



**Office of Evaluation and Oversight, OVE  
Inter-American Development Bank**

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***RE-260***

***Development Effectiveness  
Report***

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## ANNEXES

1. Projects with Completed PCRs Rated “Highly Probable” of Achieving Development Objectives

## I. INTRODUCTION: PURPOSE OF THE REPORT

1.1 In common with public institutions throughout the world, the Bank is being asked to constantly improve upon its ability to demonstrate --in concrete and measurable terms-- the results of its actions. These expectations are part of a global trend in government toward improved service and greater accountability.

1.2 President Iglesias emphasized the relevance of these concerns when he told the Committee of the Board of Governors at the Bank's 2001 Annual Meeting:

*“The objective of making the Institution more flexible is inextricably tied to the goal of increasing the rigor and depth of the diagnostic assessment, analysis, and evaluation of the results of the Bank's action.... In other words, the overriding objective of increased flexibility is to maintain the relevance, timeliness, and effectiveness of Bank-supported development activities, but it also calls for a rigorous system of strategic programming and performance evaluation.”*

1.3 The mandate to focus on results has been a feature of the Bank for some time. Indeed, the IDB-8 Agreement contains several references to the need to focus on the results of Bank activities, and one of these references connects the search for results to the “effectiveness of Bank development policies.” (See Box 1.1)

### Box 1.1: Results-Related References in IDB-8 Agreement

Based on program dialogue with borrowing member governments, country programming will continue to define expected results in order to facilitate program evaluation and improve programming effectiveness over time  
Parag 3.23

1.4 While the instruction to focus on “development effectiveness” appears clear, the underlying concepts upon which the instruction is based are in fact quite unclear and do not enjoy a common meaning even within the community of individuals and organizations formally dedicated the pursuit of development.

This new [Evaluation] office is expected to enhance the scope and coverage of evaluation of operations, policies and programs, through a focus on measurable results. Parag 3.37

1.5 Some insight into these problems of terminology can be found in a recently-completed definitional exercise undertaken

The new Bank Evaluation System (BES) will aim at using evaluation as a tool for institutional learning and as an instrument for systematic assessment of the effectiveness of Bank development policies, of the results of Bank-financed activities, and related processes. Parag 2.100

by the Working Group on Aid Effectiveness of the OECD Development Assistance Committee. This group produced a Glossary of Aid-Related Evaluation Terms, in which the term “development” is not defined. Instead, the DAC Glossary refers to “development interventions,” and defines effectiveness as “the extent to which the development intervention’s objectives were achieved” (See Box 1.2). This formulation

avoids the critical issue. If development is undefined, then effectiveness means the achievement of whatever goals a project or other intervention sets for itself.

1.6 Such a definitional structure makes it extremely difficult for any development institution to be held accountable for its actions, since it opens up the possibility of defining trivial objectives whose achievement meets the self-referential test of “effectiveness,” but which fails to accomplish anything meaningful for the countries, which are the target of the intervention.

1.7 The development aid agencies which constitute the membership of the DAC were mindful of this possibility, and inserted the phrase “taking into account their relative importance” as a way of at least pointing to the fact that only important objectives would qualify for measurement according to this test. This draws attention to the problem, but does not help to define what constitutes an important developmental objective.

1.8 Despite this conceptual confusion, institutions engaged in the promotion of development have been increasingly been producing reports on “Development Effectiveness”. The oldest of these series belongs to the World Bank, which has been producing development effectiveness reports since 1988. More recently, UNDP issued a Report on Development Effectiveness in 2000<sup>1</sup> and in March of 2001, the Asian Development Bank issued new long term strategic framework which pledged increased focus on “measuring development impact,”<sup>2</sup> while giving the Bank’s Evaluation Office a mandate to “contribute to the assessment of the Bank's overall development effectiveness.”<sup>3</sup>

1.9 A brief look at the World Bank and UNDP documents confirms that both institutions subscribe to the model sketched out in the DAC Glossary: projects are rated on the achievement of their own objectives, rather than in terms of their contribution to some broader goal called “development.” The World Bank has developed a sophisticated methodology for scoring projects in terms of achievement of such internally-defined results, and all subsequent analytical work in their Annual Reviews is based on one of two indices: a “project outcome index” or a composite index called variously a “development effectiveness index” (1998 ARDE), or an Aggregate Project Performance Index (2000 APPI). The construction details of each index are shown in Box 1.3.

**Box 1.2: Development Effectiveness: Key Terms from the DAC Glossary**

**1. Development Intervention**

An instrument for partner (donor and non-donor) support aimed to promote development. Note: Examples are policy advice, projects, programs.

**2. Effectiveness**

The extent to which the development intervention's objectives were achieved, or are expected to be achieved, taking into account their relative importance.

DAC Glossary of Evaluation and Results Based Management Terms  
<http://accsubs.unsystem.org-ccaqfb-intranet-RBB-RBM-OECDDACGlossaryNov01.doc.url>

<sup>1</sup> [http://www.undp.org/eo/documents/final\\_development\\_effectiveness.pdf](http://www.undp.org/eo/documents/final_development_effectiveness.pdf)

<sup>2</sup> <http://www.adb.org/Documents/Policies/LTSF/ltsf.pdf>

<sup>3</sup> <http://www.adb.org/OEO/role0101.asp>

### Box 1.3: World Bank Effectiveness Indicators

Outcome Measure	THE AGGREGATE PROJECT PERFORMANCE INDEX
<p><i>Outcome</i> is established by answering the following question: Did the project achieve satisfactory development results considering the relevance of its main stated objectives, and the associated costs and benefits? The outcome rating takes into account relevance (to check whether the project's objectives were consistent with the country's development strategy), efficacy (to examine whether the operation achieved its stated goals), and efficiency (to assess results relative to inputs by costs, implementation times, and economic and financial returns). Outcome is rated on a six-point ordinal scale: highly satisfactory, satisfactory, marginally satisfactory, marginally unsatisfactory, unsatisfactory, and highly unsatisfactory.</p>	<p>(APPI) combines information on outcome, sustainability, and Institutional Development impact into a single index. Thus, the development effectiveness index ranges from 2 – for a project with highly unsatisfactory outcome, unlikely sustainability, and negligible institutional development impact -to 10- for a project with highly satisfactory outcomes, likely sustainability, and substantial institutional development impact.</p>

- 1.10 Scores on both indices have been rising, suggesting increased developmental effectiveness of World Bank Projects. For 2000, 77 percent of projects reaching final disbursement achieved “satisfactory” outcome ratings, (80 percent in the Latin American and Caribbean Region), and the Aggregate Project Performance Index reached a record high of 6.8 on a 12 point scale.
- 1.11 While impressive on their face, these results have proven vulnerable to external criticism based on their self-referential nature. When the Meltzer Commission raised questions concerning the success of World Bank Projects, the World Bank Operations Evaluation Department issued a response, which noted in part: “*OED judges project outcome to be satisfactory if its major relevant objectives are likely to be met and the rate of return is above 10 percent in real terms.*”<sup>4</sup> This response suggests a perceived need to introduce some independent measure of value (a real rate of return) to support the findings that projects achieved their own individually-set goals. The urgency of this need is indicated by the fact that the World Bank response did not contain the usual caveat provided in technical documentation that only about one third of World Bank projects actually have a rate of return calculated at the end of project execution.
- 1.12 This brief review points to the central dilemma of contemporary development finance institutions: strong pressure to demonstrate “development effectiveness” without a clear

<sup>4</sup> “Development Effectiveness at the World Bank: What is the Score”, OED Reach, No 24, Spring, 2000 (emphasis added)  
[http://wbln0018.worldbank.org/oed/oedevent.nsf/2eb5f3212da493e7852567eb00082ca9/75128c747d5e6a01852568a1005d77b5/\\$FILE/24\\_Eval\\_Meltzer.pdf](http://wbln0018.worldbank.org/oed/oedevent.nsf/2eb5f3212da493e7852567eb00082ca9/75128c747d5e6a01852568a1005d77b5/$FILE/24_Eval_Meltzer.pdf)

concept of what constitutes “development.” Some form of way forward out of this dilemma is required, and this report will seek to explore a variety of ways in which such a resolution could be constructed.

- 1.13 To address these issues, Chapter II of this report will look at the historic evolution of the concept of development, and of the instruments seen as most effective at promoting it. This exercise will pay particular attention to definitions and concepts prevalent in the IDB. Chapter 3 will look at the empirical evidence regarding development results in the region associated with IDB interventions, and will examine the extent to which IDB interventions are designed to demonstrate results. Chapter 4 will offer some suggestions for improving the design, monitoring and evaluation of Bank interventions to sharpen the focus on results.

## II. THE EVOLVING MEANING OF DEVELOPMENT

- 2.1 The term “economic development” was hardly used in academic literature before the 1950s.<sup>5</sup> The Bretton Woods Conference in 1944 was animated by President Roosevelt’s call for “freedom from want,” but the meeting’s chief concern was avoiding a return to depression for the world economy following the war. Although named “The International Bank for Reconstruction and Development,” much more attention was paid to the World Bank’s mission in reconstructing war-devastated Europe than to the pursuit of a broad “development” mandate for in the rest of the world.
- 2.2 The success of the Marshall Plan and the process of de-colonization quickly gave rise to the need for both a theory and practice of economic development in regions outside of Europe. In this early stage, a relatively simple model prevailed. Development was driven by growth in per-capita, which would give a country the resources with which to achieve higher standards of living and improved social welfare. Economic growth, in turn, was driven by the process of investment and capital accumulation. Thus, in the words of a landmark 1951 study by the UN “in many underdeveloped countries savings have been sufficient only to keep up with population growth, so that only a negligible amount of new capital, if any, has actually been available for increasing the average standard of living. How to increase the rate of capital formation is therefore a question of great urgency.”<sup>6</sup>
- 2.3 Economic analysis lay behind this assertion. A 1946 article by Evsey Domar related a country’s rate of growth to its investment rate, Arthur Lewis observed an “unlimited supply” of labor which could be drawn into productive activity by capital investment, and W. W. Rostow argued for an essential link between high investment rates and the “takeoff to self-sustained growth.”
- 2.4 While high investment rates could theoretically be achieved by private sector actions alone, the prevailing view was that domestic savings rates were insufficient to provide adequate investment rates, thus creating a need for external public assistance—the now-famous “financing gap.”<sup>7</sup> In addition developing countries were seen to need strong state involvement in the investment process to achieve adequate growth rates. State-driven investment was seen as a key to the successful industrialization of Russia, and wartime planning in the west had created a receptive climate to this practice. Work at ECLAC under the leadership of Raúl Prebisch effectively made the case that an adequate rate of economic growth in countries on the periphery of the world economy required state attention to issues of structural bottlenecks, diffusion of technology, trade policy, and planned investment.

