpart funds and a weak public sector. The procurement and other due diligence requirements associated with investment lending can strengthen borrower accountability and capacity, but are not always well adapted to borrower procedures. A multiplicity of uncoordinated investment loans in a single sector is a particular problem of IDA countries.

Instrument mix. Combining adjustment lending with other instruments—such as analytic and advisory services, technical assistance, and investment loans—may improve the policy environment and hence outcomes. Complementary investments to build capacity, improve service delivery, or develop supportive infrastructure are often necessary to achieve the benefits of policy change. Adaptable program lending may be appropriate for long-term public sector reform, depending on commitment to reform and the quality of the trigger points and evaluation benchmarks selected.

Source: Operations Evaluation Department, *Annual Review of Development Effectiveness—From Strategy to Results*, (Washington, D.C.: World Bank, 2001); William Branson, and Nagy Hanna, *Ownership and Conditionality*, OED Working Paper No. 8, 2000; Tony Killick et al., *Aid and the Political Economy of Policy Change* (London: Routledge, 1998) and S. Devarajan et al., *Aid and Reform in Africa*, (Washington, D.C.: World Bank, 1999); Navin Girishankar, *Civil Service Reform: A Review of World Bank Assistance* (Report No. 19599), World Bank, 1999.

- *Multicountry programs.* The *World Development Report 2000/2001* makes a strong case for the poverty reduction benefits of increased regional and global programming. Using IDA resources for multicountry programs would require setting up decision processes for determining priorities and could require setting aside an agreed amount of IDA funds for multicountry use that would not be allocated through the performance-based allocation system.
- *The special needs for enhanced capacity building.* As this review has frequently noted, greater development progress could be made by enhanced support for national capacity building in IDA operations. A key question is whether IDA has the right instruments for this. Its instruments may need to be broadened to include grants or to link more effectively with grant resources available elsewhere. Grants will be more persuasive for countries reluctant to borrow for this purpose and will enable a needed longer-term perspective.¹⁶⁴

Monitoring for Results

7.13 IDA's broadened agenda has increased the demandingness of its objectives and interventions and put heavy pressure on human and budget resources, implying both higher risks and potentially higher rewards. Thus IDA needs improved performance indicators and monitoring and evaluation—at project, country, and corporate levels—with a clear focus on results.

7.14 The quality of monitoring and evaluation has improved since the late 1990s, but ratings still fall short of expectations: a 1999 assessment found that less than one in two projects had adequate monitoring and evaluation in place.¹⁶⁵ Good monitoring and evaluation systems are crucial for systematically assessing progress in meeting core targets and promoting development effectiveness through results-oriented management. Evaluation reports and a 1999 Bank working group on monitoring and evaluation see the main weaknesses at the project level as weak incentives, diffuse accountabilities, and weak capacity—in Bank and borrower countries.¹⁶⁶

7.15 There are three key elements for development effectiveness and M&E systems. They are: 1) the need to build incentives/demand for M&E data for decisionmaking at all levels of both the Bank and the borrowers, with a focus on development outcomes and results rather than inputs and deliverables; 2) ownership by governments and other stakeholders, reinforced by evaluation capacity development; and 3) harmonization among external assistance agencies of their M&E requirements as well as coordination in securing adequate funding.

7.16 Multiple measurement systems in the Bank have created a related problem of lack of consistency and coherence in performance measures that limits IDA's (and its partners) ability to track and assess results and adjust policies and programs.¹⁶⁷ The Bank is working to harmonize and strengthen performance measures internally and with partners. PRSPs and supporting programmatic

164. The Bank's support for the African-led Partnership for Capacity Building (PACT) aims, over the next five years, to mobilize \$1.0 billion for a capacity building trust fund. The further step proposed here is to make a portion of IDA resources available on a grant basis for use in mainstreaming capacity building in IDA operations where needed and/or to pool bilateral trust funds for capacity building.

165. See World Bank Quality Assurance Group, *Fiscal 1999 Report on Portfolio Performance (ARPP)*, 1999.

166. See World Bank Operational Core Services Network, *Report of the Working Group on Improving the Quality of Monitoring and Evaluation in Bank-financed Operations*, Discussion draft, June 2000.

167. Among regions and sectors, between QAG and OED, and among country-level assessments for the CDF, PRSPs, performance-based resource allocation, and Country Assistance Evaluations.

adjustment credits will require an overall approach for selective monitoring and evaluation at the project level, greater monitoring and evaluation at the sector and country levels, and enhanced country capacity for both. Future replenishment reports could reinforce these efforts to advance reform of monitoring and evaluation by requesting that management focus more on outcomes and results in reporting on the IDA program.

Alignment between Resources and Strategic Program Priorities

7.17 Cutting across all other issues is how budget resources are deployed. Network and regional staff are concerned that current budget allocations fall seriously short of the funding needed to meet IDA commitments. Budget processes have changed significantly in the last five years in response to the matrix structure introduced in the mid-1990s, other alterations in the Bank's way of doing business, and the Strategic Compact (fiscal 1998–2001).¹⁶⁸ The Compact and internal Cost-Effectiveness Review anticipated that improvements in the quality of Bank services and greater resource availability would lead to an increase in lending. However, many of the expected efficiency gains have yet to be achieved. Moreover, resources were allocated for implementation of the CDF, PRSPs, and other new initiatives, including the enhanced HIPC debt relief initiative, within a budget set by the Strategic Compact commitment level. So while the Bank's development agenda expanded, expenditures for lending and economic and sector work continued to decline partly because of the increased budget requirements of the knowledge bank (see Table 7.1).

7.18 To better align resources with strategic priorities, two sets of issues are of key relevance: poverty efficient budget allocations and the link between programs and budgets.

