

# Management Comments on the OED Annual Review of Development Effectiveness

## I. INTRODUCTION

1. This year's *Annual Review of Development Effectiveness* (ARDE)<sup>1</sup> examines the Bank's contribution to poverty reduction. This note provides brief Management comments on the ARDE.

## II. ARDE ANALYSIS

2. This section examines some of the analysis presented by the Operations Evaluation Department (OED) in the ARDE and provides Management's comments on that analysis. Overall, Management finds the analysis useful for its work on improving the poverty focus of all of the Bank's work. However, there are a few areas where Management would like to comment.

3. **Country Business Model.** The report notes the relatively good understanding of the business model for Bank support to low income countries, based on country-owned Poverty Reduction Strategies (PRSs). It states that more needs to be done on the business model for supporting Low Income Countries under Stress (LICUS) and Middle Income Countries.

4. **LICUS.** With regard to LICUS, the ARDE states that there is no consensus within the Bank or among its potential partners on what kinds of actions are needed, notably in conflict-affected countries. Management would like to note the Bank's leadership recently in this area in bringing donors together around a common platform for support. Specifically, at the Senior Level Forum for Development Effectiveness in Fragile States, held in London on January 13-14, 2005, it was agreed that a set of principles for support be drafted and field tested. The Bank has been instrumental in producing these draft principles. They are now available and are being applied in LICUS, notably in conflict-affected countries.<sup>2</sup> In addition, the Transitional Results Matrix<sup>3</sup>, a planning tool that the Bank helped develop, integrates political, economic, security, and social dimensions of recovery, and allows for close donor coordination behind government-agreed priorities, permits flexibility, and supports the monitoring of progress; it is also in use.

5. **MICs.** The recent update on the Bank's MIC support strategy<sup>4</sup> lays out a set of actions either completed or in progress to enhance the ability of the Bank to work more

---

<sup>1</sup> See *2004 Annual Review of Development Effectiveness—The Bank's Contributions to Poverty Reduction* (R2005-0084, IDA/R2005-0061), April 12, 2005.

<sup>2</sup> See *Principles for Good International Engagement in Fragile States*, Organisation for Economic Co-operation and Development (DCD(2005)8/REV2), April 7, 2005.

<sup>3</sup> Available on the World Bank external website:  
<http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/STRATEGIES/EXTLICUS/0,,contentMDK:20250510~menuPK:698283~pagePK:64171531~piPK:64171507~theSitePK:511778,00.html#TRM>

<sup>4</sup> *Enhancing World Bank Support to Middle Income Countries—Management Action Plan: Progress Memorandum* (R2005-0016), February 1, 2005.

effectively with these countries. As the ARDE notes, the MIC strategy aims to help countries promote sustainable, equitable, and job creating growth, raise living standards, and reduce poverty. The update emphasizes that recent Country Assistance Strategy (CAS) documents for MICs have customized support to country circumstances and facilitated a more rapid response to lending demand, notably those for Mexico, Kazakhstan, India, Slovakia, and El Salvador, all welcomed by Executive Directors.

6. ***Measuring the Impact on Poverty of Bank Support.*** Management would note that it is difficult for any development institution to truly measure its impact on poverty reduction in a client country, given all the elements that affect poverty levels. Perhaps the most important measure is the following. As pointed out in last year's ARDE<sup>5</sup>, the Bank has done well in directing its financial support to countries with better policies, where these resources contribute the most to growth and poverty reduction. At the same time, support to LICUS countries has been stepped up, with the goal of helping them achieve consensus on policy direction and over time improve policy and institutional performance and gain greater access to financing from the International Development Association and from other sources.

### III. ARDE CONCLUSIONS AND IMPLICATIONS

7. OED draws a series of conclusions and implications for future Bank activities from its analysis. While it broadly embraces the two-pillar approach (support for sustainable and equitable growth and empowering and investing in poor people), it highlights several ways that the implementation of the strategy could be strengthened. This section provides Management views on OED's observations.

8. ***Interactions between the Two Pillars.*** Management agrees that these interactions are important and deserve further emphasis. To better make these links, the Infrastructure Action Plan currently under implementation highlights both the growth and the social service delivery aspects of infrastructure development.<sup>6</sup> Additionally, the upcoming World Development Report on equity and development will closely examine these links.

9. ***Customizing Bank Strategies and the Country Business Model.*** As noted above, Management agrees and is working to align its country assistance strategies in all groups of countries with a relevant poverty focus. Management notes OED's observation that early PRSs in low income countries were less focused on broader growth issues than on social services (although better social services do contribute to growth, as emphasized by OED); however, more recently low income countries have insisted on a greater emphasis on sustainable growth in developing their country-owned PRSs.

10. ***Poverty Focus of Global Programs.*** Management concurs with the importance of a poverty focus in making choices with regard to Bank support for global programs. Management has prepared a strategic framework for the Bank's global programs and partnerships for discussion with Executive Directors. That framework emphasizes this poverty dimension.

---

<sup>5</sup> 2003 Annual Review of Development Effectiveness—*The Effectiveness of Bank Support for Policy Reform* (R2004-0053), April 7, 2003.

<sup>6</sup> *Infrastructure Development—Update on the Implementation of the Infrastructure Action Plan* (SecM2004-0400), August 25, 2004.

11. ***A Sharper Results Focus.*** Management agrees on the need for a better results focus in its country programs, including on support for improvements in governance, and better monitoring and evaluation. The results-based CAS pilot has made a start in this direction, but it will take time to better articulate the results chain between Bank outputs and the country outcomes the Bank supports. The recent review of the results-based CAS pilot<sup>7</sup> lays out the architecture for these results chains but also emphasizes the difficulties and learning that must take place along the way. Both growth diagnostic work led by the Poverty Reduction and Economic Management network and research by the Development Economics Vice Presidency<sup>8</sup> are aimed at improving the development community's understanding of these links. However, Management has some difficulty with OED's suggestion to add more elements to the Bank's poverty assessments, notably growth and governance issues. That would tend to overburden the already complex poverty assessment tool.

12. ***Synergies between Private Sector Development and Public Sector Reform.*** These synergies are clear, and Management recognizes the risks of a lack of coordination on these issues. However, there is no ideal organizational structure to achieve the synergies. Combining responsibilities in one unit (as was considered at the time of the 1997 reorganization) also has risks, as one of the topics could be neglected relative to the other.

13. ***Support for Empowerment and Human Development.*** The review notes that the Bank has sometimes supported increases in expenditures for health and education without adequate consideration of their actual impact. Recently, this issue has received greater attention. For example, the Bank's public expenditure work addresses three levels of public performance—the soundness and sustainability of budget expenditures, the quality of budget formulation and allocation, and, notably, service delivery, especially in social services. One of the tools the Bank has effectively used in support to many countries with regard to service delivery is the public expenditure tracking survey, which helps determine if budgeted expenditures are reaching the targeted beneficiaries. Beyond this, results-based CASs are starting to set out the country outcomes the Bank is supporting and the intermediate indicators of progress. Any health or education operations within the CAS program then show how they support the achievement of these CAS targets.

#### IV. CONCLUSION

14. Management finds the 2004 ARDE useful in reviewing the poverty focus of Bank support. As in past years, it is a timely and important input into Management's work on strategy and policy, the budget process, and improving the Bank's results focus.

---

<sup>7</sup> *Results Focus in Country Assistance Strategies: A Stocktaking of Results-Based CASs* (R2005-0042), February 24, 2005.

<sup>8</sup> See *Research in the Development Economics Vice Presidency* (CODE2005-0019), March 16, 2005.