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<sup>5</sup> H.W. Arndt, “Economic Development: A Semantic History,” *Economic Development and Cultural Change*, April, 1981

<sup>6</sup> United Nations Department of Economic Affairs. *Measures for the Economic Development of Under-Developed Countries*, 1951, p. 35.

<sup>7</sup> The 1951 UN Report mentioned above calculated that a 2 percent per capita growth for developing countries during the 1950-1960 period would require investment of \$19 billion, only 5 of which could be met from domestic savings, the rest had to come from foreign aid.

- 2.5 At this stage, theorists were primarily concerned about what was required to generate an adequate rate of growth in GDP. They assumed, either explicitly or implicitly, that other important aspects of human welfare would be dealt with either as byproducts of the growth process itself, or by the actions of government using the increasing tax revenues produced by the growth process.<sup>8</sup>
- 2.6 It was in this climate of opinion that the IDB was created in 1959. The first several paragraphs of the Bank's Charter clearly establishes its purpose and function:

*"The purpose of the Bank shall be to contribute to the acceleration of the process of economic and social development of the regional developing member countries, individually and collectively.*

*To implement its purpose, the Bank shall have the following functions:*

*(i) to promote the investment of public and private capital for development purposes;*

*(ii) to utilize its own capital, funds raised by it in financial markets, and other available resources for financing the development of the member countries, giving priority to those loans and guarantees that will contribute most effectively to their economic growth;*

*(iii) to encourage private investment in projects, enterprises and activities contributing to economic development and to supplement private investment when private capital is not available on reasonable terms and conditions;*

*(iv) to cooperate with the member countries to orient their development policies toward better utilization of their resources, in a manner consistent with the objectives of making their economies more complementary and of fostering the orderly growth of their foreign trade; and*

*(v) to provide technical assistance for the preparation, financing and implementation of development plans and projects, including the study of priorities and the formulation of specific project proposals."*

- 2.7 Guidance from the Governors was clear: Development was identified with economic growth, which in turn was driven by private investment, supplemented where necessary with planned public investment. The Bank was to support this agenda through financing "specific projects, including those forming part of a national or regional development program" (Section 7(vi)). The addition of "social" to the development purpose of the Bank was significant, putting the institution well ahead of other development agencies who only later came to appreciate the importance of the social dimension to development.

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<sup>8</sup> Arthur Lewis, for example, argued that aid should be allocated according to good performance in raising the share of saving and taxes in national income. "A Review of Economic Development," *American Economic Review*, May, 1965.

- 2.8 Based on this clear understanding, the Bank throughout the 1960s concentrated on the financing of specific public investment projects, largely in the area of infrastructure. Potential projects were evaluated based on estimation of future benefits in relation to costs, a calculation possible when projects dealt primarily with physical infrastructure.
- 2.9 As 1960s unfolded, however, “development” did not proceed as planned. Latin America as a whole grew substantially, at an average annual growth rate of approximately 3 percent per capita, but the foundations upon which growth was built were not particularly firm. Public investment contributed significantly to total capital formation, but was too often financed through public deficits which would eventually prove unsustainable. Much of the growth was based on capital-intensive extractive industries, which resulted in slow growth of domestic employment and local consumption. Manufacturing depended on high external trade barriers which reduced incentives to be competitive. Growing income inequality also accompanied growth, depriving a large part of the population of enjoyment of the fruits of economic growth.
- 2.10 These phenomena, which eventually came to be expressed in the phrase “growth without development” were not confined to Latin America. Their global reach sparked a debate about the meaning of development. Gunnar Myrdal argued that explicit policy changes were required to shift the focus from promoting “economic growth” to addressing the poverty problem.<sup>9</sup> Hans Singer and Richard Jolly argued in an influential ILO paper for “redistribution with growth,” and Hollis Chenery at the World Bank championed a move toward defining development as meeting “basic human needs.”<sup>10</sup>
- 2.11 For Latin America, the problem was put most clearly in a 1971 lecture by Raúl Prebisch. In it, he observed:
- “... Nos hacemos la pregunta: desarrollo, pero desarrollo para qué? El objetivo del desarrollo es integrar socialmente a las grandes masas de la población que han sido dejadas atrás en el proceso de desarrollo económico. Si esto no se logra, el desarrollo es incompleto e injusto. Este es un problema fundamental en América Latina que tiene que ser resuelto de una manera u otra. Hace treinta años quizás se podía decir, 'bien, esperemos unas cuantas décadas; este proceso de desarrollo mejorará gradualmente la porción del ingreso de toda la población.' Pero esto no ha ocurrido”.*<sup>11</sup>
- 2.12 The failure of investment-led growth to reach the poor gave rise to a substantial rethinking of the kinds of interventions required from development finance institutions. Emphasis began to shift away from large physical infrastructure works and towards the kinds of activities seen best able to contribute to income growth among the poor:

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<sup>9</sup> Gunnar Myrdal, “International Inequality and Foreign Aid in Retrospect” and Hla Myrnit “Comment on Myrdal in Gerald Meier and Dudley Seers Pioneers in Development,” Oxford University Press, 1984.

<sup>10</sup> This approach was adopted by World Bank President Robert McNamara in his speech to his Board of Governors in Nairobi, Kenya, in 1973.

<sup>11</sup> *Latin America: a Problem in Development*, Hackett Memorial Lecture, Institute of Latin American Studies, The University of Texas, Austin, April 15, 1971.

agriculture, rural roads, micro-enterprise, small scale water and sanitation, nutrition, urban slum upgrading. Most important, however, was the recognition that the ability of the poor to participate in the modern economy was in part the result of their low levels of education, leading to a concerted campaign for promoting universal primary education, and other forms of investment in “human capital”.

- 2.13 At the end of the 1970s, development economist Albert Hirschman described this evolution: “Just as the concept of the ‘*typical underdeveloped country*’ gave way to *diverse categories of countries, each with characteristics of its own, so did the heretofore unique maxim and of development economics (income per capita) dissolve into a variety of partial objectives, each requiring consultation with different experts—on nutrition, public health, housing and education, among others.*”<sup>12</sup>
- 2.14 The multiplication of partial objectives can be seen clearly in the evolution of guidance to the Bank provided by Governors in replenishment agreements. The simple guidance provided by the Charter remained in effect during the first replenishment, but the second replenishment (1967) contains an identified list of partial objectives to which the Bank should attend. Governors directed the Bank to provide adequate attention to: 1) integration; 2) expansion of intra-regional trade; 3) development of agricultural sector; 4) improving higher education; 5) improving primary and secondary education; and 6) improving public health.
- 2.15 The list of areas to attend to grew gradually in both the third and fourth replenishment agreements, then broadened rapidly in the IDB-5 agreement, concluded in 1978 (See Box 2.1. for list of the 19 principal intermediate objectives for the Bank signaled out for special attention by the Governors).

**Box 2.1: Articulated Priorities of the IDB-5 Replenishment  
1978**

1. Rural Development	11. Employment Generation in Urban Areas
2. Food Distribution	12. Technical and Vocational Education
3. Limit Urban Migration	13. Urban Water and Sanitation
4. Nutrition	14. Small Urban Industry Support
5. Rural Water and Sanitation	15. Energy
6. Rural Health Services Expansion	16. Export Promotion and Import Substitution
7. Rural Education	17. Transportation
8. Artisanal Production	18. Communication
9. Irrigation	19. Pre-Investment
10. Agricultural Extension	

- 2.16 The steady process of expansion and multiplication of the things that needed to be done in order to promote “development” accelerated at the start of the 1980s with the emergence of the “debt crisis.” The origins of the debt crisis lay in the response of the region to the two energy shocks of the 1970s and the resultant huge expansion in the availability of external debt finance. The availability of debt led many countries to

<sup>12</sup> Albert Hirschman, “The Rise and Fall of Development Economics,” p 23.

pursue expansionary fiscal and monetary policies and to use subsidies, trade protection and directed credit to maintain high rates of growth in domestic production.

2.17 In new circumstances following the 1982 debt crisis, thinking changed radically. The critical obstacle to development came to be seen as overblown states and underdeveloped private markets, leading to a need for interventions which would reduce the scope of state activity, reduce or eliminate public sector deficits, reduce or eliminate price distortions and provide regulatory environments conducive to private economic activity. This collection of prescriptions came to be known as “structural reform,” and they reflected what came to be called the “Washington Consensus” on the policy environment required for growth. Implementing the Washington consensus was added to the already crowded agenda of the international development institutions, including the IDB, which embraced the adjustment agenda under the IDB-7 replenishment agreement.

**Box 2.2: Fads and Fashion in Economic Reforms:  
Washington Consensus or Washington  
Confusion?**

2.18 By introducing “reform” as a legitimate objective for Bank action, the IDB-7 opened what turned out to be a potentially endless and ever-expanding front for action. By its very nature, “reform” is an endless process, since it is always possible to find some aspect of current policy which needs “reform,” even if that policy was itself the product of previous reform efforts. Moises Naim has recently provided a cogent description of the dynamics of this process (See Box 2.2).

What changes more often, the fashion designs coming from Paris and Milan or the economic policy designs Washington and Wall Street prescribe to countries that are less developed or that are emerging from decades of communism? While this comparison may seem frivolous, a review of the ideas that have guided thinking and action about economic reforms in this decade shows that they are as faddish as skirt lengths and tie widths. The difference, of course, is that economic policy fashions affect the way millions of people live and define their children's chances for a better future.

2.19 It is interesting to note that while adding structural adjustment support to the Bank’s mandate, the IDB-7 agreement also encouraged continued efforts along many of the other fronts defined in previous replenishments. In introducing the new sectoral lending instrument, the IDB-7 agreement noted that: “all sectors contribute to economic development. Therefore, there should be no a priori restrictions on sector eligibility for sector loans” (AB1378, Parag. 3.18). After adding instruction to work in several new areas (women in development,

This evolution had a pattern. It usually began with the increase in popularity of a general set of policy recommendations. For a while, these recommendations embodied if not a consensus, at least the views of an influential majority of academics and high level staff of the IMF, the World Bank, and the US Treasury, think tanks, and assorted editorialists. Very soon, sometimes just a few months after a certain degree of comfort was attained with respect to the new set of ideas, a surprising event would cast doubts on their adequacy, and with the benefit of hindsight, some times even make them look outright silly. The new data would usually show that the main “lessons” derived from the previous crises missed some important element [usually summarized in one catchy term like “weak institutions”, “corruption” etc.] whose critical importance had now been clearly illuminated by the most recent crisis. It would also show that the policy goals that had become fashionable were necessary but insufficient to ensure policy stability and economic success. More reforms would be needed.