7.19 **Poverty-efficient budget allocation.** Despite the Bank's poverty reduction mission, poverty has been a relatively minor explicit consideration in budget allocations. Regional and country budget allocations do not distinguish between IDA and IBRD. While corporate and regional decisions have begun to channel more program funding to poorer countries, consistent with performance, the impact has been small. In fiscal 2000, the budget allocation to IDA countries was, on average, \$0.54 per capita and to IBRD countries \$0.45.

7.20 There are complicating factors in making such a link (for example, the differences in operating costs among countries). However, poverty could be given greater weight in budget allocations through the application of a country norm methodology.¹⁶⁹—an approach that to-date has influenced budget decisions only at the margin due to unresolved methodological and policy issues.

7.21 **The link between program and budget.** The Bank's programming and budget system lacks adequate mechanisms for reconciling commitments—to shareholders, bondholders, donors, partners, and countries—and budget allocations. Country Assistance Strategies (CASs), which generally serve as two- to three-year planning instruments, are approved separately from annual

168. The Compact objectives were to be financed through savings and redeployments as well as through additional budgetary resources of \$250 million over fiscal 1998–2000, with the administrative budget returning (in real terms) in fiscal 2001 its fiscal 1997 level—as it has now done.

169. In the country norm methodology, three main variables—population, poverty and performance (CPIA index)—are used in a regression analysis against the historical trend of budget allocations by country, to derive a formula that yields a "country norm budget" to which additional resources are added to assure funding for portfolio supervision. Management can choose to place greater weight on poverty, or on performance, by adjusting the formula's coefficients for these variables. The average budget dollars per capita (with GNP p.c. in parentheses) are as follows: Africa \$1.96 (\$491), East Asia \$0.57 (\$737), ECA \$0.90 (\$819), LAC \$0.70 (\$1,772), MNA \$0.23 (\$731), and South Asia \$0.23 (\$467).

country budgets. CASs are supposed to estimate costs associated with proposed lending scenarios and to present program recommendations that correspond to realistic budget levels. But unanticipated resource demands, including new mandates or crises, can arise over the two- to three-year CAS period, and regional vice presidents are not committed to the CAS funding levels. A projected CAS program for a particular year may not be adequately funded, and there are current examples of significant budget shortfalls.

7.22 A more automated CAS costing tool has recently been endorsed and should facilitate more realistic estimating of indicative costs. But it will not guarantee that a CAS—even after Board review—will be fully funded across all years. A system that combines CAS costing with a bottom-up, zero-based corporate resources allocation process on a multiyear basis, would get closer to full funding. It is a positive step, therefore, that in this year's budget process a three-year rolling budget is being prepared, for the first time, to minimize unexpected movements in Regional funding. This step should be accompanied by reporting to the Board when there are changes in previously discussed CAS programs due to alterations in budget allocations.

7.23 IDA commitments should also be costed. None of the many IDA10, 11 and 12 replenishment commitments were explicitly costed. Yet many intersect ongoing or planned processes, including CASs, sector strategies, and other major initiatives. The cost of recommendations should be presented to IDA deputies before the conclusion of a replenishment negotiation and to the Board with the IDA replenishment report. Where a replenishment requirement implies actions beyond ongoing or already planned efforts, it should have a separate implementation path, with the necessary policy and budgeting changes.

7.24 A related issue is the Bank's heavy dependence on trust funds.¹⁷⁰ Those funds that provide advisory services and technical assistance for specific development-related activities amount to about a third of the Bank's administrative budget—even higher for some countries and sectors.¹⁷¹ The multiplicity of funds can cause distortions and high transaction costs. A significant amount of staff time is spent acquiring and administering these resources, and their impact on country program budgets is not clear. Given these difficulties, there needs to be a significant rationalization of trust fund arrangements, an issue that has been highlighted in the Bank's *Strategic Directions Paper*.¹⁷²

7.25 Overall, a sizable implementation agenda lies ahead to ensure effective implementation of the IDA program. Improved accountability systems, instrument choice, and monitoring and evaluation are central. But little of this will be possible without a better alignment of budget resources and program priorities, the major goal of the budget reform currently underway.

170. The relevant Bank Operational Policy (OP14.40) defines a trust fund as "a fund administered by the Bank in accordance with the terms of agreement with a donor." Not all "supplementary funds" are strictly speaking trust funds in this sense. The Bank acts as a fiscal agent for some funds, channeling them to other entities to administer. There is also "complementary funding" that supports cofinancing of loans and credits, and debt-service funds. Discussed here are those arrangements under which the Bank administers donor-entrusted that provide *advisory services and technical assistance* for a specific development related activity or activities.

171. For work in certain sectors or themes, the dependence on Trust Funds to deliver core lending and ESW is now particularly strong. Notably, averaged over the entire HNP portfolio for the period fiscal 1997–2000, Trust Funds financed about 45 percent of the total cost of loan preparation and appraisal.

172. World Bank, *Strategic Directions Paper for FY2002-04: Implementing the World Bank's Strategic Framework* (April 12, 2001). One alternative that might be examined would be to establish a single IDA trust fund. A key objective, as already noted, needs to be the expansion of grant funding for capacity building efforts.

8. Implications for the Future

8.1 While implementation of replenishment undertakings has moved the IDA program in the right direction, IDA and its partners have not yet fully institutionalized the changes nor absorbed fully the lessons of experience. What is needed now is to deepen and broaden the gains from the existing policy framework by:

- Focusing on the implementation in areas of emphasis.
- Aligning resources to strategic priorities.
- Consolidating the IDA mandates.

8.2 For this, IDA will need to further adjust its role at country and global levels, within the limitations set by resources available for administrative costs, lending, and nonlending services. In its primary role of supporting country-based development efforts, IDA should concentrate on its areas of comparative advantage—most of them at the strategic level of supporting economy-wide, sector-wide, and government-wide reforms through analytical work and lending—and on capacity-building. IDA should also play a more active role at the global level to facilitate the harmonization and coordination of external assistance needed to speed progress toward the overarching goal of poverty reduction.

