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**For meeting of
Committee: Wednesday, October 18, 2006
Board: Thursday, November 2, 2006**

FROM: Vice President and Corporate Secretary

Annual Review of Development Effectiveness, 2006 - Getting Results

Draft Management Comments

1. Attached is the *Draft Management Comments* to the *Annual Review of Development Effectiveness (ARDE), 2006 - Getting Results* (R2006-0180[IDA/R2006-0189]) that was distributed earlier and that will be discussed at the meeting of the Committee on Development Effectiveness (CODE) on October 18, 2006, prior to Board consideration on November 2, 2006.
2. Questions on this document may be referred to Mr. Underwood (ext. 33911) or Ms. Gupta (ext. 31673).

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**ANNUAL REVIEW ON DEVELOPMENT EFFECTIVENESS,
2006
DRAFT MANAGEMENT COMMENTS**

**OPERATIONS POLICY AND COUNTRY SERVICES
WORLD BANK**

OCTOBER 6, 2006

ABBREVIATIONS AND ACRONYMS

ARDE	Annual Review of Development Effectiveness
CAS	Country Assistance Strategy
IEG	Independent Evaluation Group
LICUS	Low-income country under stress
MDG	Millennium Development Goal
PREM	Poverty Reduction and Economic Management Network
PRSP	Poverty Reduction Strategy Paper
PSIA	Poverty and Social Impact Assessment
SSA	Sub-Saharan Africa
WDR	World Development Report

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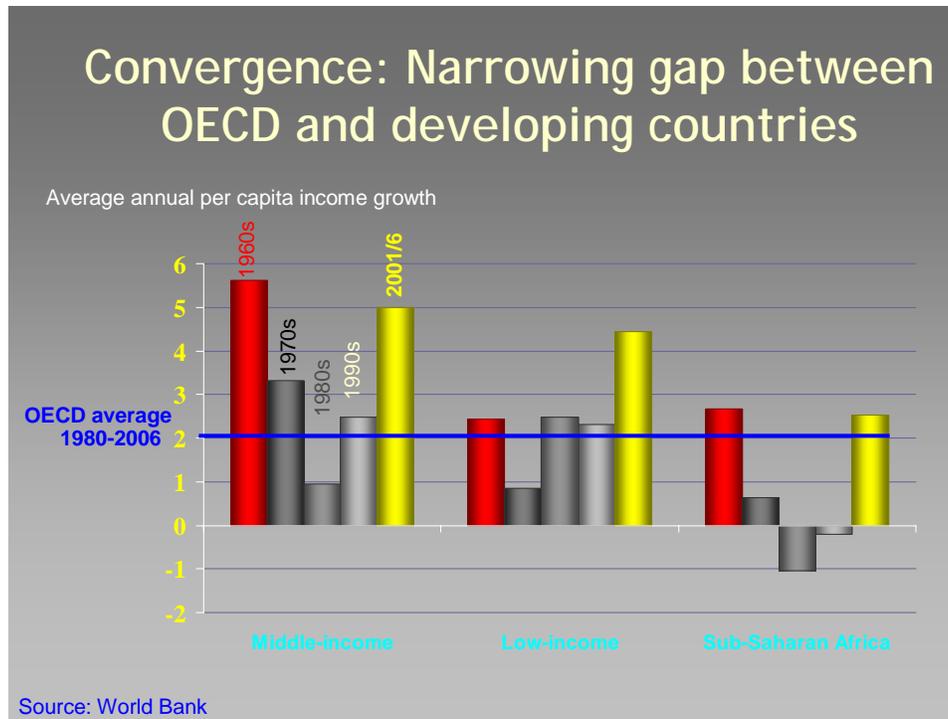
I. INTRODUCTION

1. This year's Annual Review of Development Effectiveness (ARDE)¹ looks at issues around growth strategies and sustainable results. In the review, the Bank's Independent Evaluation Group (IEG) discusses the Bank's recent record on growth and poverty reduction, using evaluation findings to comment on the effectiveness of World Bank assistance in contributing to poverty-reducing growth. The review groups lessons around poverty-reducing strategies, achieving results at the sector level, and strengthening public sector governance through government commitment, accountability, and transparency. This note provides a brief response to IEG's findings and suggestions. It is organized around two main issues: (a) developing countries' recent record on growth and poverty reduction; and (b) Management's views on IEG's analysis of measures that could increase the effectiveness of Bank-supported programs. In general, Management finds many of IEG's suggestions to be useful as the Bank refines its efforts to support countries in improving their development effectiveness, but believes that the report could have presented a more balanced picture of Bank contributions.