Moises Naim, “Working Draft of a Paper Prepared for the IMF Conference on Second Generation Reforms”, Washington, D.C.1999 <http://www.imf.org/external/pubs/ft/seminar/1999/reforms/Naim.HTM>

environment, microenterprise), the agreement went on to note: “It would be difficult, and possibly not useful, to attempt to predetermine the sectoral distribution of IDB’s lending and technical cooperation activities” (Parag. 3.51). The macro focus introduced by IDB-7 thus helped establish a fundamentally limitless agenda of potential areas for intervention by the Bank.

- 2.20 Further expansion of the concept of development came as a result work at the UN to expand the “basic human needs” approach pioneered in the World Bank to the much broader concept of Human Development. Starting in 1990, the UN Development Program began publishing annual reports on human development, suggesting that this concept, rather than economic growth, was the true objective of development assistance. In its most recent incarnation, the concept of human development has an extremely ambitious and comprehensive formulation.

*“Human development is about much more than the rise or fall of national incomes. It is about creating an environment in which people can develop their full potential and lead productive, creative lives in accord with their needs and interests. People are the real wealth of nations. Development is thus about expanding the choices people have to lead lives that they value. And it is thus about much more than economic growth, which is only a means—if a very important one—of enlarging people’s choices. Fundamental to enlarging these choices is building human capabilities—the range of things that people can do or be in life. ... And in pursuing capabilities and realizing rights, this freedom is vital. People must be free to exercise their choices and to participate in decision-making that affects their lives. Human development and human rights are mutually reinforcing, helping to secure the well-being and dignity of all people, building self-respect and the respect of others.”<sup>13</sup>*

- 2.21 From the mid-1980s through today, international development institutions, including the IDB, pursued a development promotion strategy comprised of policy reform and specific project investment across an ever-broadening spectrum of activity. Results, however, were far less than had been hoped for. Despite considerable accomplishment of the policy reform agenda set forth by the Washington Consensus, growth in most of the developing world remained well below that needed to generate steady improvement in the living standards of the bottom half of the world’s population. Progress on “human development,” while significant in many parts of the world, was still far too slow.
- 2.22 The steady proliferation of objectives was, in part, a response to this concern that the key to unlock the processes of rapid economic and social development had not yet been found. There are two important problems with this approach. First, the “search for the key” approach is largely confined to the policy circles of the development assistance community and is thus both centralized and highly generalized. Ownership of these ideas in the developing world is problematic, and the discussions themselves risk becoming

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<sup>13</sup> United Nations, **Human Development Report**, 2001.

ideological debates, where adoption of particular policies are seen as ends in themselves, rather than means to the achievement of other, more basic, objectives.<sup>14</sup>

- 2.23 Second, the expansion of the definition of “development” inevitably leads to the phenomenon of “goal congestion,” where the institutions have so many objectives that it is difficult to establish clear priorities because everything is important to development. Third, it confuses the fruits of development with the essential drivers of the process, as pointed out by Jessica Einhorn in a recent Foreign Affairs article:

*“To argue that developing countries need market-friendly policies, stable macro-economic environments, strong investments in human capital, an independent judiciary, open and transparent capital markets, and equity-based corporate structures with attention to modern shareholder values is to say that you will be developed when you are developed. It is the old debate of inputs versus outputs, where everything that development brings has become a necessary input to achieving it.”<sup>15</sup>*

- 2.24 Within the IDB, the Eighth Replenishment agreement essentially followed this approach of expanding and perfecting the development agenda. In addition to adding instructions to undertake new initiatives in such areas as modernization of the state, and support for “second generation reforms,” it also contains specific mention of over 200 sectors, themes, or activities that should be considered as part of the Bank’s lending and technical cooperation activity.
- 2.25 The goal proliferation inherent in this approach has created its own set of problems, both for the developing countries themselves and for the development assistance institutions. Countries find themselves urged in multiple directions by different institutions, making local ownership of development strategies problematic, while even the largest of the institutions find themselves spread thin across a spectrum of issues, not all of which they can staff in depth. Of even greater concern is the fact that neither the countries nor the institutions can provide clear and convincing evidence that their broad and multiple agendas are yielding clear progress.
- 2.26 These problems of diffusion of effort and ambiguous accountability have led to a broad concern that multilateral development institutions need to seek greater focus, clarity, and precision in the pursuit of development objectives. Yet focus and clarity are to a considerable extent at odds with the proliferation of potential objectives which characterizes current thinking on the meaning of development.
- 2.27 To resolve this potential contradiction, the international development community is increasingly turning to the device of country-level goals and targets. The first major step in this direction was taken in 1996, when the OECD’s Development Assistance

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<sup>14</sup> John Williamson, the original author of the phrase “Washington Consensus” recently acknowledged that his original policy suggestions had become a form of ideology. See Williamson, “What Should the Bank Think about the Washington Consensus,” Institute for International Economics, July, 1999 <http://www.iie.com/papers/williamson0799.htm>

<sup>15</sup> Jessica Einhorn, “The World Bank’s Mission Creep,” Foreign Policy, October 2001, p. 31.

Committee (DAC) endorsed specific “international development targets” whose pursuit should serve to organize development assistance activities at the country level. These targets (See Box 2.3), were subsequently adopted by heads of state at the 2000 UN-sponsored “Millennium Summit.”

**Box 2.3: Shaping the 21<sup>st</sup> Century: The Contribution of Development Cooperation**

We recognize that those responsible for public money are accountable for its effective use. We have a duty to state clearly the results we expect and how we think they can be achieved. It is time to select, taking account of the many targets discussed and agreed at international fora, a limited number of indicators of success by which our efforts can be judged. We are proposing a global development partnership effort through which we can achieve together the following ambitious but realizable goals:

- a reduction by one-half in the proportion of people living in extreme poverty by 2015
- universal primary education in all countries by 2015
- demonstrated progress toward gender equality and the empowerment of women by eliminating gender disparity in primary and secondary education by 2005
- a reduction by two-thirds in the mortality rates for infants and children under age 5 and a reduction by three-fourths in maternal mortality, all by 2015
- access through the primary health-care system to reproductive health services for all individuals of appropriate ages as soon as possible and no later than the year 2015
- the current implementation of national strategies for sustainable development in all countries by 2005, so as to ensure that current trends in the loss of environmental resources are effectively reversed at both global and national levels by 2015

OECD DAC, May, 1996  
<http://www1.oecd.org/dac/pdf/stc.pdf>

2.28 The rationale for proposing goal-driven development strategies was explained in a joint publication issued following the Millennium Summit by the OECD, the IMF, the World Bank and the UN. In the introduction, the Report notes: *“The goals are set in precise terms—measured in numbers to ensure accountability. The openness and transparency of such numbers can help us chart a course to achieve the goals and track progress.”*

2.29 Of even greater significance, however, is the fact that the goals are proposed for adoption by the individual member countries, which subscribed to the Millennium Summit Declaration, thus ensuring that the objectives achieve local ownership and become not just the agenda for international development cooperation, but also the agenda for domestic policy and resource allocation. As the Report noted: *“Goals cannot be imposed—they must be embraced. Each country must identify its own particular goals, its own path to development, and make its own commitment through dialogue with its citizens.”*

2.30 These principles were subsequently incorporated into the design of the global initiative for supporting the Highly Indebted Poor Countries (HIPC). To ensure that debt relief resulted in meaningful progress on poverty reduction, the HIPC Initiative required eligible countries to craft Poverty Reduction Strategy Papers (PRSP). The 1999 Communiqué from the Development Committee indicated that such strategies *“should be country-driven, be developed transparently with broad participation of elected institutions, stakeholders including civil society, key donors and regional development*

*banks, and have a clear link with the agreed international development goals.”<sup>16</sup> The Communiqué also stressed “the need to develop measurable intermediate and outcome indicators to monitor progress.”*

- 2.31 At the request of the Development Committee, the World Bank and the IMF formed a joint working group to assist countries in developing PRSPs. The Guidelines developed by this working group stressed the fact that: *“Setting realistic, quantified development targets forms a key component of the PRSPs. Such targets are meant to help governments focus their resources and to make them accountable for their actions.”<sup>17</sup>*
- 2.32 This concern for improved focus and better accountability was reflected in the Bank’s Institutional Strategy, adopted by the Board of Executive Directors in 1999. The document embraced an institutional commitment to “assume responsibility for the quality of its work, and to share with borrowing countries responsibility for producing concrete development results (Parag. 5.15). It also noted that “country programming exercises would benefit from the establishment of specific developmental targets toward which both the Bank and the country would work” (Parag. 6.28).
- 2.33 With the embrace of country-specific development goals, set in concrete and measurable terms, the Bank has joined the rest of the development assistance community in moving away from both the complexity of the exercise of defining “development” and the potentially ideological agenda of “policy reform” toward a far more pragmatic and country-specific approach to dealing with development by measuring progress toward clear objectives defined in results terms. In light of this new orientation, the next chapter of this report will examine the empirical evidence concerning development results in Latin America and the Caribbean.