8.3 More specifically, IDA could build on improvements of the past seven years in the following ways:

- **Be more selective.** Although there is consensus on this point, more needs to be done to increase IDA's country, program, and corporate selectivity.
 - *Country selectivity.* IDA's performance-based allocation system has brought increased selectivity to the allocation of resources at the country level, based on assessments of the soundness of countries' policies and institutional arrangements. Further advances could be made by continuing to improve the Country Policy and Institutional Assessment (CPIA), rethinking the governance discount, and ensuring consistency with the PRSP and CAS processes. Also, broader disclosure of the rating system would improve consistency of treatment and allow the system to benefit from open scrutiny and to serve as a diagnostic tool for strengthening development partnerships.
 - *Program selectivity.* Countries' poverty reduction strategies provide a new way of setting priorities for IDA and other donor country assistance programs. More effective program selectivity—and instrument choice—depends in part on better integration of strengthened sector strategies into CASs. This should help IDA define the focus of its lending and nonlending services—including where to take a leading or a supporting role with other donors—and its choice of instruments.
 - *Corporate selectivity.* IDA needs to clarify priorities and objectives by sectors and themes and identify more precisely what it can (and cannot) commit to do, selecting the highest payoff interventions for advancing poverty reduction, based on its comparative advantage. This corporate level selectivity needs to be established in concert with the strategic decisions of other agencies, as part of a broadened harmonization action plan.

IDA quantitative lending targets for sectors, instruments, or groups of countries are disincentives for effective program and country selectivity.

- **Focus on governance and capacity building.** Every area of this review highlights the centrality of good governance. IDA should continue to intensify its support of effective governance and public sector capacity building, increasing its coordination with other external assistance agencies, to encourage borrower governments to become more efficient in their provision of public goods and services and more transparent and accountable to their publics.
 - Every aspect of IDA's assistance—from analytical work, to design and supervision of operations and monitoring for results—should have a capacity-building dimension. The implications for time, costs, and adjustments in ways of doing business mean that IDA may need to consider options for expanded grant financing for nonlending services and for much greater coordination with grant-giving agencies in support of capacity building.
 - The sectoral impacts of systemic governance and institutional weaknesses in borrower countries suggest the need for institutional development strategies that identify cross sectoral concerns, prioritize areas of assistance, and create synergies in the handling of problems in different sectoral programs.
 - While the governance agenda set out in the IDA10-12 replenishment reports remains valid, recent experience suggests that IDA, its borrowers, and other development partners need to make a special commitment to improving countries' public expenditure management and financial accountability. This review recommends that IDA link its future lending to time-bound plans for establishing sound public financial accountability systems. To foster that accountability, IDA should also encourage greater transparency by requiring that agencies and programs supported by IDA issue regular public reports that set and record progress on performance targets.

- **Commit to development partnerships.** IDA should work actively at country and global levels to move aid coordination processes from ad hoc to structured arrangements.
 - The PRSP process provides a concrete way of applying the CDF principles in support of countries' development strategies. Institutionalizing this support, in coordination with the IMF and other assistance agencies, should define the core of IDA's future program. The phasing in of the new Poverty Reduction Strategy Credits in step with countries' capacities for effective use and monitoring is should be handled with care given its strategic relevance.
 - Expanded use of sector-wide approaches should be a building block of IDA support for countries' development efforts, taking into account lessons of recent experience on how to use these results-oriented approaches in support of country-owned programs. Where other agencies are better positioned than IDA to take the lead, IDA analytical work and or lending may still be needed. As necessary, internal project and procurement procedures should be adjusted to enable flexible participation in structured aid coordination arrangements.
 - IDA deputies should use IDA to achieve greater coherence and harmonization in aid practices that is so long overdue. This initiative should involve the heads of bilateral and multilateral assistance agencies and should set a clear schedule for achieving results. The global agenda should go beyond procedural issues—as important as they are—to policy and strategic issues of program and country selectivity and the processes for bolstering country-led aid management.

- **Clarify objectives and strengthen accountabilities.**

- The process introduced in IDA12 for tracking implementation of IDA commitments should be maintained and strengthened. Clear guidelines on compliance should be provided to staff at the start of the replenishment period, and regional management should be responsible for tracking country coverage of relevant commitments, taking account of countries' priorities and activities by others.
 - Clearer objectives and guidelines are needed in the pursuit of the IDA policy framework, especially for private sector development and the mainstreaming of gender and environmental sustainability in IDA activities. Networks need to devise clear and achievable aims and indicators, strengthen their involvement in key sectors, and track mainstreaming in country programs. Regional management needs to ensure adequate treatment in CASs, reflecting appropriate selectivity. QAG and OED reviews ought to give more attention to mainstreaming.
 - Recent internal recommendations for strengthening monitoring and evaluation should be followed up to underpin a focus on results, especially at the country and sector levels, with attention to improving capacities in borrowing countries. Of particular immediate importance is the development of processes for evaluating performance and tracking progress on PRSPs and the supporting PRSCs and wider CAS programs.
- **Better align resources with priorities.** A better deployment of resources relative to IDA commitments is essential to applying the other lessons of the past seven years. The relation between the budget process and the full funding of CASs is of particular importance.
 - To make poverty a more prominent factor in the Bank's budget allocation process, a country-norm methodology has recently been applied as a supplementary measure. Resolving methodological and policy issues holding up the move to full country-norm based budgeting would support the Bank's overall emphasis on poverty and performance.
 - Recent efforts toward more realistic costing of CASs should be accompanied by a process for ensuring full funding of Board-discussed CASs across their two to three year timeframe. This year's preparation of a three-year rolling budget is a step in this direction.
 - Ways need to be found to ensure appropriate levels of due diligence and program-specific economic and sector work and greater attention to capacity building. Options for grant financing for capacity building activities need to be explored.