II. RECORD ON GROWTH AND POVERTY REDUCTION

2. The ARDE paints a relatively bleak picture on growth and poverty reduction. Management would like to note that for several years developing countries have enjoyed very positive growth rates. The figure below illustrates the point, noting the recent narrowing of the gap between developing and industrial countries. Developing countries grew at 5-6 percent in 2004-2006, even excluding fast-growing India and China (although, given the population of these two countries, their inclusion is important). This year developing country growth is expected to be 6.8 percent for the fifth consecutive year of strong growth. The outlook for 2007 is one of continued strong developing country growth, in spite of higher oil prices. Sub-Saharan Africa (SSA) deserves particular mention: it has had a full decade of growth, with growth topping 5 percent since 2004; and annual growth in 17 SSA countries exceeded 4 percent over the entire decade. These higher growth rates reflect sustained improvement in the quality of developing country policies and institutions (confirmed by the 2003 ARDE and continuing since then).

¹ *Annual Report on Development Effectiveness, 2006: Getting Results* (R2006-0180;IDA/R2006-0189) Independent Evaluation Group, 2006.



3. **Poverty Reduction.** On poverty, an important conclusion is that the developing world as a whole is predicted to meet the poverty Millennium Development Goal (MDG). The latest projections indicate that the share of the developing country population living on under \$1 per day will fall from 27.9 percent in 1990 to 10.2 percent in 2015. Even in SSA, where conflict and HIV/AIDs have affected poverty reduction efforts, poverty fell from 46.4 percent in 2001 to 44.0 percent in 2002. It is likely that the substantially positive per capita income growth discussed in the previous paragraph has reduced poverty further.

4. **Challenges of Building on This Progress.** Notwithstanding this overall positive record, Management recognizes that many countries—particularly in Africa and South Asia—are far from achieving many of the MDGs. However, it is much less of a stretch now for SSA countries, for example, to make the jump from the recent rates of growth to the 7 percent rate estimated as necessary for them to meet the poverty MDG. To help countries achieve these higher rates of growth and poverty reduction, the development community needs a better understanding of what works well under what circumstances and how we can better customize support to clients to create jobs and opportunities (the theme of this year's ARDE). In this context, the President has appointed a Commission on Growth and Development, supported by the Bank and other donors,² and comprising leading practitioners from government, business, and the policymaking arena. Over a two-year period, the Commission is expected to shed light on the long-run forces underlying growth experiences, and highlight the actions—at the national and international level—most likely to improve developing countries' growth prospects. In addition, the Poverty Reduction and Economic Management Network (PREM) has been developing and implementing a multipronged work program on growth: flagship analytic work

² These donors include the Swedish, Netherlands, and United Kingdom Governments and the William and Flora Hewlett Foundation.

(*Lessons of the 1990s*³ and *Pro-Poor Growth*⁴); capacity building within the Bank (training, dissemination of good practices, and support to country teams, including “growth diagnostics” pilots); and efforts to bring outsiders’ views and analytic work into the Bank (PREM conferences and lecture series).

III. INCREASING THE EFFECTIVENESS OF BANK SUPPORTED PROGRAMS

5. The ARDE makes a series of observations on Bank programs, at the level of the Country Assistance Strategy (CAS) and at the level of individual operations. Management would like to comment on country strategies, sectoral support and cross-sectoral synergies, and governance and transparency.