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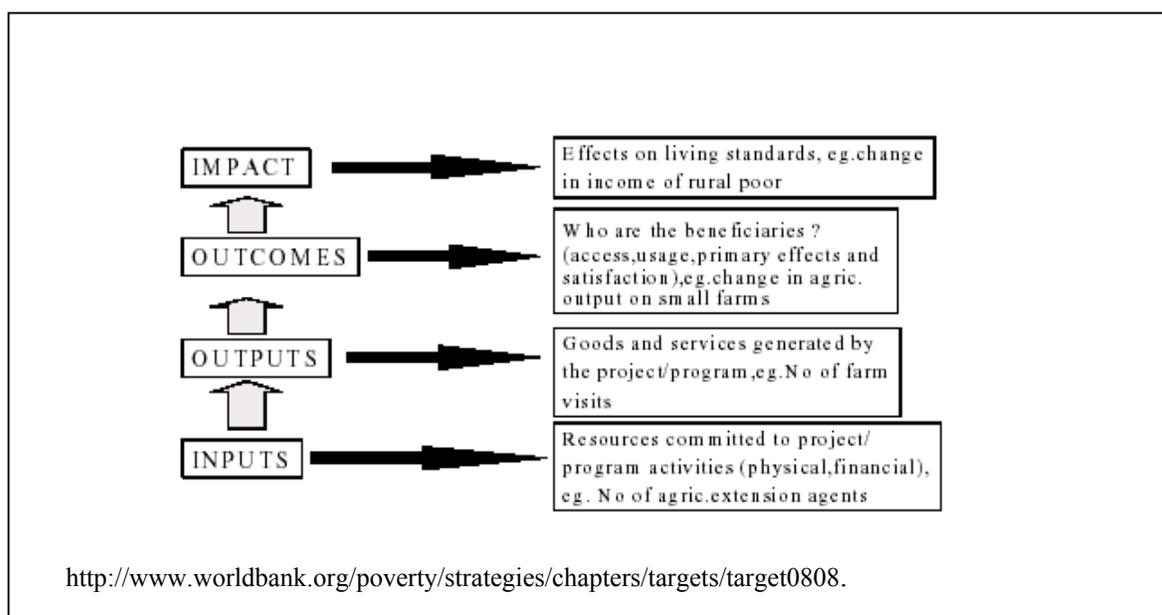
<sup>16</sup> <http://www.imf.org/external/np/cm/1999/092799.htm>

<sup>17</sup> Poverty Reduction Strategy Sourcebook <http://www.worldbank.org/poverty/strategies/chapters/targets/targets.htm>

### III. DEVELOPMENT OBSERVED: LOOKING FOR RESULTS IN LATIN AMERICA

- 3.1 A results-focused approach to development needs to begin with a clear understanding of what sorts of information constitute a “result.” Fortunately, there is an extensive literature on “results-based management,” which addresses this issue. In this literature, four basic terms characterize the relevant result chain for tracking the consequences of an intervention: inputs, outputs, outcomes, and impacts. The following chart, taken from the methodological guidelines established for the PRSP process, explains the logic of the chain and the relationship between concepts.

Box 3.1



- **INPUTS** refer to the resources provided in the form of physical goods, consulting services, machinery, and equipment, which are to be combined to form project outputs.
- **OUTPUTS** are the specific products and services, which emerge from processing inputs. Outputs, therefore, relate to the *completion* (rather than the conduct) of activities and are the type of result over which managers have a high degree of influence.<sup>18</sup>
- **OUTCOMES** refer to the uses made by beneficiaries of the outputs produced by the project. Outcomes can thus be observed shortly after project completion.
- **IMPACTS** refer to the longer-term impact on welfare, which flow from the use of outputs by beneficiaries. Impacts generally are more distant from project completion, and often can be discovered only through an ex-post evaluation some years after completion.

<sup>18</sup> Text taken from the UNDP Results Framework: Technical Note <http://www.undp.org/eo/methodology/methodology.html>

- 3.2 Both inputs and outputs are characteristics of the intervention itself, while both outcomes and impacts are ways of describing the results produced in the country as a result of project outputs. As pointed out in a recent study of development cooperation agencies, the traditional preference has been to focus on the first two rather than the last two:

*Results are usually measured at three levels -- immediate outputs, intermediate outcomes, and long-term impacts. Whereas traditionally the development agencies focused mostly on implementation concerns, as they embrace results based management, their focus is increasingly on measurement of results. Moreover, emphasis is shifting from immediate results (outputs) to medium and long-term results (outcomes and impacts).<sup>19</sup>*

- 3.3 Confirmation of this shift in emphasis can be found across a broad spectrum of public sector organizations, not merely those engaged in development cooperation. For some representative citations, see Box 3.2.

#### Box 3.2

**The Treasury Board of Canada:** *“A modern management agenda requires managers to look beyond activities and outputs to focus on actual results - the impacts and effects of their programs. Managing for results requires attention from the beginning of an initiative to its end. It means clearly defining the results to be achieved, delivering the program or service, measuring and evaluating performance and making adjustments to improve both efficiency and effectiveness. (Results for Canadians, March, 2000 [http://www.tbs-sct.gc.ca/res\\_can/rc\\_e.html](http://www.tbs-sct.gc.ca/res_can/rc_e.html))*

**The United States General Accounting Office:** *At the request of Congress, we studied a number of leading public sector organizations that were successfully pursuing management reform initiatives and becoming more results-oriented. Each of the organizations we studied set its agenda for management reform according to its own environment, needs, and capabilities. Yet despite their differing approaches to reform, all these organizations were seeking to become more result-oriented, and they commonly took three key steps. These were to (1) define clear missions and desired outcomes, (2) measure performance to gauge progress, and (3) use performance information as a basis for decision making.*

*(Executive Guide Effectively Implementing the Government Performance and Results Act, <http://www.gao.gov/special.pubs/gg96118.pdf>)*

**The UN Development Program:**

*The importance of achieving the objectives and thereby producing concrete and measurable results cannot be overstated. The key issues of a results-based approach are: (a) Precise objectives must be established as well as indicators to enable all partners to measure progress. (b) The objectives must contribute effectively to the outcomes envisaged in the CCF. As such, they constitute significant changes in the development situation. They are usually the result of coherent efforts on the part of many national and international partners.*

*(UNDP Programming Manual, <http://www.undp.org/osg/pm/progm4.pdf>)*

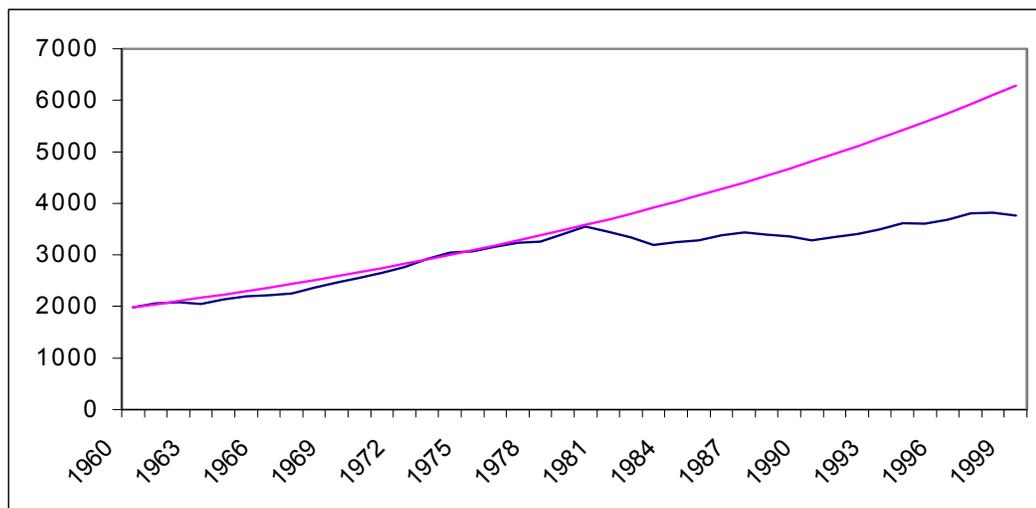
<sup>19</sup> **Results Based Management in the Development Cooperation Agencies** <http://accsubs.unsystem.org/ccaqfb-intranet/references/dacrbm.pdf>

- 3.4 The results chain construct is scalable, and can be applied at higher or lower levels of generality. Outcomes and impacts can be explored at many levels: the level of the region as a whole, an individual country, a sector within a country, or a project within a sector. In working with this conceptual model, however, it is important to bear two caveats in mind. First, the larger the scale, either of the intervention itself or the domain in which results are being explored, the harder the problem of attribution. Large phenomena (GDP growth, poverty, human development) are the result of many factors, and it is important not to attribute too much responsibility for such broad outcomes to individual interventions. While this reality suggests caution in the assignment of too much responsibility to any single actor or action, it does not eliminate the necessity for all concerned to focus on the level of achievement of broad results. Failure to do so risks repeating the classic medical fallacy: “the operation was a success, but the patient died.” Development is about patient health, not flawless technical intervention.
- 3.5 Second, results management, as a concept must constantly wrestle with the difficult issue of the counterfactual: What would have happened in the absence of an intervention? Conceptually, the real “result” of an intervention is a change in the target situation from that which would have been obtained in the absence of any intervention. Counterfactuals are always hypothetical, and they can be more or less credible based on the artistry with which they are constructed. Counterfactuals are frequently evoked to explain or justify less-than-predicted results (“things didn’t turn out the way we wanted, but, given the circumstances, it would have been much worse without our intervention”). They are also invoked to argue the irrelevance of an intervention (“given all the other pressures, things would have turned out more or less as they have, even without the intervention”).
- 3.6 Neither the problem of attribution nor the problem of the counterfactual can be resolved a priori. A counterfactual can be evoked in every situation, and attribution is always problematic. These caveats do not, however, vitiate the utility of a focus on results. Broad outcomes, while not perfectly attributable to individual interventions, are, after all, the goals development institutions were designed to pursue. If these broad outcomes are improving, institutions and countries can take some comfort that they are generally moving along the right track. If broad outcomes are not improving in the manner anticipated, however, institutions and countries will need to take a much closer look at individual interventions and policies to see if changes need to be made at this level in order to contribute to more positive movement in broad indicators.
- 3.7 With these caveats in mind, the following sections try to look at development “results” in the region from three different perspectives. First, the report will examine aggregate data regarding highly-generalized “development progress” in the region, focusing on the two broad goals of economic growth and poverty reduction. Bank actions have been broadly oriented toward improvements in these two indicators, even though individual operations have not embraced these as specific objectives and the Bank cannot be held fully accountable for results at such a broad level. Second, the report will look at country-level issues, to see how the Bank defines anticipated results and what data can be observed that bear on success. Finally, the report will look at specific projects, to see how they are designed to demonstrate development results in more focused contexts.