8.4 This review also suggests that the IDA replenishment process itself might usefully be re-examined to facilitate reforms in the overall development architecture. The process provides a unique opportunity to discuss, at a global level, past experience and future directions for international development assistance and to mobilize funding in support of key objectives and to evaluate the development effectiveness of the overall aid system. As currently constituted, the process falls short of fully realizing this potential.

8.5 Though broadly consistent with an evolving consensus in the international development community, the replenishment undertakings have been both over-loaded and over-determined (for example, in the specification of shares of lending going to individual sectors and countries, and in the number and detail of the recommendations). Undertakings have often been unrealistic about what IDA and its borrowers could reasonably accomplish in three-year periods, have focused more on inputs than results, have neglected to consider IDA budget resources, and have failed to consider the implications for the overall development assistance business.

8.6 Specifically, the replenishment process has been too disconnected from IDA's development partners—both borrowers and other assistance agencies—so that priorities have not always been as relevant as they might have been and IDA's comparative advantage has not been sufficiently emphasized in the agreed undertakings. Three changes could improve the process and thus the impact of future undertakings.

- *Develop a longer-term vision, focused on results.* As part of the IDA13 negotiations, the IDA deputies ought to ask management to develop, in consultation with borrowers, a long-term vision for IDA beyond the replenishment period. This vision ought to clarify what is meant by IDA's poverty focus, identify how IDA's resources can best be deployed, set up an internal management system, and consider IDA's global role as a complement to its support for country programs.
- *Engage developing countries in setting and reviewing replenishment commitments.* Opening communication channels that allow for interaction and feedback from country experiences will help to set IDA priorities and improve implementation. The consultation steps taken in the IDA12 negotiations were a start. The transparent and consultative process planned for the IDA13 negotiation—including consultations with borrower governments and civil society and the posting of papers on an IDA web-site—is a solid second step. Following the negotiations, IDA should consider ways to ensure continuous feedback and to engage its partners in the monitoring and evaluation of IDA13 performance and results.
- *Define commitments in terms of monitorable and achievable objectives and take account of their realistic costing.* IDA replenishment undertakings have tended to emphasize inputs and output targets that do not take account of the need for country ownership if reform efforts are to be sustained. It would be better for replenishment reports to focus on development goals and on identifying the kinds of activities that IDA should support in advancing those goals, as a matter of priority, taking account of IDA's comparative advantage and realistic costings of replenishment commitments. In addition, replenishment reports ought to agree on IDA performance indicators and on objective reporting on progress towards desired outcomes. This process needs to recognize that operating within CDF principles means moving even further away from a direct measure of the link between IDA activities and country development outcomes to new ways of tracking IDA's performance in partnership with others. One way to facilitate this is to strengthen the role of sector strategies in defining IDA's comparative advantage and the objectives to which IDA would commit itself—in terms of program strategy, targets, and deployment of resources—as the basis for commitments agreed to in IDA negotiations, subject to overall resource availabilities.

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Annex A1: IDA's Features and Evolution

Features

Established as an integral part of the World Bank: IDA was established in 1960 to lend to low-income member governments of the World Bank which could not afford to borrow on the Bank's near-market terms. Though a separate legal entity, IDA operates as an integral part of the Bank—sharing the same staff and headquarters; reporting to the same president; and applying the same standards for loan appraisal and approval.

Lends only to low-income countries: IDA lends only to countries that have a per capita income (in 1999) of less than \$885 and lack the financial ability to borrow from the Bank. At present, 78 countries are eligible to borrow from IDA. Together, these countries are home to 2.3 billion people, comprising 53 percent of the total population of the developing countries. Today, 1.5 billion of these people survive on incomes of \$2 or less a day. Since 1980, IDA lending has amounted to 12-18% of total official development assistance to eligible borrower countries.

Some countries, such as India and Indonesia, are eligible to borrow from IDA due to their low GNP per capita, but are also creditworthy for some IBRD borrowing. These countries are known as "Blend" borrowers. Countries that once borrowed from IDA but are now too prosperous to qualify include China, Costa Rica, Chile, and Egypt.

Provides loans on concessional terms: IDA loans (called credits) have maturities of 35-40 years with a 10-year grace period on repayment of principal. There is no interest charge, but credits carry a small service charge, currently 0.75 percent on disbursed balances. Since 1960, IDA has lent \$120 billion to 106 countries. It lends, on average, about \$5-6 billion a year for different types of projects. Though the major proportion of its lending has always been in the form of investment lending, IDA also provides forms of quick-disbursing adjustment and program loans conditioned on agreed macroeconomic, sectoral or public management reforms. In recent years it has also provided, on a pilot basis, partial risk guarantees in support of private investments. Though its Articles of Agreement permit IDA to provide funding on a grant basis, it has done so only in a limited number of special circumstances, in support of particular global programs, certain post-conflict situations, and debt relief efforts.

IDA funds are allocated to borrowing countries in relation to their population size, level of income, and record of success in managing their economies and their ongoing IDA projects. Over time, IDA has made modifications in its allocation policies: e.g., to put a ceiling on lending to its two largest borrowers, India and China; and to give increased weight to countries' policy and institutional performance. In FY00, 47 percent of new commitments went to Sub-Saharan Africa, 27 percent went to South Asia, 11 percent to East Asia and the Pacific, 7 percent to Eastern Europe and Central Asia, and the remainder to poor countries in the Middle East and Latin America.

Funded largely by government contributions: Whereas the Bank raises most of its funds on the world's financial markets, IDA is funded primarily by contributions from member countries. Their cumulative contribution since the start of IDA totals US\$96 billion equivalent. Additional funds come from transfers of Bank income and from IDA borrowers' repayments of earlier IDA credits.

