
APPENDIX B2: LESSONS FROM PREVIOUS IEG EVALUATIONS

Agriculture

IEG (1996a) evaluated agricultural sector adjustment loans (AGSECALs) including its trade policy components. According to this study, throughout the 1970s, agricultural development programs mistakenly relied on public enterprises, over-valued exchange rates, high tariffs, and quantitative restrictions. In the 1980s, the Bank's agricultural sector adjustment operations supported the public production model and sought to increase its efficiency. However, the output impact of most completed AGSECALs had been rather small, as they did not tackle the basic policy constraints. Although IEG project evaluations rated 66 percent of the 35 completed AGSECALs as satisfactory, their objectives were deemed irrelevant by this study since most of them were designed within the policy framework of the 1980s. IEG (1996a) noted that only since the late 1980s was there a clear rejection of the state-led model with AGSECALs starting to aim at liberalization, competitive marketing, and reduced state intervention in international trade.

Industrial Activities

An IEG study of Bank funding for industrial activities in Korea, India, and Indonesia, calls for more decisive support to state-led activities (IEG 1991b). The study reports that up to the end of fiscal 1990, lending to all industrial activities constituted 16.9 percent of the Bank's total cumulative lending. From those loans, 63 percent was channeled through financial intermediaries, and 37 percent went to industrial projects. After backing import substitution strategies in the 1950s and 1960s, Bank support for industrialization increasingly moved toward outward-oriented industrialization. IEG considered that in the case of Korea, a restrictive framework un-

derlying the analysis of industrialization has led the Bank to downplay the micro-level process of capability acquisition that underpins its industrial success. IEG notes that the Bank reports merely pointed at orthodox explanatory factors such as human capital and export orientation without mentioning selective government intervention in capability development, technological search and effort, or interaction with other firms and institutions. According to this study, Bank project work shows a much clearer appreciation of capability building, selectivity, and institutions.

Similarly in the case of Indonesia, IEG suggests that the Bank's analyses did not develop sufficient understanding of Indonesian industry at the sub-sectoral level. As in the case of Korea, the Bank's orthodox stance coexisted with a pragmatic approach that the IEG report judged as better geared to the needs of particular sectors during the liberalization process. Considering inefficient state intervention in the case of India, the study commended Bank's insistence on deregulation and outward-looking policies, though arguing that more effective industrial strategies could have been formulated for this country. IEG concluded that the emphasis of the Bank on non-selective interventions seemed to undermine a potentially valid case for selective promotion to help countries tackle the next stage of the learning process.

An assessment of industrial restructuring also recommended support for active state intervention in this process (IEG 1995). After arguing that trade liberalization and real exchange rate devaluation were common characteristics of successful industrial restructuring, this evaluation advised the Bank to extend its role into support for technology development; improved information about market opportunities, particularly for exports;

and labor training, redeployment, and other actions to mitigate the costs of restructuring.

Trade Liberalization

Since the early 1990s, several IEG studies have evaluated Bank-supported trade liberalization. In 1992, IEG evaluated trade reforms backed by adjustment programs in nine countries (IEG 1992a). Conditions usually attached to these loans included measures to promote a more open economy, improve macroeconomic management, and remove price distortions and impediments to efficient resource allocation. The Bank had also worked to facilitate consensus building and to encourage borrower ownership through dialogue, training, and coordination. The report noticed that all countries reduced quantitative restrictions, but only some of them reduced tariffs significantly. In two countries, early trade reforms were reversed due to economic instability. Though reforms required changes in the market policy frameworks that encourage competition, the Bank supported such changes in only four countries, and in only one case were reforms sufficiently comprehensive according to IEG.

After noting that higher export growth is fostered by easier access to imports of raw materials and capital goods as a result of trade reform, IEG (1992a) suggested that sound general economic policies, greater transparency in the regulatory framework, greater private sector access to credit, and improved productivity contributed to a higher supply response. In addition, the report noted that the most successful adjusters pursued a more active exchange rate policy than the less successful.

IEG drew several lessons from the nine sampled liberalization episodes in this review. In general, it suggested that conditionality should emphasize a few key variables that are easy to monitor. The evaluation also argued that trade reform should be undertaken in three stages: (i) tariffication; (ii) equalization of tariffs without reducing tariff revenues; and (iii) reduction of tariffs. This sequence was generally followed in all nine countries, although three are yet to move to the third stage. Complementary actions should include a previous analysis of debt dynamics;

the attainment of internal balance before the reduction of tariffs; and the maintenance of real interest rates on savings above international levels to keep external balance. Considering the need to maintain fiscal and internal balance during reforms, IEG suggested coordination between tax reforms and tariff reductions. Governments should also foster internal competition to prevent domestic regulatory policies from eventually being used as anti-trade devices. Comparing the experiences of Ghana and Indonesia, the report deemed investments in human capital crucial for project sustainability. It also argued for the need to consider country-specific characteristics such as a low tax base (e.g., Pakistan) or volatility of terms of trade (e.g., Jamaica). Borrower ownership was considered necessary to increase the likelihood of countries actually meeting loan conditions and for enhanced credibility of the reforms.