## A. Development in The Region: GDP and Poverty

- 3.8 At the broadest level, the Bank’s Charter defines a results framework, calling upon the Institution “to contribute to the acceleration of the process of economic and social development of the regional developing member countries, individually and collectively.” Pursuant to this mandate, the Bank has undertaken parallel initiatives in many of the borrowing countries designed to promote region-wide objectives. Recent policy discussions in the Boards of Governors and Executive Directors have made it clear that this broad mandate embraces two “overarching objectives”: sustainable growth and poverty reduction.
- 3.9 Starting with a review of such broad questions as GDP and poverty is not meant to imply that the Bank is responsible for such results, merely that the Bank’s efforts collectively are designed to contribute to these broad outcomes. If outcome trends are favorable at the aggregate level, then one can approach the task of looking at the results of more specific operations within a framework of basic satisfaction with development results at the macro level. Unfortunately, broad regional trends are not all that favorable.
- 3.10 **Growth.** Figure 1 shows the path of regional GDP per capita over the past 40 years. The upper line is a trendline showing a steady three percent annual growth rate, while the

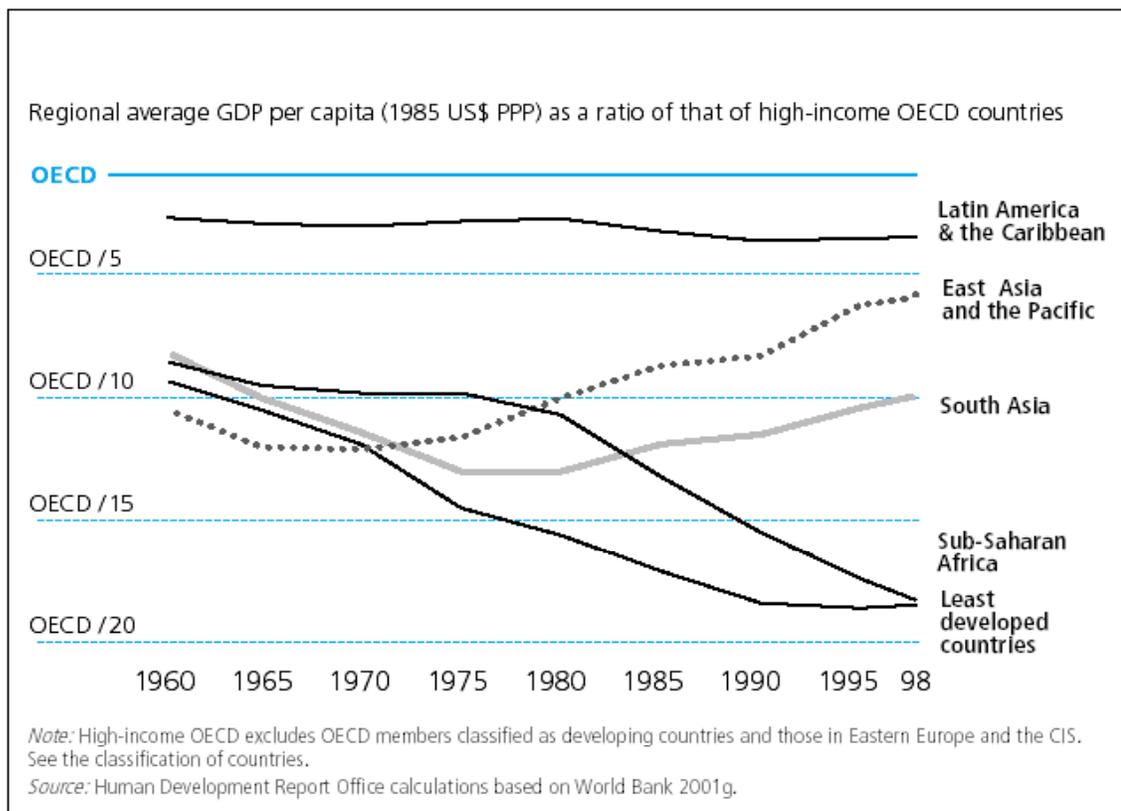
Figure 3.1: Real GDP Per Capita



lower shows actually observed trajectory over the period. Until the early 1980s, the region as a whole grew at a remarkably steady three percent rate, but then shifted to a dramatically slower growth path. There have been periods of faster and slower growth since the early 1980s, but the region has never been able to sustain anything close to the three percent annual growth trend, which characterized the first two postwar decades.

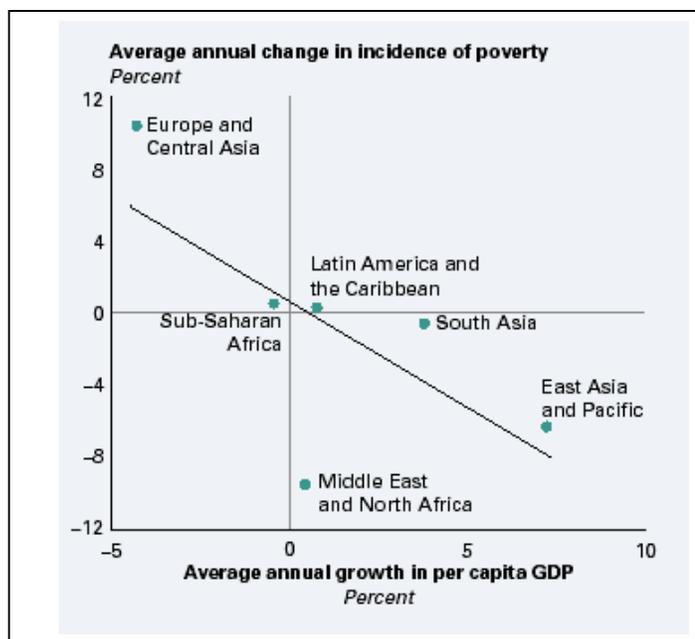
- 3.11 In addition to failing to recapture historic rates of growth, the region as a whole has grown more slowly than other parts of the developing world. Figure 3.1, taken from the 2001 UN Human Development Report, shows that since 1960, Latin America and the Caribbean have fallen somewhat further behind the OECD average, while both East and South Asia have closed the gap significantly.

**Figure 3.2: Comparing Incomes – Developing Regions and High-Income OECD**



3.12 **Poverty.** As noted in the previous chapter however, growth in per capita GDP does a poor job of capturing the distributional character of growth. With few exceptions, countries in Latin America and the Caribbean have long had highly unequal distributions of income. This means that, for a given rate of overall GDP growth, less improvement takes place for the region's poor that is the case in regions where there is less inequality. Given that the region's overall growth has not been impressive, little progress has been made in recent decades on the conditions facing the poor.

**Figure 3.3: Average Annual Change in Incidence of Poverty**



3.13 According to a recently-released report from the Economic Commission on Latin America and the Caribbean, in 1980, there were 135.9 million poor people in the region, 40.5 percent of the population. By 1999, there were 211.4 poor people, 43.8 percent of the population. Figure 3.3 shows how the region fares in comparison with other parts of the developing world. The comparison shows not only that Latin America is among the slowest-growing of the regions, but that the Middle East and North Africa managed to produce impressive reductions in poverty with essentially similar growth rates, and that Africa equaled the region's small reduction in poverty despite a significant decline in GDP growth rates.

3.14 This persistent income inequality is likely to make it very difficult for the region as a whole to reach the poverty reduction targets specified in the Millennium Summit Declaration. As a recent paper prepared by Bank staff for a ECLAC conference noted, unless inequality can be reduced, only implausibly high rates of overall growth could allow the region to reach the objective of cutting in half the percentage of the population living below \$2 per day. (See Box 3.3)

3.15 These aggregate data suggest that while the Bank may have contributed to the “*acceleration of the process of economic and social development*” during the first 20 years of operation, it is difficult to find further acceleration in the data for the period since 1980. It is important to qualify this observation, however, with some consideration of both the attribution and the counterfactual issues. The Bank's contribution to the region's development has been quite modest in quantitative terms, approving “inputs” to the development process amounting to only around 70 projects per year with annual disbursements that have rarely exceeded 1.5 percent of the region's total capital formation. Clearly, the Bank cannot be seen as the principal actor in the development of the region, but neither can it ignore the relatively weak performance of the region in development terms.

**Box 3.3: Reducción de la Pobreza y Crecimiento Económico: La Doble Causalidad**

En un escenario optimista donde los beneficios del crecimiento se distribuyan equitativamente (sin cambios en la distribución del ingreso), la región tendría que alcanzar un crecimiento anual promedio del ingreso por habitante de un 3.4% para reducir a la mitad la proporción de personas que vive con ingresos inferiores a los \$2 por día en paridad de poder de compra para el año 2015. Esto es más del doble del crecimiento per capita promedio registrado durante la pasada década (1.5%). Ello implica tasas de crecimiento anuales per cápita entre un 2% y 6% por ciento dependiendo del país. En los países con alta incidencia de la pobreza el esfuerzo requerido es mayor. Por ejemplo, en el caso de Centroamérica para alcanzar la meta se requiere una tasa anual promedio de crecimiento per capita de un 4.5%, tres veces la tasa promedio del istmo en los noventa.

*Nora Lustig, Omar Arias y Jamele Rigolini reparado para el Seminario “La teoría del desarrollo en los albores del Siglo XXI”, evento conmemorativo del centenario del nacimiento de Don Raúl Prebisch, CEPAL, Santiago de Chile, 28 y 29 de agosto, 2001.*

3.16 With regard to the counterfactual, it is clear that the decades since 1980 have been tumultuous ones for much of the developing world, and many of the critical factors affecting regional development lie well beyond the control of either the Bank or the countries. The global oil crises of the 1970s and the attendant petrodollar recycling, the slowdown of the growth in the OECD countries during the 1980s and '90s, the volatile

nature of private capital flows to emerging markets, and the path of global interest rates are all important factors over which the region has little control. Within such a context, it could easily be argued that things would have been much worse for the region in the absence of Bank intervention.

- 3.17 Neither of these qualifications, however, alter the basic conclusion that broad development progress in the region has been insufficient to meet the needs and aspirations of the people and their governments. There is much that remains to be done, and this unfinished agenda demands a strong focus on development results for more specific Bank activities focused at the country or project level.

## **B. Country-level Performance**

- 3.18 The region-wide evidence discussed above is related to the generalized “results framework” established by the IDB Charter. Since its inception, however, the Bank has recognized the considerable diversity of circumstances in borrowing member countries, and has sought to tailor its interventions to the needs and challenges of individual countries at a particular moment in time. This exercise, called ‘country programming’, “provides a basis for the design of the country program which consists of policy, strategy, and priority areas that are agreed upon by the Bank and the corresponding country authorities” (Operations Processing Manual, section Policy PR-201, Programming Process).

- 3.19 According to the policy, the country paper should “provide an explicit statement of the development benefits the Bank expects to impart through its assistance.” This basic approach was affirmed in the Institutional Strategy, which noted:

*The Bank needs to undertake a broad purpose setting exercise for each of the countries in which it is currently conducting operations. Such an exercise should identify the country’s basic development challenges, pinpoint where the Bank has the greatest potential to contribute to both social and economic development, and set long-term goals for both the country and the Bank in these critical areas. (GN-2077, Parag. 6.24)*

- 3.20 If the Bank’s programming process followed this guidance, it would be possible at this point to provide a summary of results achieved from the Bank’s program with each borrowing member country. The Institutional Strategy in fact recommended that OVE begin to conduct country program evaluations in order to provide precisely this type of information on results.

