



Executive Summary

Our task is not to fix the blame for the past—but to help fix the course for the future.

—John F. Kennedy

The pace of change in the overall performance of the developing world has not altered markedly over the past 20 years. The number of people living in extreme poverty declined from 1.5 billion in 1980 (40 percent of population), to 1.2 billion in 1990 (28 percent of population), to 1.1 billion in 2001 (21 percent of population). Growth per capita has followed much the same profile. In the 1980s, only about two-thirds of developing countries showed positive per capita income growth, and this percentage remains unchanged.

Life expectancy and literacy indicators show overall improvements, but some Regions show worrisome trends. There has been slow and steady progress in overall development outcomes during the period, but the speed and scale of change remain static. These averages, of course, mask huge differences across Regions, with very worrisome increases in poverty and continued low growth in Sub-Saharan Africa.

Since the mid-1990s, the World Bank has dramatically altered its direction to emphasize poverty eradication as the institution's main mis-

sion. Many programs and policies have been revised, with the objective of making the Bank more effective in its support of the global fight against poverty. The following key changes have been frequently highlighted in internal communications and external commentary on the Bank as strategic moves designed to improve the Bank's development effectiveness:

- *Eradication of poverty* as the Bank's central mission statement
- *Shift to country focus* combined with decentralization of staff
- *Expansion of global programs* to address global challenges in partnerships
- *Enhanced participatory and community-based* project approaches
- Increased attention to *governance and institutional change*
- *Greater country ownership and donor alignment* through

Since the mid-1990s, the World Bank has dramatically altered its direction to emphasize poverty reduction as the institution's main mission.

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Poverty Reduction Strategy Papers (PRSPs) and other instruments

- Greater focus on results and performance
- New approaches to deal with fragile states—for example, low-income countries under stress (LICUS)

- Enhanced safeguard policies.

Some of these initiatives are now well established, while others, such as the strengthened results focus, were introduced more recently and are still evolving. How have these initiatives improved the Bank's development effectiveness?

This paper uses recent evaluations to assess the development effectiveness of the World Bank and how it could be improved. It covers three questions:

1. What is the measurable progress in improved living conditions in the developing world over the last 10–15 years, and how does it compare with the previous decade?
2. How effective has the World Bank been in helping countries improve their living conditions through its various interventions and programs?
3. Finally, what broad lessons emerge from OED evaluations on improving the Bank's development effectiveness?

The Bank's development effectiveness can be measured at the project or individual program level, at the country level, and by looking at its global programs.

The PRSP initiative offers promise, but the Bank is struggling to improve its effectiveness at two ends of the development spectrum—LICUS and MIC countries.

There has been a steady improvement over the past decade in the ratings of the outcomes of Bank projects. Outcome ratings have increased from around 65 percent satisfactory in the mid-1990s to over 75

percent satisfactory in the past four years. This is indeed impressive progress, and it should be continued. But it does not necessarily indicate improved development impact at the country level. OED's Country Assistance Evaluation (CAE) ratings, which take a long-term perspective and can better assess the impacts of World Bank support to countries, show a satisfactory outcome in about two-thirds of the Bank's country programs. They also show that even when project ratings in a sector are high, sectoral outcomes may not be satisfactory.

With one-third of country programs rated unsatisfactory, there is substantial room for improvement in the Bank's development effectiveness through more coherent country programs tailored to country circumstances, as well as through further improvements in specific projects and programs. The PRSP initiative offers the low-income countries a framework under which both country ownership can be encouraged and donor interests can be incorporated. This direction could also improve the outcomes of the Bank's country assistance programs.

The Bank is struggling to improve its effectiveness at two ends of the development spectrum—in LICUS countries where state capacity has collapsed or weakened considerably, and in middle-income countries (MICs) that have much greater access to other sources of capital. Greater focus and selectivity are also needed in the Bank's global programs to enhance their poverty impact and their benefits to developing countries.

The Bank also must focus on its costs of doing business, which have risen significantly over the last 10 years. For every dollar of its administrative budget the Bank disbursed \$13 in fiscal year 1995, but only \$9 in fiscal 2005, after a brief increase in fiscal 1998–99 during the Asian crisis. Bank commitments have also fallen from \$16 per dollar of administrative budget in fiscal 1995 to \$11 in fiscal 2005. The average size of loans has fallen from around \$90 million in the mid-1990s to around \$80 million in the last two years.¹

Lending has stagnated but the budget has continued to grow. Lending has dropped sharply to middle-income countries with access to cheaper sources of finance.

The Bank argues that some of the increased cost, such as safeguards or new community-based approaches, has helped improve its projects. Some of the increased cost is due to expansion of knowledge activities, and some to the financing of global programs. But smaller loans do not square with the Bank's objective of scaling up its poverty-reducing activities. It must also address why lending is declining at the Bank and not in other Multilateral Development Banks (MDBs), and how effective all its non-lending activities—the knowledge bank—are for supporting development. Knowledge and lending should complement each other and not be seen as substitutes.