Donors agree on a three-year cycle on the replenishment of IDA funds. The 12th replenishment will finance projects over the three years starting July 1, 1999. Funding for the 12th Replenishment will allow IDA to lend about \$20 billion, of which donor contributions will provide a little over half. Today there are 37 IDA donors, two of which were once IDA borrowers.

Annex A2: Program Evolution

Throughout its 40-year history, the purpose of IDA's assistance has remained the same: to support low income country economic development and poverty reduction. However, its policies and programs have evolved continuously in response to changes in the challenges its borrowers have faced and in thinking about development.

The 1960s focus on infrastructure: In its earliest days, IDA followed the lead of the IBRD and concentrated on financing roads, ports, and other infrastructure projects. The approach reflected economic thinking in the 1950s and 1960s which emphasized the accumulation of capital as the engine of growth, and growth as the key to poverty reduction. As food deficits and payments imbalances increased in developing countries, it became clear that both sets of assumptions were too simplistic. In response, in the mid-60s, IDA increased its agriculture lending and began lending for education.

The 1970s decade of expansion: IDA underwent a decade-long period of transformation and growth in the 1970s. Despite improved rates of economic growth, millions of people in developing countries were still living in poverty and growing inequities were increasingly evident. As a result, confidence in the prevailing broad "trickle-down" approach to development had waned and attention then turned to more direct efforts at poverty alleviation, including rural activities aimed at increasing the productivity of the rural poor as well as increased lending for human development. In support of this much evolving agenda, development research and country economic and sector work (ESW) was much expanded and IDA lending increased from an annual average level of commitments of \$229 million from 1961-68 to \$3.8 billion in 1980. Though a part of this growth reflects inflation, in constant dollars annual commitments more than doubled from 1970-80, as did the number of projects.

The 1980s advent of policy-based lending: By the end of the 1970s, it had become clear that development progress and IDA project performance were being seriously constrained by problems in the policy and institutional environments in many borrower countries. But IDA's main instrument of project lending was unable to provide adequate support for the economic policy and structural adjustment reforms deemed necessary. The onset of the debt crisis in the early 1980s lent urgency to this situation, creating the circumstances for the introduction and rapid expansion of adjustment lending conditioned on borrowers' commitments to undertake specified policy reforms. Focused initially on distortions in the macroeconomy, adjustment lending became a major feature of IDA lending in support of both structural and sectoral reforms and continues to account for roughly one quarter (1.5 billion) of IDA lending today. Structural reform underscored the importance of two main points: 1) along with renewed growth, explicit pro-poor policies and programs were needed in the many countries where poverty remained pervasive and deep; and 2) sustainable reform could be supported but not induced by external assistance. Both lessons became central to further changes in IDA's program in the 1990s.

The 1990s broadened agenda of development concerns: From the 1990s onwards, IDA's efforts have been marked by an expanding policy agenda along with a drive for increased development effectiveness. Environmental sustainability, gender equity, and the improvement of governance became core policy priorities in support of the overarching objective of poverty reduction. At the same time, IDA was confronted with increasingly diverse and complex Borrower circumstances as China and the newly independent countries of Central Asia joined its ranks and numbers of IDA countries experienced serious internal conflicts which called for new forms of post-conflict assistance. IDA undertook several key reforms during the decade to "change the way it does business," shifting its focus from individual projects to the country as the main unit of account; strengthening and diversifying its analytical work; and placing greater emphasis on stakeholder participation, transparency and aid coordination.

Annex B: Poverty and Social Indicators

Table B1. Poverty in IDA Countries 1987-1998 (\$1/day PPP)

	1987	1990	1993	1996	1998 (est.)
Percentage Below \$1/day PPP 1993 prices (%)					
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
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
Absolute number Below \$1/day PPP 1993 Prices (Million)					
IDA only					278
IDA-eligible					1063
China					290

Source: Institutional Business Warehouse

Table B2. IDA Countries—Social Indicators

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

All indicators are population weighted.

Source: IDA 11 Implementation Report (World Bank 2000)

Annex C1: IDA Commitments and Disbursements by Region

Table C1. IDA Commitments and Disbursements by Region—IDA 10 to FY00 (in percentage and total US\$ million)

Region	IDA 10		IDA 11		FY 2000	
	Commit.	Disburs.	Commit.	Disburs.	Commit.	Disburs.
Africa	39.8%	44.0%	34.4%	37.1%	47.2%	34.2%
East Asia & Pacific	19.2%	19.5%	13.6%	19.0%	11.0%	16.7%
Europe & Central Asia	6.3%	3.5%	11.5%	6.4%	7.1%	9.9%
Latin America & Caribbean	5.4%	4.6%	5.7%	6.3%	3.8%	4.9%
Middle East & North Africa	2.4%	1.9%	4.2%	3.3%	3.6%	3.5%
South Asia	26.5%	26.2%	30.3%	27.5%	26.9%	30.5%
Total (%)	100%	100%	100%	100%	100%	100%
Total (US\$ million)	19,136	14,355	18,946	14,072	4,366	3,942