A. Successful Country Assistance Strategies

6. The ARDE notes that Bank assistance has been effective when it has taken a realistic view of borrowers’ political and institutional capacity and has focused on well-specified objectives. In recent years, these issues have been at the center of Bank support. An overview of borrower capacity is now a key element in the design of CASs and lending operations. The CAS sets out the Bank’s diagnosis of the country’s development situation (political and institutional) and outlines a selective program of planned Bank Group support that is tailored to the country’s needs, against the background of the government’s own development objectives and strategy, the Bank’s ongoing portfolio, and the activities of other development partners.

7. ***The Difficulties around Strategy Development.*** According to the ARDE, IEG finds that when CASs overlook capacity, they tend to be too ambitious. Designing strategies and supporting reform programs is not an exact science. It involves often difficult assessments of government commitment and political climate, both of which can evolve quickly in the countries in which the Bank operates. Projecting the success of strategies requires balancing elements of institutional and political capacity and commitment. A very circumscribed program can end up missing opportunities for reform, as IEG’s own evaluations point out. On the other hand, even in an uncertain political climate, a country that has strong and broad-based commitment across stakeholders may be able to undertake major reforms successfully.

8. ***Attribution.*** The review rightly points out that successful poverty reduction in a country cannot be attributed to Bank assistance alone. The same is true when poverty reduction efforts are not successful. In Management’s view the ARDE analysis of the Bank’s impact on poverty does not fully capture the effectiveness of Bank assistance in helping countries achieve pro-poor growth. This is so because the ARDE analysis uses the outcomes of Bank-supported country assistance programs drawn from their Country Assistance Evaluations or CAS Completion Report reviews. Those outcomes at the country level depend on more than Bank performance. They depend on the performance of other donors, luck—good or bad—and, most importantly (as the ARDE notes), the quality of the country’s own policies, notably economic management.

³ See *Economic Growth in the 1990s: Learning from a Decade of Reform*, World Bank, 2005.

⁴ See *Pro-Poor Growth in the 1990s—Lessons and Insights from 14 Countries*, Agence Française de Développement, Bundesministerium für Wirtschaftliche Zusammenarbeit und Entwicklung, U.K. Department for International Development, and World Bank, 2005.

9. ***Distributional Impacts.*** The ARDE argues that the Bank has not paid sufficient attention to the distributional effects of growth-enhancing reforms. Management would note that issues around income distribution are not new to the Bank: it has been a long tradition of work on these issues, including, over the last five years, support for Poverty and Social Impact Assessments in countries in all six Bank Regions, with particular focus on Africa. These analyses have covered, for example, infrastructure, public sector, social sector, and macroeconomic reform and the agricultural sector.⁵ Since September 2004, when the updated policy on development policy lending (OP 8.60) was adopted, the vast majority of development policy operations have included a review of possible negative poverty and social impacts and, where necessary, mitigation measures.⁶ The Bank has produced several analytic and research reports on income distribution and growth, notably the 2006 World Development Report (WDR), *Equity and Development*.⁷ On July 11, 2006, Management reported to the Bank's Executive Directors on the activities with which the Bank is operationalizing the messages of the 2006 WDR: support to Regions on operations and analysis, larger-scale pilot programs in support of several countries, and a three-year programmatic research agenda. Management puts a greater weight than IEG on the contribution of achieving fiscal stability to slowing or reversing the negative impact of fiscal crises on income distribution and the burden that these crises put on the poor. Management believes that it can be difficult for countries to take on other major reforms related to pro-poor growth before macroeconomic stabilization has been achieved.

10. ***The Challenge of Rural Poverty in CASs.*** The ARDE notes that in most countries examined by IEG evaluations poverty reduction has been greater in urban than in rural areas, and it links that finding to Bank support being skewed in favor of urban areas. Management would like to emphasize the point made above that progress in outcomes such as rural poverty cannot be directly attributed to the quality of Bank support. Management would also like to note that the information currently available on country-level rural poverty and agricultural performance allows only very limited analysis of progress on rural poverty, agricultural value-added, productivity, and output. Despite these caveats, in the 1990-93 to 2003 period, there was an increase in agricultural value-added (an indicator that is correlated with a reduction in rural poverty) in some countries in SSA and in the Middle East and North Africa Region, where policy and investment levels most closely matched the recommendations of the Bank's rural development strategy. Since the Bank issued *Reaching the Rural Poor*,⁸ it has supported 47 partner countries in completing rural development strategies that have been reflected in country Poverty Reduction Strategy Papers (PRSPs) and then in CASs supporting those countries; and over 90 percent of the 17 PRSPs prepared in FY04-05 proposed investment programs aligned with the Bank's rural development strategy.