IEG (1992a) urged Bank ESW to identify population groups negatively affected by trade reforms, and to use well-targeted relief measures for losers. According to IEG (1992b) the rural population had benefited more when reforms led to increases in tradable crops or agricultural incomes and less when the gains were concentrated on exportable crops, since the poor usually participate less in exportable crop production than in the rest of the agricultural sector. Although the poor may benefit indirectly from growth in agricultural exports, income inequality in rural areas rises in such cases. The report found that Structural Adjustment Loans (SALs) have usually included special programs to mitigate the social costs of adjustment mainly in the form of programs for the newly unemployed and the chronically poor (e.g., public work programs, nutrition support schemes for children and pregnant women, and targeted food subsidies). However, IEG highlighted poor design of special programs, inadequate attention to the development of appropriate institutions, and lack of proper and timely financing.

Social Impact of Adjustment

IEG has paid special attention to the effects of trade and adjustment reforms in Sub-Saharan Africa. A first evaluation on this issue (IEG 1993)

found that many assessments of African adjustment operations did not deal with the basic question of sequencing. The study demands more attention in this regard, citing for example the need for export promotion to proceed over import liberalization, though with adequate coordination to avoid an anti-export bias of protectionist policies. A later update on this report (IEG 1997) noticed that out of 30 countries with trade-related conditionality in SALs between 1980 and 1996, compliance was good in 19 and weak or poor in 11 (though this was a better performance than other elements of adjustment lending). More seriously, conditions dealing with the social impact of adjustment were only present for half of the reforming countries. Similarly, IEG (1999) reports that nearly half of the Bank poverty assessments do not adequately evaluate individual elements of the poverty reduction strategy, failing to address the links between poverty and macroeconomic policies such as trade and exchange rate policy.

IEG (1996a) argued that since AGSECALs switched focus toward trade liberalization, their impact had been significantly positive for a large number of countries. However, the study still perceived some deficiencies in the Bank's approach to agricultural policy reform. More than 85 percent of AGSECALs ignored food security; Bank directives did not require performance indicators; more than 75 percent of AGSECALs did not address the issue of trade in agricultural equipment and inputs; and little attention was devoted to institutional and policy improvements to domestic markets. Furthermore, the Bank usually overestimated borrower performance; lent only to borrowers with external financing or fiscal problems; was not being effective in supporting institutional reforms; and usually did not establish a proper connection between the amount of financing of AGSECALs and their outcomes. Finally, this evaluation noted that Operational Directive 8.60 on adjustment lending did not cover the peculiarities of agri-

cultural pricing, marketing, regulations, and trade liberalization.

An IEG evaluation of adjustment lending (IEG 1992b) also analyzed trade reforms implemented under these operations. Considerable progress is recognized in reforming the trade regimes affecting industrial sectors, mainly in removing export barriers. The report asserts that measures to replace or eliminate non-tariff barriers to imports were also widespread.

Trade Infrastructure

IEG (1996b) assessed Bank lending for port development, analyzing 35 out of 57 related projects between 1980 and 1992. Most projects aimed at developing and rehabilitating general cargo and container ports. Out of 35, 27 had substantially achieved their objectives at the time the Bank completed its loan disbursements, and most ports had performed adequately without suffering any significant congestion. However, only five had a substantial impact on institutional development, and sustainability of benefits was likely in only 19. Moreover, few projects recorded their progress toward their stated efficiency goals, and project objectives were usually considered attained when intermediate goals were achieved. Average economic rate of return was 17 percent, although appraisal returns were estimated at 28 percent. On average, implementation took 50 percent longer than projected and used larger amounts of Bank staff than the average project. Many of the projects reviewed in this evaluation initially facilitated adaptations to technological changes, but had continuing problems related to labor illiteracy, falling revenues, and increased competition from other ports and transportation. The evaluation recommended that opening to private capital should be the next step.

Source: Salinas, G. (2003), "Internal Evaluations of World Bank Supported Trade Activities," Background Paper prepared for the Trade Assistance Evaluation.