Figure C1. Commitments by Region

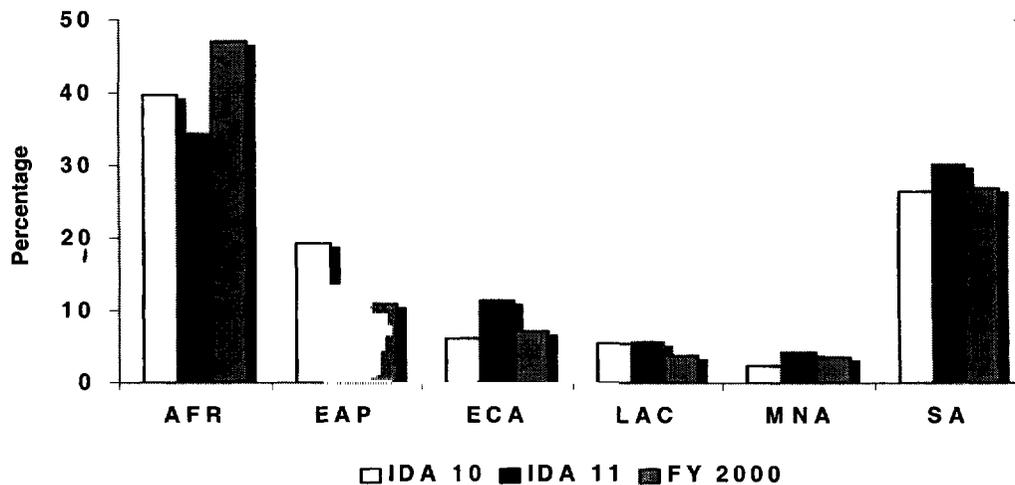
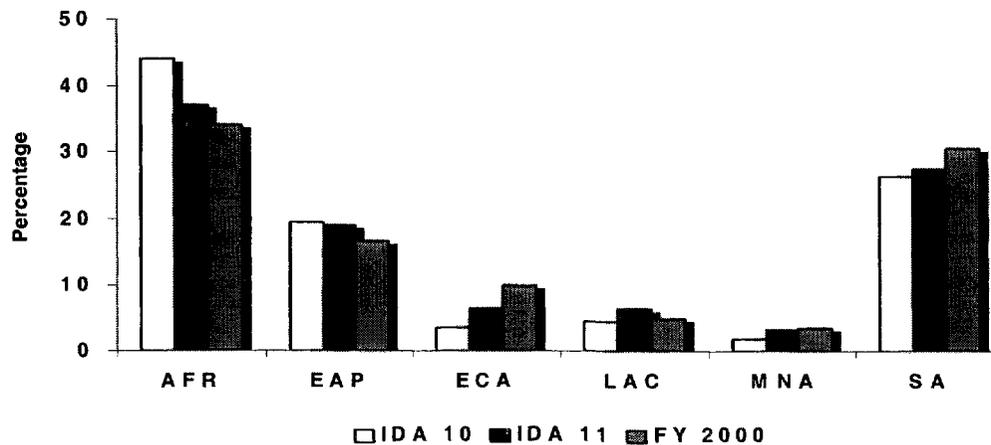


Figure C2. Disbursements by Region



Annex C2: IDA Commitments and Disbursements by Sector

Table C2. IDA Commitments and Disbursements by Sector—IDA 10 to FY00 (in percentage and total US\$ million)

	IDA 10		IDA 11		FY 2000	
	Commit.	Disburs.	Commit.	Disburs.	Commit.	Disburs.
Agriculture	24.3%	29.6%	19.1%	21.5%	9.6%	23.1%
Economy-wide	9.0%	9.4%	14.2%	10.2%	18.9%	10.7%
o/w Environment	4.1%	3.7%	4.0%	4.0%	1.6%	3.7%
Private Sector Development	2.4%	0.7%	2.2%	1.9%	4.5%	2.3%
Infrastructure	18.7%	20.5%	19.8%	19.6%	15.6%	19.6%
o/w Transportation	12.1%	12.6%	15.3%	13.3%	13.9%	13.8%
Industry/Finance	9.9%	8.5%	10.4%	12.3%	9.7%	7.5%
Social Sector	37.9%	31.7%	36.3%	36.2%	44.6%	38.9%
o/w Education	12.9%	12.7%	12.5%	14.8%	12.7%	13.8%
Health, Nutr., Popl.	14.2%	8.9%	15.3%	10.6%	15.7%	15.2%
Total Investment (US \$ million)	\$14,390	\$10,632	\$15,252	\$12,264	\$3,685	\$3,548
Total Adjustment (US \$ million)	\$4,746	\$3,723	\$3,694	\$1,809	\$681	\$395
TOTAL (US \$ million)	\$19,136	\$14,355	\$18,946	\$14,072	\$4,366	\$3,942