⁵ See *Poverty and Social Impact Analysis of Reforms: Lessons and Examples of Implementation—A series of case studies illustrating PSIA in agriculture, energy, utilities, social sectors, taxation, and macro-economic modelling*, Aline Coudouel, Anis Dani, and Stefano Paternostro, World Bank, July 2006.

⁶ See *Development Policy Lending Retrospective*, World Bank, 2006.

⁷ See *World Development Report: Equity and Development* (2005), World Bank. See also *Poverty Reduction and Growth: Virtuous and Vicious Circles*, Guillermo Perry, Omar Arias, J. Humberto Lopez, William Maloney, Luis Serven, World Bank, Washington, D.C., 2006, and *Inequality in Latin America and the Caribbean--Breaking with History*, David de Ferranti, Guillermo Perry, Francisco H. G. Ferreira, and Michael Walton, World Bank, Washington, D.C., 2003.

⁸ See *Agriculture and Rural Development--Reaching the Rural Poor*, World Bank, 2003.

11. ***Designing Effective Agricultural Strategies.*** Owing to the great diversity in agricultural activities and in the socioeconomic settings where agriculture is practiced, it is no simple task to determine which strategies or policies will work best in a given country. Also, although agriculture is overwhelmingly a private sector activity, it is uniquely dependent on good governance, wise public investments, and carefully focused public policy, all areas where client ownership is of central importance. The 2007 WDR now under preparation will specifically look at issues around agriculture and development. The analysis is likely to provide more clarity on customizing agricultural strategies to specific country conditions and dealing with the risks posed by heavy and often unpredictable government intervention in agricultural export markets.

12. ***Strategies in Support of Fragile States.*** The ARDE notes that in state building, which is now a central focus of the Bank in low-income countries under stress (LICUSs), the Bank needs to demonstrate how past weaknesses will be avoided. Regarding state building, Management notes that we are learning from the experience of the past, when the international community was too ready to ignore the task of making state institutions more effective and accountable to their people, focusing instead on delivering quick fixes through parallel and unsustainable structures. Management also notes that in-country harmonization among donors in fragile states—although it remains a challenging task—is making significant progress. There are several good examples, such as the use of shared transitional results frameworks in Central African Republic, Haiti, and Liberia, and joint country strategies completed or under way in gradual reform environments such as Cambodia and Nigeria as well as in countries with more severe issues, such as Central African Republic, Democratic Republic of Congo, Somalia, and Togo. In general, the ARDE does not recognize the significant progress the international community has made in the last three years in its support to fragile states.

B. Sectoral Support and Cross-Sectoral Synergies and Complementarities

13. The ARDE notes that the overall performance of the Bank portfolio has increased over the last few years but does not highlight how important that is. While country focus (doing the right things) is key, there is no substitute for quality operations (doing things right). There has been a substantial improvement in the quality at entry of operations: 92 percent of the projects reviewed received a moderately satisfactory rating or better in the latest quality-at-entry assessment.⁹ IEG's project ratings at completion show a continuation of the longer-term improvement in project results (for example, of the FY05 cohort of operations rated so far, outcomes are rated satisfactory for 82 percent of projects by number and 87 percent weighted by disbursements). The ARDE does not note the substantial improvements in LICUS operations. In 2005 projects in LICUS actually achieved higher levels of performance than projects in non-LICUS low-income countries. While this record may not be sustainable in these difficult environments, the situation is a vast improvement over the 50 percent satisfactory ratings of LICUS operations in FY02, before the LICUS initiative began.