OED findings and evaluations at the project, sectoral and thematic, and country and global levels suggest that the following nine directions can improve the Bank's development effectiveness:

- Understand and analyze comprehensively, but act far more selectively.
- Emphasize institutional development and capacity building even more strongly.
- Re-think areas of punctured optimism, such as growth, private provision of infrastructure, and turn-around situations.
- Tailor programs and projects to the circumstances of each country, and adapt strategies to the local political economy.
- Lend mainly to countries with improving policies and institutions, but find ways to deal with poor, misgoverned states.
- Introduce greater flexibility into programs with well-managed MICs.
- Make better use of the Bank's knowledge and technical assistance.

- Improve monitoring and evaluation for results, and start measuring what is important.
- Improve coordination within the Bank and across the Bank Group.

This review of the Bank's development effectiveness points to a number of opportunities for further improvements.

Some of these will require changes in business processes, such as new ways of dealing with

LICUS and MICs and further improvements with the PRSPs. Some will require changes in the organization, to improve coordination within the Bank and across the Bank Group to set the right incentives; consolidate the Bank's networks toward the two pillars—the investment climate and social inclusion; more focused use of knowledge to address country needs, less mechanistic application of safeguards; and a review of the matrix structure, which leads to multiplication of tasks and works against selectivity.

Still others will require strategic choices for the institution, such as how to define its role more selectively, more focused on its core competencies in the global war on poverty, rather than trying to cover every aspect of development. A greater emphasis on growth is needed for lasting poverty reduction.

The Bank has transformed itself significantly in the past 10 years, and should be ready for further adjustments to current climate of rapid change. Greater selectivity, more flexibility, and improved efficiency within its chosen areas of intervention are needed going forward if a global institution such as the Bank is to remain useful and relevant and show concrete results in a fast-changing world.

Greater emphasis on growth is vital for lasting poverty reduction.

Greater selectivity and a more hard-nosed focus on results are needed.

ENDNOTES

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1. The average size of investment loans dropped from US\$80 million in the mid-1990's to about US\$65 million in the last two years.

Chapter 1

1. The increase in poverty head-count probably stretches back to the beginning of the 20th century.

Chapter 2

1. This discussion is based on the *2004 Annual Review of Development Effectiveness: The Bank's Contribution to Poverty Reduction*.

2. The analysis excludes the global information and communications technology, poverty reduction, and social development because OED has evaluated very few of their projects.

3. OED has carried out two detailed impact evaluations in education in Ghana (OED 2004b) and health and nutrition in Bangladesh (OED 2005c) and is conducting another on rural poverty in India. OED is also reviewing all the impact evaluations under way at the Bank.

4. The size of investment loans declined from US\$80 million to US\$65 million over the same period.

5. China being an obvious one.

Annex A

1. OED notes that the first subsection of Chapter 2 (page 7) is entitled "Project Performance Ratings Show Improvements over the Past 10 Years," and that this section shows clearly that project ratings have increased (see, for example, figure 2.2).

2. *2003 Annual Review of Development Effectiveness—The Effectiveness of Bank Support for Policy Reform* (Washington, D.C.: The World Bank, 2004).

3. *Global Monitoring Report 2005—Millennium Development Goals: From Consensus to Momentum* (Washington, D.C.: The World Bank, 2005).

4. The *Global Monitoring Report 2005* drew on the most recent literature on growth to conclude that there is no minimum set of reforms required to spur growth, or a larger set that is sufficient to sustain it. The relationships among growth and policies, aid, shocks, the external environment, and other factors are complex.

5. *2003 Annual Review of Development Effectiveness, op. cit.*

6. OED notes that before commencing work on a CAE, an Approach Paper (AP) is prepared that clearly sets out the objectives against which the country assistance program will be evaluated. Each AP is sent to OPCS and the Country Department for comment prior to its circulation to CODE for approval. Therefore, it is unclear to OED what is meant by the statement that "it has never been clear to management which objectives OED rated."

7. See *2004 Annual Review of Development Effectiveness: The Bank's Contributions to Poverty Reduction* (R2005-0084, IDA/R2005-0061), April 12, 2005, available at <http://www.worldbank.org/oed/arde/2004/>.

8. *World Development Report 2005: A Better Investment Climate for Everyone* (Washington, D.C.: World Bank and Oxford University Press, 2004).

9. The years fiscal 1998–99 were extraordinary years for the World Bank, given the East Asian Crisis and support to Argentina.

10. *Paris Declaration on Aid Effectiveness: Ownership, Harmonisation, Alignment, Results and Mutual Accountability* (DC2005-0002), April 1, 2005.

11. *Enhancing World Bank Support to Middle Income Countries—Management Action Plan: Progress Memorandum* (Washington, D.C.: The World Bank, 2005).

12. *Principles for Good International Engagement in Fragile States* (Paris: Organisation for Economic Co-operation and Development, 2005).

13. Search “Transitional Results Matrix” at www.worldbank.org.

14. *Update on Management of Global Programs and Partnerships* (Washington, D.C.: The World Bank, 2003). Two managing directors chair the Council, and its members are vice-presidents from Networks, Regions, and corporate areas.