Figure C3. Commitments by Sector

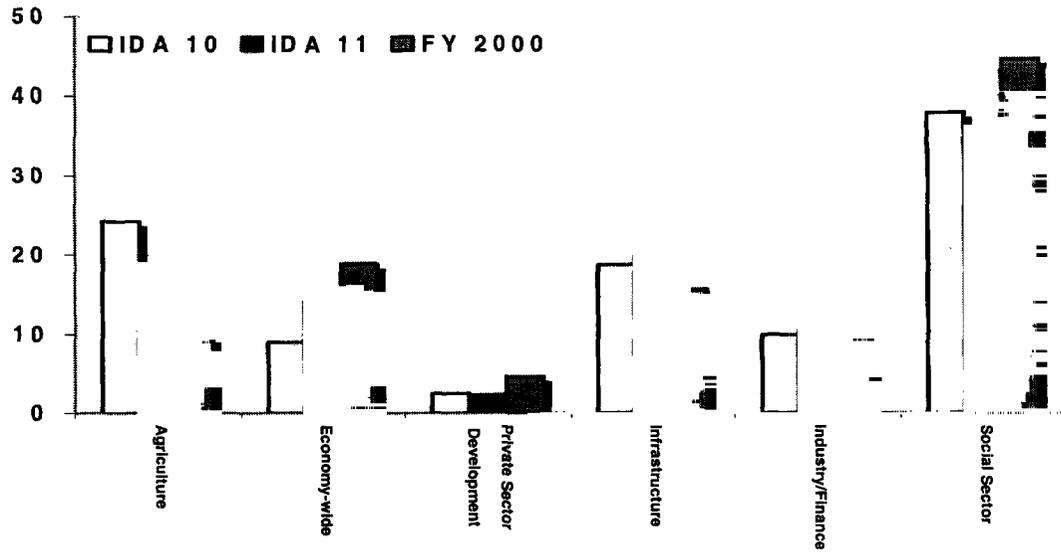
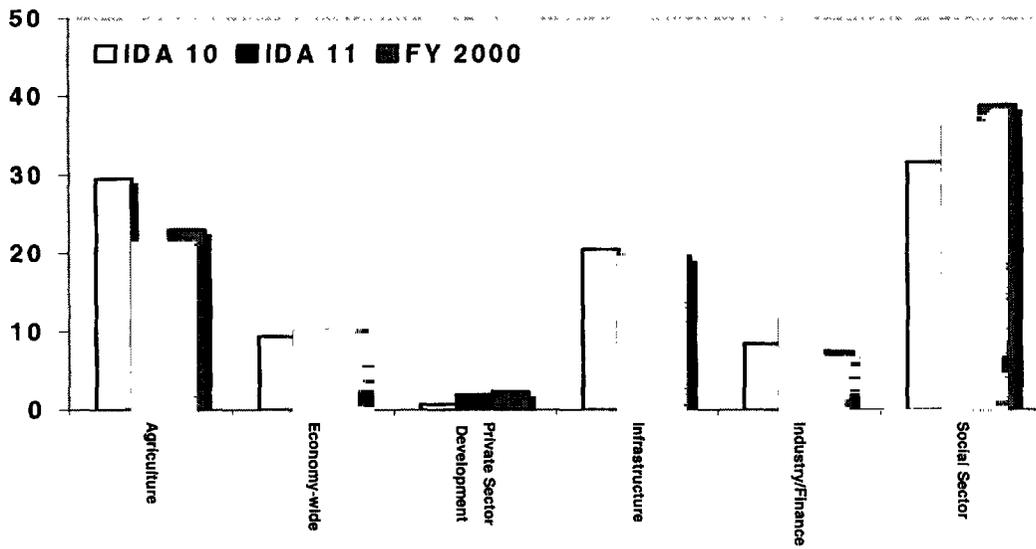


Figure C4. Disbursements by Sector



Annex D: IDA Portfolio Performance

Table 1: Outcome, sustainability, institutional development (ID) impact and aggregate ratings by sector, network, region and lending type/source by exit years 1991-93, 1994-96, 1997-00*. (By project)

Sector Group	IDA 61/91-1993				IDA 101/94-1993				IDA 114-1/97-2000						
	Projects #	Share %	Out %	Sust % likely or better	Projects #	Share %	Out %	Sust % likely or better	Projects #	Share %	Out %	Sust % likely or better	ID Impact % sub or better		
Agriculture	115	36	55	29	25	101	28	64	36	34	107	23	65	45	39
Economic-wide	39	12	56	31	13	74	20	66	38	20	96	21	76	54	25
Human-Resource Related	51	16	78	45	34	72	21	55	29	21	123	27	73	44	32
Industry	34	11	50	26	29	20	6	45	30	26	38	8	61	46	42
Infrastructure	81	26	67	37	35	89	26	63	39	27	97	21	71	44	44
Network															
Environmentally & Socially Sustainable Development	115	36	55	29	25	101	28	64	36	34	122	26	66	45	39
Finance, Private Sector & Infrastructure	126	39	63	33	34	120	34	58	37	27	156	34	65	41	41
Human Development	40	13	78	50	33	61	17	61	30	20	102	22	78	50	33
Poverty Reduction & Economic Measurement	39	12	56	31	13	74	21	66	38	20	81	18	77	56	24
Lending Type															
Adjustment	37	12	65	38	22	63	18	75	49	24	70	15	80	54	29
Investment	283	88	61	33	29	283	82	59	32	27	391	85	69	45	37
Region															
Africa	190	56	52	29	26	209	59	55	27	22	236	51	61	36	32
East Asia and Pacific	33	10	79	61	42	32	9	84	69	28	47	10	89	72	62
Europe and Central Asia	174	53	73	38	24	174	50	68	38	24	41	9	55	39	39
Latin America and Caribbean	14	4	79	50	36	18	5	72	44	50	37	8	73	40	35
Middle East and North Africa	21	7	57	33	25	13	4	69	31	46	12	3	75	33	17
South Asia	72	23	74	28	26	76	21	64	28	26	88	19	74	56	32
Lending Source															
IDA	303	46	61	33	28	332	46	62	34	27	421	48	71	46	36
IBRD	341	59	70	58	35	389	51	71	53	32	408	47	76	53	44
Blend	17	2	59	35	21	21	3	54	14	21	40	5	68	50	33
Grand Total (IDA & Blend)	320	100	61	33	27	395	100	63	35	29	451	100	71	46	35

Note: Percentages exclude projects not rated. Sectors represent IDA Replenishment import guarantees as of the end of FY00.

* The data for FY00 exits represents a partial sample (120 out of 289) and reflects the processing of all ICIs received through August 2000. The processing of the remainder of the FY00 sample is ongoing, expected to be completed by spring 2001.

Table 2: Outcome, sustainability, institutional development (ID) impact and aggregate by sector, network, region and lending type/source by exit years 1991-93, 1994-96, 1997-00*.
(By real disbursements, FY96US\$)