14. ***Bank Lending Support.*** Management notes that this strong operational quality performance has been achieved with higher lending from IBRD and increased credits and grants from IDA. In FY06, IDA provided \$9.5 billion in support to poor countries, more than ever before, with more than half going to SSA. Because of IDA's performance-based allocation

⁹ See *Quality at Entry in FY 04-05* (QEA7) (CODE2006-0011).

system, those funds are likely to be used effectively by the recipient countries for development and poverty reduction. One of IDA's successes has been to channel funds to better-performing countries and, perhaps even more important, to help align overall donor support behind country-owned growth and poverty reduction programs. IDA remains central to support for the development process in low-income countries. At the same time, IBRD's FY06 lending to middle-income countries—home to two-thirds of the world's poor people—was at its highest level in seven years at \$14.2 billion. The new strategy for a stronger Bank Group engagement in IBRD countries is designed to help the Bank engage even more productively with these countries.

15. **Sectoral Synergies.** IEG's analysis suggests that in sectoral work the Bank has not paid sufficient attention to the inputs required from other sectors to achieve the outcomes of its interventions, and that the Bank needs to give more attention to the distributional effects of reforms it supports at the country level. As noted above the issue of distributional impact is not new to Bank work. The same is true of cross-sectoral synergies, and there have been several advances in recent years. The IEG review points out examples of operations that successfully achieved these synergies: in Bangladesh, Bank support for female secondary education has contributed to reductions in child mortality; rural electrification operations in general have contributed to improved health outcomes; and rural roads in Morocco have led to increases in agricultural activity and increases in enrollment in primary education. Sector groups have been working to increase the set of operations that achieve these synergies. In FY05 the water supply and sanitation Sector Board developed a toolkit jointly with PREM to improve the integration of water supply and sanitation policy reforms and implementation arrangements into poverty reduction support credits. Then, in recognition of the fact that water supply and sanitation services are key to achieving improved health outcomes (for example, in reducing child mortality), in FY05 the health and infrastructure sectors also launched an important initiative to assess the burden of disease and develop tools for setting priorities. The approach paper *Strategy for Health, Nutrition, and Population*,¹⁰ discussed by CODE in June 2006, proposed a diagnostic tool—the Binding Constraints on Outcome Improvement (to be piloted)—that would highlight the possible gains from enhanced coordination between sectors. More generally, the Bank's Results Secretariat has worked with Networks in the development of over a dozen results-oriented sector strategies. The Secretariat seeks to strengthen the results chains in these strategies in several ways: (a) ensuring that objectives are realistic; (b) identifying important synergies between the Bank's interventions in the sector and in other sectors to achieve the objectives, and designing a strategy to exploit these synergies; and (c) ensuring that the results chain is based on solid evidence about what gets results. The challenge, as IEG correctly points out, is to adapt the results chains to country strategies.

16. **Support for Education.** IEG notes that in many low-income countries, the objective of ensuring that every child completes primary school education by 2015 has led to massive efforts to build more schools and provide more educational materials, but that rapid expansion in coverage has often been at the expense of attention to learning outcomes. It is true that improvements in learning outcomes have lagged and countries now need to put as much effort into improving learning outcomes as has gone into getting children into school. The Bank is scaling up its work in this area to help countries improve learning outcomes, as is the overall

¹⁰ *World Bank Strategy for Health, Nutrition and Population Results* (CODE2006-0055), June 12, 2006.

donor community. Improvement of education quality is now a central part of the endorsement for Fast Track Initiative support, and countries have taken this on board, as noted at the recent Special Ministerial Roundtable on Education at the Annual Meetings in Singapore.¹¹ Additional activities include programs to increase incentives to focus on learning outcomes and strengthening capacity to measure outcomes and to benchmark them internationally.

C. Governance and Transparency

17. IEG concludes that public sector reform initiatives have not always been aligned with political realities, and that the progress of Bank-supported reform programs in public administration and public financial management has been slow because of lack of political support. IEG also finds that the Bank has focused excessively on passage of laws and given insufficient attention to enforcement. Management notes that much has changed in recent years.