- 3.21 During 2001, OVE carried out country program evaluations on seven countries: Mexico, Peru, Trinidad and Tobago, Argentina, Honduras, Haiti, and Nicaragua. These exercises found that, with few exceptions, Bank programming does not establish ex-ante any specific results that it is seeking to obtain in working with an individual country. Programming documents describe problems, and provide a general list of objectives, but these statements of intent are always phrased consistently with weak and vague verbs: “to support..., to strengthen..., to assist..., to accompany... Such statements of intent are

not connected to specific indicators, providing no ex-ante guidance to know what has been accomplished as a result of these interventions. A sample of the results of some of these country program assessments is shown in Box 3.4.

**Box 3.4: Examples of OVE Country Program Evaluation Findings on Country-level Results Frameworks**

**Mexico:** The Bank’s program with Mexico cannot be said to be tightly focused. Country papers and other programming documents do not provide an ex-ante framework to focus Bank operations, and no *ex post* focus is evident from an inspection of the individual approved projects.

**Peru:** Although Bank programming documents have clearly improved over the period under review, the results frameworks in these documents remain absent to weak. Rarely is there any quantitative statement about what either the Bank or the country thinks will be the result –the development impact- of proposed actions, which makes it virtually impossible to evaluate the effectiveness of the Bank’s program in achieving its (un-stated) objectives.

**Trinidad and Tobago:** In developing its areas for involvement, the next CP should provide more specific and meaningful indicators and targets to measure development results including baseline and benchmark (comparison to other countries) data to assess progress in those areas selected for participation. Having clear goals and specific objectives would be an enormous aid to the design of a coherent, focused, and effective program

3.22 There are exceptions to this general rule. In Peru, for example, the Bank programming documents indicated a commitment to work with the Government to cut the rate of extreme poverty in half within a certain time frame, and this target was largely achieved, primarily through the actions of a Bank-funded program (FONCODES).

3.23 In countries where the Bank lacks explicit, ex-ante results frameworks, it is only possible to observe movements in developmentally important indicators, not connect these movements to Bank action. Without an explicit statement of intent, the Bank can neither claim partial credit for success, nor share responsibility for failure. Absent intent, the Bank can only report on national development trends, a job which institutionally tends to belong more to the realm of institutions such as ECLAC, rather than a significant financial actor such as the Bank.

3.24 To look more closely at the issue of Bank programming, in 2001, OVE carried out an exercise to examine the “evaluability” of country papers as part of the process of developing new guidelines for the preparation of Country Papers. The principal conclusion of this review (See Box 3.5) was that Country Papers tended to concentrate on diagnosis of problems and on potential project-level

**Box 3.5: Evaluabilidad de las Estrategias de País OVE  
WP/02/01**

Más allá de la falta de estrategias (tema crucial), las críticas o comentarios más comunes a los CP son las siguientes: (i) los objetivos son demasiado generales, y de alguna manera replican los acuerdos de la Octava Reposición del Banco, sin añadir nada realmente nuevo; (ii) no hay un foco estratégico claro, y se presentan innumerables objetivos o áreas de acción que prácticamente justificarían cualquier tipo de intervención; (iii) los diagnósticos sectoriales no son profundos; (iv) el documento parece estar escrito para justificar una lista de proyectos preconcebida; (v) no se resalta la importancia de los productos no financieros y, (vi) los indicadores (*benchmarks*) presentados no son fáciles de evaluar o, en su defecto, no están directamente relacionados con la intervención del Banco.

interventions, rather than creating any sort of explicit ex-ante “evaluable” country programming structure. In the language of results management, Bank country programs described planned outputs, not planned outcomes or impacts.

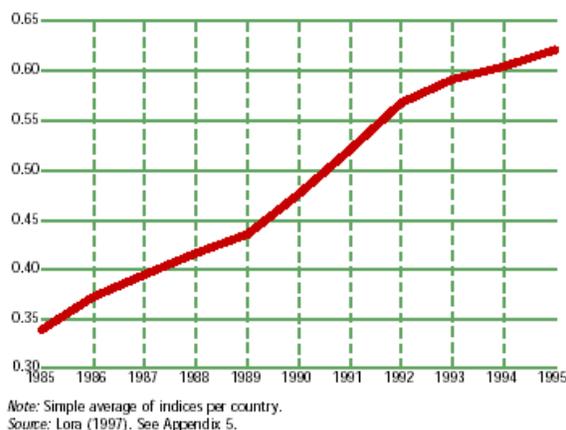
3.25 There is, however, one area of activity in which the Bank anticipated outcomes for a specific type of country-level activity: the case of “structural reform.” Starting with the IDB-7 agreement, the Bank has been working with countries to promote broad sector or national-level policy environments, which would contribute to improved overall performance of the economy. Such reforms were generally jointly sponsored by the Bank, the World Bank, and the IMF, and they were promoted with many different tools, including technical cooperation, investment lending, and policy-based lending.

3.26 In such projects, the output is a change in law or regulation, intended to have the outcome of improved performance of the economy as a whole, or some sector within it. Reform projects tend to have a relatively high success rate in producing their outputs, generally because output-production is tied to specific tranche-release conditionality.<sup>20</sup>

3.27 But from a development point of view, outputs are only relevant if they produce outcomes, and here the evidence is far from persuasive. Almost all countries in the region have borrowed in some form to implement reform activities, and the data strongly suggest that reform advice was widely followed. The Bank’s Research Department has developed a “reform index,” which shows dramatic progress at implementing the reforms promoted by the Bank (See Figure 3.4).

3.28 In its 1997 report on Economic and Social Progress, the Bank noted that these reforms had helped to remove distortions and thereby improve total factor productivity. Of the 1.9 percentage points of improved GDP growth noted in the report, 1.5 percentage points were attributed to growth in total factor productivity, leading the report to conclude that: *“This means that the previous interference in the operation of markets was an obstacle to the efficient use of productive resources, to improvement of production technologies and practices, and to taking advantage of economies of scale.”* Continued acceleration in growth was predicted, based on an assumption of continued productivity growth.

**Figure 3.4: Status of Structural Policies in Latin America**  
Index on a scale from 0 to 10



<sup>20</sup> It should be noted in this context that at the World Bank adjustment lending has a higher reported success rate than investment lending, largely because development objectives in adjustment loans are couched in output rather than outcome terms.

- 3.29 By 2001, however, it had become clear that the economic reforms, which the Bank (and most other development institutions) were championing had not produced the desired results. The Bank's report on Economic and Social Progress for that year found that total factor productivity for the region as a whole had fallen during the 1990s, at an average annual rate of 0.62 percent, despite adoption of the proposed reforms. Recent studies by the Economic Commission for Latin America and the Caribbean have also confirmed the generally disappointing results from economic reform.<sup>21</sup>
- 3.30 The story of reform is a cautionary tale about the difference between output and outcome. In the Bank's reform-oriented lending, the input was money and the output was new laws or regulations. The outcome was how the countries used the new policy structure put in place to improve economic performance, measured most broadly by growth in productivity. Bank projects were very successful in producing the output of reform, but the reforms did not produce the outcome of growth in productivity.
- 3.31 This is not to say the reforms were wrong or misguided. It could easily be the case that they laid important groundwork for future growth, and may eventually be vindicated. The point of this discussion, however, is that the ultimate "result" of reforms must be some change in outcome in the countries. It would be a mistake for the Bank or the countries to assume success once the laws and regulations that constitute the output of reform operations are produced. If outputs are not producing outcomes, the Bank has a problem, which needs attention. There could be a broad debate about what should be done, but the outcome focus presents the issue for discussion. Focusing on outputs alone, on the other hand, could leave the mistaken impression that an important development problem had been solved and the institution could move on to other subjects.

### C. Results at the Project Level

- 3.32 Moving down to the project level, it is here that one would expect the most thorough elaboration of results chain thinking. Projects are focused, highly context-specific, and have detailed descriptions of components and timeframes for implementation. Projects also have regular reporting on implementation progress, and have completion reports upon final disbursement. As the most thoroughly-described and tracked activities of development finance institutions, it is project performance that most institutions use to describe their effectiveness.
- 3.33 Tracking project performance has evolved over the years. Initially, the Bank paid little attention to project results, comfortable with the view that the investment needs of the region were vast and that projects designed by international professional staff were highly likely to be beneficial. By the early 1970s, however, the Bank felt a need for a more empirical and systematic approach to looking at project performance.

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<sup>21</sup> A series of studies on reform is available from the ECLAC website. Of particular interest are the reports on: **Economic reforms, growth, and employment**; Structural reforms, productivity and technological change in Latin America; Investment and Economic Reform in Latin America. Studies are available at: [http://www.eclac.cl/cgi-bin/getProd.asp?xml=/agrupadores\\_xml/ages20.xml&xsl=/agrupadores\\_xml/a201.xsl](http://www.eclac.cl/cgi-bin/getProd.asp?xml=/agrupadores_xml/ages20.xml&xsl=/agrupadores_xml/a201.xsl)

- 3.34 This desire led to the introduction of cost benefit analysis as an element of project design. Cost-benefit analysis involved the creation of an anticipated results framework (the future flow of benefits), which could then be compared with costs to determine economic viability. Since ‘benefits’ had to be computed by estimating the use by beneficiaries of a project’s outputs, cost-benefit analysis provides an explicit statement of anticipated outcomes, and impact. An additional virtue was that cost-benefit analysis demanded a discipline appropriate to interventions financed with debt, namely an attempt to estimate whether the future flow of benefits was likely to be at least as large as the future flow of debt service on the loans taken to finance the intervention.
- 3.35 Cost-benefit analysis was no panacea: the calculations were complex, subject to differences of opinion, and highly sensitive to assumptions, but the logic of the exercise did focus attention on likely future results.<sup>22</sup> As the Bank’s understanding of the meaning of development expanded, however, it was encouraged to move into areas in which it was exceptionally difficult to predict future benefit flows. In 1981, the Bank recognized this situation and modified its operational policies relating to loan preparation.
- 3.36 The 1981 modifications to the Operations Policy Manual noted: *“In certain fields such as health, education, electricity, and rural potable water, it is not always feasible to estimate the value of economic benefits. As a consequence, the economic efficiency analysis may be limited to a “least cost” or “cost-effectiveness” approach. This methodology compares the present value of the economic efficiency cost of alternative projects to attain **given objectives**, so as to select the alternatives with the lowest cost.”* (OP-302-3, March 10, 1981, emphasis added)
- 3.37 Although apparently only a concession to the difficulty of a certain form of technical analysis, the shift from calculated future benefit flows to the search for least cost solutions for attaining any “given objective” is in fact enormously significant. This instruction formally freed the Bank to pursue an infinite variety of possible goals, without a standard measure of value to judge each individual possible operation, or to compare one operation with another.
- 3.38 There still were some project design requirements, which kept a minimal focus on results. Chief among these was the requirement, introduced in IDB-5 Agreement and continued in the IDB-6, and IDB-7, that “50 percent of the lending program be oriented directly to benefiting low-income groups” (AB-648, Parag. 1.25). Complying with this instruction meant that efforts had to be made in at least half of Bank projects to projecting actual future benefits to identified low-income beneficiaries. Concern that the IDB-6 period saw only 38 percent of benefits flowing to such groups, the IDB-7 agreement instructed the Bank to “continue to improve its methodologies governing the measurement and distribution of benefits.” (AB-1378, Parag. 3.32). Pursuant to this instruction, the Bank developed a methodology for the computation of a “distributional impact coefficient,”

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<sup>22</sup> Economist Amartya Sen noted that cost-benefit analysis: “is a forceful demand for fuller articulation, which involves the rejection of a commonly stated proposition allowed by tradition, to wit, that we may know what is right without knowing why it is right.” See “The Discipline of Cost-Benefit Analysis,” *The Journal of Legal Studies*, V 29, no. 2, June, 2000

which was applied during the 7<sup>th</sup> Replenishment period to approximately half of the Bank's projects.