Sector Group	IDA 91/93A-2093						IDA 90/93A-2093						IDA 1A-1997-2000						
	Disburse \$ millions	Share %	Out %	Sat %	Stk %	ID Impact % sub-or better	Disburse \$ millions	Share %	Out %	Sat %	Stk %	ID Impact % sub-or better	Disburse \$ millions	Share %	Out %	Sat %	Stk %	ID Impact % sub-or better	
Agriculture	4,882	35	62	31	29	28	4,440	26	79	42	42	42	5,389	26	73	59	48	48	
Economic-wide	2,189	16	65	29	30	30	4,153	24	51	42	21	21	4,532	22	83	55	24	24	
Human-Resource Related	1,829	13	98	56	50	50	2,900	17	63	41	20	20	4,906	23	77	52	36	36	
Industry	2,078	15	56	39	28	28	1,386	8	55	36	37	37	1,489	7	75	58	57	57	
Infrastructure	3,135	22	75	52	36	36	4,153	25	73	45	18	18	4,896	22	76	57	42	42	
Network																			
Environmentally & Socially Sustainable Development	4,882	35	62	31	29	28	4,440	26	79	42	42	42	6,075	29	72	57	46	46	
Finance, Private Sector & Infrastructure	5,570	39	69	46	33	33	6,056	35	69	44	24	24	7,249	34	70	52	43	43	
Human Development	1,491	11	94	61	51	51	2,922	14	65	38	16	16	3,844	18	87	59	38	38	
Poverty Reduction & Economic Management	2,189	16	65	29	30	30	4,153	24	51	42	21	21	3,847	18	86	58	23	23	
Lending type																			
Adjustment	3,357	24	66	32	33	33	6,405	38	78	46	25	25	4,871	23	68	60	35	35	
Investment	10,785	78	69	42	33	33	10,589	62	71	40	28	28	16,144	77	74	55	41	41	
Region																			
Africa	5,323	38	54	30	25	25	7,867	46	72	33	29	29	7,892	38	69	44	32	32	
East Asia and Pacific	2,408	17	69	75	45	45	2,215	13	90	85	16	16	4,508	21	92	80	71	71	
Europe and Central Asia	774	5	74	74	74	74	427	3	100	90	43	43	1,065	5	95	66	34	34	
Latin America and Caribbean	382	3	84	73	41	41	649	4	73	34	51	51	869	4	85	39	36	36	
Middle East and North Africa	615	4	84	57	10	10	187	1	89	19	35	35	358	2	91	35	43	43	
South Asia	5,413	38	72	30	37	37	5,627	33	65	35	25	25	6,308	30	70	56	27	27	
Lending source																			
IDA	11,892	22	68	40	34	34	13,317	24	76	40	28	28	17,228	25	78	56	40	40	
IBRD	37,903	73	74	65	40	40	39,531	70	76	60	34	34	48,771	70	82	70	51	51	
Blend	2,451	5	71	39	28	28	3,827	6	64	51	24	24	3,792	5	70	55	38	38	
Grand Total (IDA & Blend)	14,143	100	69	40	38	38	16,672	100	73	42	27	27	21,025	100	77	69	39	39	

Note: Percentages exclude projects not rated. Sector receives IDA Repayment report production as of the end of FY00.

* The data for FY00 ends represents a partial sample (130 out of 289) and reflects the processing of all CRs received through August 2000. The processing of the remainder of the FY00 sample is ongoing, expected to be completed by spring 2001. Active Portfolio data reflects projects active as of July 1, 2000 and it is taken from Annual Report on Portfolio Performance (ARPP) for the FY00 done by the Quality Assurance Group (QAQ).

Annex E: Lending for Poverty Targeted Interventions (PTIs)

Table E1. IDA/Blend Poverty Targeted Lending (Percentage PTI)

			<i>No. of Projects</i>	<i>Volume of Commitments (%)</i>
IDA	Investment	1992-93	37	43
		1994-96	45	53
		1997-99	41	48
		2000	28	48
Blend	Investment	1992-93	21	19
		1994-96	14	41
		1997-99	43	68
		2000	33	4

Annex F. Lending by Instruments

IDA employs a range of lending instruments, but specific investment loans dominate IDA commitments. Moreover, their relative share has increased over time while sector adjustment loans and sector investment/maintenance loans have declined in importance. Structural adjustment loans show a marginal increase in terms of the distribution of amount of commitment. Adaptable Program Loans (APLs) and Learning and Innovation Loans (LILs) started in IDA 11.

Table F1. Distribution of IDA Commitments by Intervention

	IDA10		IDA11		FY 2000	
	Amount	%	Amount	%	Amount	%
Adaptable program loan		0	515	3	568	13
Debt reduction loan	0	0	85	0		0
Emergency recovery loan	359	2	843	4	81	2
Financial intermediary loan	248	1	137	1	5	0
Learning and innovation loan	0	0	113	1	76	2
Program structural adjustment loan	0	0	0	0	0	0
Rehabilitation loan	283	1	60	0		0
Sector adjustment loan	2281	12	980	5	73	2
Sector investment/maintenance loan	1312	7	699	4	110	3
Specific investment loan	11784	62	12540	66	2588	59
Structural adjustment loan	2183	11	2571	14	608	14
Technical assistance loan	688	4	409	2	257	6
Grand Total	19138	100	18952	100	4366	100

Table F2. Distribution of IDA Commitments by Number of Loans by Intervention

	IDA10		IDA11		FY2000	
	Num	%	Num	%	Num	%
Adaptable program loan	0	0	19	5	14	11
Debt reduction loan	0	0	2	1		0
Emergency recovery loan	6	2	20	5	3	2
Financial intermediary loan	3	1	4	1	1	1
Learning and innovation loan	0	0	26	7	18	14
Program structural adjustment loan	0	0	0	0	0	0
Rehabilitation loan	5	1	2	1		0
Sector adjustment loan	19	6	11	3	2	2
Sector investment/maintenance loan	22	6	13	3	1	1
Specific investment loan	219	65	220	58	64	51
Structural adjustment loan	28	8	35	9	7	6
Technical assistance loan	37	11	28	7	16	13
Grand Total	339	100	380	100	126	100

The distribution of commitments by number of loans by type of intervention presented above indicates a larger percentage share of APLs and LILs as compared to their share in the amount of lending. This highlights the relatively small average size of these interventions. While the relative share of Specific Investment Loans by amount was increasing, there is a decline in terms of the relative share by number of loans, which indicates a declining average size of commitment for Specific Investment Loans.