18. **Transparency and Related Reforms.** In the past decade, the Bank has recognized that reform of the civil service administration can take a long time and that it is not enough merely to ask for passage of laws. Thus it has focused on service-oriented approaches to improving governance and service provision: (a) using public expenditure reviews to highlight sectoral spending priorities; (b) engaging via sectorwide programs; (c) using information to improve accountability for service provision on the ground; (d) decentralizing to shift responsibility for service provision to entities that provide services; and (e) adopting community-based approaches to local infrastructure investments. The prior actions and triggers for subsequent operations in a development policy lending program are reviewed closely to see whether they focus only on passage of laws or represent only a tiny step in the implementation of the reform program. Task teams are instructed to define the next steps and their impact, and describe expected results, in the Program Document.

19. **Doing Business.** Regulatory red tape is associated with poor governance and corruption. A thriving, open, and competitive private sector can be a strong source of demand for better governance. The Bank's *Doing Business Report*¹² benchmarks business regulation in 175 economies. Follow-up work generated by country discussions has led to policy reform, for example in Bangladesh.

20. **Community-Driven Development.** Even when opportunities for governance reform at the national level are limited, the Bank has taken advantage of entry points at the local level through community-driven development, especially when such an approach also supports the development of local government capacity and accountability. The ARDE cites two Bank operations, one in Zambia and the other in Honduras as good examples. In a related area, Management would dispute what the ARDE says about the role of municipal councils in Brazil (page 46). There is substantial evidence that these municipal councils have contributed to (a) engaging local officials in decisionmaking; (b) enhancing local governments' capacities to identify, appraise, and supervise subprojects; and, most importantly, (c) strengthening local governments' ability to effectively engage local communities and increase their accountability to them.

¹¹ The transcript of this meeting is available on the World Bank external website.

¹² See *Doing Business 2007, How to Reform*, World Bank Group, 2006.

21. ***Engagement in Supporting Good Governance and Anticorruption.*** There is a general consensus that better governance and stronger anticorruption efforts are central to meeting the MDGs. The Development Committee noted that “the principal objective of the Bank’s governance work should be to develop capable and accountable states to deliver services to the poor, promote private sector-led growth, and tackle corruption effectively.”¹³ They supported the Bank’s engagement in governance and anticorruption work. The strategy set out in the Bank’s paper *Strengthening Bank Group Engagement on Governance and Anticorruption*,¹⁴ building on a decade of global experience and evidence, implies a change in how the Bank Group does business: providing incentives to managers and staff to engage proactively on the ground on governance issues; addressing staffing, skills, and resource needs to operate effectively in challenging governance settings; and developing a stronger results framework. The Bank will now further refine and implement the strategy and report periodically on results.

IV. CONCLUSIONS

22. As noted in the introduction, Management finds many of the suggestions by IEG to be constructive. Its recommendations are intuitive: focus on the nature of growth, better articulate results chains to achieve sector outcomes, and provide a realistic assessment of the political economy of governance-related reforms. The Bank is addressing all three as it continues the process of improving Results-Based CASs. With regard to the pattern of growth, the work designed to operationalize the WDR on poverty and inequality is feeding into the CAS process, which often already benefited from PSIA. IEG suggests a blend of Bank-supported activities across sectors to support CAS objectives, and Management agrees, while at the same time noting, as IEG also suggests, being selective in the activities the Bank supports, given budget constraints, and for IDA, a constrained financing capacity. With regard to governance, IEG suggests ensuring that partner countries own the reform approach and pace supported by the Bank, and Management agrees. CAS preparation and consultations are key in making these assessments, and this process will be reinforced with the implementation of the governance and anticorruption strategy. The next CAS stocktaking exercise at the end of FY07 will address progress across these three important dimensions for getting results from Bank assistance.

¹³ See *Development Committee Communiqué*, Singapore, September 18, 2006.

¹⁴ *Strengthening Bank Group Engagement on Governance and Anticorruption* (SecM2006-0372), August 18, 2006.