- 3.39 In the IDB-8 Agreement, however, the method for pursuing the Bank's poverty reduction goal was changed. Project designers were required to report whether a given loan met: "...either one of the two following criteria: first, the project or program is geographically-targeted to poor beneficiaries, or, second, it is determined that a significant majority of the beneficiaries of a project or program, according to conditions prevailing in each country, are poor." (AB-1704, Parag. 2.15). Both tests can be performed without an explicit projection of future benefit flows, thus removing the final formal requirement for a results focus in operations.
- 3.40 Concern about the results-focus of Bank projects surfaced as a major issue in 1993 when the Bank commissioned a panel of experts to examine the management of the Bank's portfolio. The report of this Task Force on Portfolio Management (TAPOMA),<sup>23</sup> had as its central theme the proposition that the Bank was organized around two objectives: the initial approval of projects, and the subsequent control of execution. Both, in the Task Force's opinion, were inimical to the objective of "managing for effective development" because they took the focus away from development results.
- 3.41 The approvals focus concentrated on maximizing resource transfers, but, "The focus should be increasingly on the achievements flowing from the transfer of resources and not those transfers themselves." The emphasis on control "...gives a high degree of confidence that funds are being used for intended purposes (which is important, but it places concern for results in a distant second place." The Task force concluded forcefully that: "Things must change...Concern for results should be paramount without losing sight of the need for proper accountability for funds."
- 3.42 Both Board and Management endorsed this needed shift of focus, and a series of internal working groups were convened to implement the recommendations of the TAPOMA Report, and they produced their own detailed set of recommendations in May of 1997 (CP-1283). They embraced the objective of "promoting a results-oriented dialogue among Bank staff, executing agencies, and national counterparts", and noted that "Measuring project results means focusing on project objectives and components, and establishing good indicators to measure whether or not project objectives are being attained."
- 3.43 To implement this agenda, Management adopted a new project design and performance monitoring system based on the Logical Framework Methodology, a device for project design which had originated in the late 1970s with US AID, and had been widely adopted by development assistance institutions throughout the world.<sup>24</sup> In March of 1995, the Executive Vice President required that all projects submitted to the Bank's Loan

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<sup>23</sup> "Managing for Effective Development," Report of the Task Force on Portfolio Management for the Inter-American Development Bank, October, 1993.

<sup>24</sup> Logical Framework Analysis has been adopted, and adapted as a planning and management tool by, among others, Britain's DFID, Canada's CIDA, the OECD Expert Group on Aid Evaluation, the International Service for National Agricultural Research (ISNAR), Australia's AusAID and Germany's GTZ.

Committee include indicators to measure impact, and in September of the same year the Loan Committee began requiring that project documents include a logframe.

- 3.44 The logical framework attempts to focus attention on development objectives, and to delineate how project components are intended to produce results which achieve objectives. The logical framework matrix was subsequently incorporated in several Bank guidelines, and that version is shown in Box 3.6.

**Box 3.6: The PCR and the Structure of the Logical Framework**

PCR	<b>A LOGICAL FRAMEWORK</b>			
	<b>OBJECTIVES</b>	<b>INDICATORS</b>	<b>VERIFICATION</b>	<b>ASSUMPTIONS</b>
	<p>1. GOAL</p> <p>The Goal is a statement of how the project or program will contribute to the solution of the problem (or problems) of the sector.</p>	<p>The indicators at Goal level describe how the overall impact of the project shall be measured. They are specific in terms of quantity, quality, and time (target group and location if relevant).</p>	<p>The means of verification are the sources of information that an evaluator can use to verify that the targets were achieved. They can include published material, visual inspection, sample surveys, etc.</p>	<p>The assumptions indicate the important events, conditions, or decisions necessary for sustaining the Goal in the long run.</p>
<b>O B J E C T I V E S</b>	<p>2. PURPOSE</p> <p>The Purpose is a statement of the direct impact or result to be obtained from using the Outputs produced with the project. It is a hypothesis about what the project will achieve.</p>	<p>The indicators at the Purpose level describe how the direct impact of the project shall be measured. They should include targets reflecting the end of project status (EOPS). They are specific in terms of quantity, quality, and time (target group and location if relevant).</p>	<p>The means of verification are the sources that the executor and evaluator can consult to see if the targets are being achieved. They can indicate that there is a problem and suggest the need for changes in project Outputs. They can include published material, visual inspection, sample surveys, etc.</p>	<p>The assumption indicate the events, conditions, or decisions that are outside the control of the project manager (risks) that have to occur for the project to achieve the Goal.</p>
<b>C O M P O N E N T S</b>	<p>a) OUTPUTS</p> <p>These are the goods, services, and training that the project executor is required by contract to complete. They should be expressed as work completed (systems installed, people trained, etc.).</p>	<p>The indicators for Outputs are succinct, but clear, descriptions of <u>each of the Outputs that has to be completed during execution</u>. Each should specify quantity, quality and timing of the goods, services, etc. to be delivered. They are specific in terms of quantity, quality, and time (target group and location if relevant).</p>	<p>This cell tells where an evaluator can find the sources of information to verify that the things that have been contracted for have been delivered. Sources can include site inspection, auditor's reports, etc.</p>	<p>The assumptions are the events, conditions, or decisions (outside the control of the project manager) that have to occur in order that the Outputs will achieve the Purpose for which they were undertaken.</p>
	<p>b) ACTIVITIES</p> <p>These are the tasks that the executor must carry out in <u>order to produce each of the Outputs</u>. Activities are listed in chronological order for each Output.</p>	<p>This cell contains the budget for each Output.</p>	<p>This cell tells where an evaluator can obtain information on whether the budget was spent as planned. It is usually the accounting records of the executing unit.</p>	<p>The assumptions are the events, conditions, or decisions (outside the control of the project manager) that have to occur in order to complete the Outputs.</p>

- 3.45 Several cells in the logframe matrix have resonance with the results-management model articulated earlier in this paper. A project's Goal relates to "how the project or program will contribute to the solution of the problem (or problems) in the sector," which is to be described in terms of indicators that are "specific in terms of quantity, quality, and time (target group and location if relevant)." A project's Purpose "is a statement of the direct impact or result to be obtained from using the Outputs produced with the project," a definition, which clearly incorporates the output/outcome distinction, made earlier. Outcomes are what happens when beneficiaries use the outputs, they are not the outputs themselves.
- 3.46 While these developments were occurring at the design stage, the Management working group dealing with changes to the Bank's system for project monitoring and reporting drafted guidelines which made this distinction even more apparent, noting that: "Development objectives are defined as the expected result or benefits that will flow once the project's components are in place." These should be monitored with performance indicators, which "cannot simply refer to the outputs resulting from the execution of project components. They must extend beyond that, to the expected results from using those project outputs. For example, if a road building project was designed to reduce transport costs by constructing 141 km of all-weather highway, it is not sufficient to report on the number of kilometers constructed. We are interested in the result—i.e. are transport costs being reduced? (CP-1283, pg. 4, annex 1, "Instructions to the Staff for Completing PPMR").
- 3.47 These recommendations were subsequently incorporated into revised guidelines for both PPMRs and PCRs. These guidelines explicitly call for Bank staff to distinguish between outputs and outcomes when reporting on project results, although the logic of the connection is somewhat obscure. The PCR guidelines, formally adopted in 1997, require PCRs to report on "1) the actual level of achievement of project components. 2) The currently expected level of achievement of project objectives." (PCR Guidelines, Annex 1, pg. 2). Footnotes in the guidelines make it clear that the term "components refers to 'outputs' as used in the logical framework..." while "objectives refers to 'purposes as used in the logical framework..." The attached logical framework document is clear that purpose is an outcome not an output.
- 3.48 The output/outcome distinction is further elaborated in the section of the guidelines dealing with rate of return calculation, stating that "...if the ex-ante analysis of the project included a calculation of the project's rate of return or cost-efficiency analysis, [the PCR should determine] what is the comparable rate of return, or re-estimated cost-efficiency analysis, after project execution." (Annex 1, pg. 3)
- 3.49 It is these evaluation findings which are currently used to report to Management and the Board on the development effectiveness of the Institution. According to this framework, Bank project performance is strong: in 2000, 88 percent of Bank projects in execution were rated as "probable" or "highly probable" in terms of their anticipated achievement of development objectives, while 64 percent of completed projects were rated by ROS as "successful" in terms of achieving their development objectives.

- 3.50 From the point of view of managing for results, however, it is important to know whether the PCRs actually followed the guidance established in the manuals, and made judgements regarding “development objectives” based on data regarding outcomes or impact of Bank interventions.
- 3.51 To explore this issue, OVE examined the written record on all completed projects, which met two tests: they were rated “highly probable” of achieving their development objectives and they had an available PCR. 47 projects met these two tests, as of November 2001 (see list in Annex 1). The OVE review was designed to determine from the documentation, what was the evidentiary basis for the conclusion that these projects were “highly probable” of achieving their development objectives.
- 3.52 Four aspects of a project’s documentation were the focus of this review:
- Was the project designed with an ex-ante economic rate of return estimate (the most rigorous standard for prospective results framework)?
  - If yes, was the rate of return re-estimated upon project completion, to see if anticipated benefits are either currently observed or likely to be achieved in the future?
  - If no, did the project have other explicit kinds of measures related to outcome or impact for which evidence was provided in the PCR?
  - Were provisions for ex-post evaluation included in the design, and if so, were these reviews conducted and was there any indication of project results in the Bank’s files?
- 3.53 The review found that 16 of the 47 projects were designed initially with explicit rate of return calculations, but that only 3 had PCRs in which any attempt was made to recalculate this type of impact upon project completion. 31 projects were initially approved with explicit provisions for ex-post evaluation, and 21 of these should have been available in the Bank by the time the review was conducted. However, Bank staff was able to produce only 2 of these evaluations when they were sought by OVE.
- 3.54 The lack of available ex-post evaluations means that OVE could only rely on PCRs to look at the documentation for what evidence underlay the conclusion that these projects were “highly likely” to achieve their development objectives. This documentation falls into five different categories:
- a. **Systematic** attempts to show empirical data on outcome or impact related to all or most of a project’s initial objectives.
  - b. **Anecdotal** reports about the outcome or impact of some portion of the project, generally without reference to initial objectives. (eg. a health project with multiple objectives and components, which reported that water-borne diseases had declined 18.2 percent in communities where water disinfection systems worked adequately).

- c. **Undocumented attribution** of results by presenting data on some aggregate very much larger than, and at such a distance from, the project that it is unreasonable to attribute any the results to the project on the basis of available evidence. (eg. A road project which attributed expanded national exports to road improvements, or a multisector credit program which attributed a lengthening of the maturity of total banking system credit to the Bank’s small lending operation).
- d. **Transitory** results are those produced during the course of disbursement of the project, which do not persist once disbursement stops. (eg. A road project where the PCR recognized that the roads constructed (outputs) were unlikely to be maintained, leading to poor outcomes).<sup>25</sup>
- e. **Output-only** results discuss only the production of the projects’ planned outputs.

3.55 Table 3.1 shows how projects were distributed among these categories.

**Table 3.1:**

**Result Categorization for “Highly Probable” Projects**

<i>B. Result Category</i>	<i>Number of Projects</i>	<i>Percent of Sample</i>
Systematic	2	4%
Anecdotal	2	4%
Undocumented	4	9%
Transitory	4	9%
Output Only	35	74%
<b>Total</b>	<b>47</b>	<b>100%</b>

- 3.56 The table demonstrates that systematic results were encountered very infrequently, and that even the looser categories of project results were relatively rare. The overwhelming majority of projects had result discussions that related exclusively to outputs.
- 3.57 Interestingly, in some PCRs, the Country Office specialists who prepared them were aware of the limitations of the information available to them for making judgements regarding the assessment of achievement of project development objectives. One in particular devoted a considerable amount of discussion to how little information was available to draw the kinds of conclusions called for in the report. (See Box 3.7)
- 3.58 These data should be interpreted with caution. Many of the projects in the sample are quite old, and may not reflect recent improvements in design or follow-up. All projects in the sample have completed disbursement (and as a result, have a PCR available). Projects currently in execution could have stronger results monitoring than those in the sample.

<sup>25</sup> “Históricamente los fondos que aporta el prestatario han sido insuficientes para proporcionar niveles adecuados de mantenimiento a las carreteras y caminos para evitar su deterioro prematuro. Con base en lo anterior, en opinión del grupo, los resultados obtenidos tendrán pocas posibilidades de continuidad.” PCR ES0019

### Box 3.7: “Lecciones Principales”

“...al no existir una línea de base la evaluabilidad del proyecto de reducida. En efecto, no se pueden efectuar comparaciones posteriores – mediciones cuantitativas y cualitativas – con la ayuda de indicadores del impacto del proyecto, por ejemplo, sobre la eficiencia de la organización y sobre los distintos clientes del sistema de calidad: el sector privado, el comercio exterior y, también, el Gobierno, que se endeuda. Se debería poder responder a preguntas como: cuál es el beneficio neto para un país de implantar un sistema de calidad en Aduanas? Cómo se debe medir?. Si se tuviera una cuantificación del impacto social neto del proyecto, entonces sería factible evaluar la conveniencia de implantar estos sistemas en otras organizaciones similares en otros países, e incluso en otras organizaciones del sector público. Sin embargo, como no se contempló, igualmente, una metodología de evaluación, no se puede contar con esta información. La metodología de evaluación podría presentarse al inicio del proyecto, quizá como una condición previa.”

PCR PE0171

- 3.59 Second, many projects, by design, will require a number of years of execution to demonstrate meaningful results.<sup>26</sup> Finally, it is important to emphasize that the study only looked at the documentation of results, not the results themselves. It is quite likely that all the projects have had some outcomes and impacts. The exercise does not address this issue, but merely observes that the documented basis of the conclusion regarding probability of achieving development objectives is heavily dependent upon observations only about outputs.<sup>27</sup>
- 3.60 To explore the issue of whether current projects are being designed with a more robust results framework than these older projects, OVE undertook, with the active support of Management, a review of all projects sent through Management’s Loan Committee and on to the Board of Executive Directors for approval during 2001. The purpose of the exercise was to look at the “evaluability” of projects, i.e. the extent to which the projects were designed to be able to demonstrate their effectiveness, once completed, in addressing the development challenges of borrowing member countries. Projects designed to demonstrate development effectiveness are easy to evaluate, since they are explicit as to goals and incorporate mechanisms for monitoring, so OVE developed an “evaluability assessment tool” as a mechanism for measuring design quality. The results of individual project assessments were provided to Management at the time of Loan Committee consideration as a way of improving the review of this dimension of projects.

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<sup>26</sup> For example, the PCR on an education program in Paraguay noted: “Todas las actividades llevadas a cabo en el marco del Programa se realizaron ...para apoyar al Ministerio en sus esfuerzos para elevar la calidad de la oferta educativa. Si bien los indicadores que caracterizan el sector educativo (tasa de repitencia, extraedad, deserción, porcentaje de maestros titulados, promedio de los resultados académicos, etc.) reportan que los avances alcanzados son pequeños, los años que lleva la Reforma Educativa no son suficientes para poder visualizar el cambio.” PCR PR0025

<sup>27</sup> In 1993, the TAPOMA report reviewed 110 PCRs, and concluded that in these documents: “judgements on success or failure were based primarily on data covering completion of physical works, whether projects were completed within original deadlines and approved cost estimates.” Much the same could be said of the 47 projects reviewed in 2001.

- 3.61 OVE's evaluability assessment, which will be described at length in a separate document to be sent to the Board in early 2002, measures 9 aspects of a project, which can be summarized along three different dimensions. First, the dimension of analysis, rates the project's diagnosis of a problem, its understanding of the causes, the logic which connects the project to the problem, and the quality of its assessment of the risks involved. Second, the dimension of verifiability rates the project's goals in terms of indicators, provision of baseline or starting-point data, and the establishment of target objectives in terms of both planned outputs and desired outcomes. Third, the dimension of monitoring rates the projects provision for data collection and feedback on project achievements during the course of executions, including provisions for both mid-term and at-completion evaluation.
- 3.62 The ratings for the 2001 group of projects show considerable shortfalls in documentation along all three dimensions. Few projects were considered to have articulated a strong analytical foundation, with the area of assumptions and risks being the weakest element. A somewhat larger number were considered to have adequate provisions for feedback and monitoring built into the design, although these elements were almost always something to be added in the course of execution, and were specific to the individual operation. It was rare to encounter attempts to link specific operations to more general systems of evaluation in the borrowing member country (where such systems exist).
- 3.63 Verifiability, however, was an issue in most of the 2001 crop of projects. Very few projects defined meaningful indicators of performance, while very few had either baseline data or explicit targets and milestones. Where such empirical indicators and targets did exist, they were applied to project outputs only, not to the outcomes anticipated to be realized in the country once the project had produced its outputs. A number of projects indicated their intent to establish clear baselines, targets, benchmarks and indicators prior to first disbursement, but it is too soon to tell if these expectations were realized for the projects approved in 2001.
- 3.64 These findings suggest that current Bank projects are still not being designed or monitored so as to transparently demonstrate development results. While a serious concern, this is not a problem unique to the IDB. A recent review of attempts to introduce results-oriented systems in development cooperation agencies found that they all were struggling with common problems of how to institute effective processes and practices for measuring their performance. In particular, development cooperation agencies share with most other public institutions a strong ingrained tendency to focus on outputs—things under the direct control of the agency—rather than on outcomes. A renewed focus on results, however, requires a break with this pattern.

#### IV. IMPROVING EFFECTIVENESS

- 4.1 Earlier sections of this report have demonstrated that “development” as a concept has evolved and spread considerably in the 40 years of the Bank’s existence. There is now no narrow focused agreement on what constitutes “development” or which interventions are critical to produce it. As a result, a very broad range of interventions can be justified in the name of “development”.
- 4.2 Lacking the anchor of a clear and focused definition of what constitutes development, the Bank faces the same problems of goal congestion and diffusion of effort which have affected other development finance institutions. To address this problem, other institutions have moved toward a formal embrace of results-focused approaches to programming and project design. Implementation of these commitments has, however, been difficult, and few institutions have developed fully-effective results-based management systems<sup>28</sup>.
- 4.3 Although encouraged to move in a similar direction by a variety of institutional guidance efforts, including TAPOMA, and the Institutional Strategy, the data presented earlier suggest that progress has been very slow. There appear to be three major reasons for this pattern.
- 4.4 First, the incentive systems in the Bank at both headquarters and country offices continue to focus on issues other than developmental results. At headquarters, incentives continue to focus on approvals. The Bank reports on approvals to external constituencies, operational staff performance is judged largely on the production of approvals, and most key institutional processes focus on the generation of approvals. In the country offices, incentives focus on the management of disbursements rather than results. Projects are in good shape if disbursements are on track, in trouble if disbursements lag. “Problem” and “at risk” projects achieve this status largely as a result of disbursement performance, and portfolio review exercises address disbursement issues.
- 4.5 Second, a focus on results must be a shared objective between the Bank and the borrower, and the political imperatives of democratically-elected governments do not always coincide with a focus on results. Where borrowers place a higher priority on approvals rather results, and where a focus on results is seen as risking political embarrassment, it will be difficult for the Bank to maintain a clear focus on outcomes in its operations.
- 4.6 Third, the process of measuring outcomes is often technically very difficult. Some important objectives are hard, if not impossible, to measure, and even theoretically

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<sup>28</sup> A Treasury Board of Canada report issued in 2000, for example, reviewed the progress of various agencies to meet the commitments to results-based management which they undertook in 1997. The report found: “...some progress in measuring performance, but use of the information is still limited. ...Departmental officials often told us they expect to use performance information more regularly across the department, “soon”. Practical use of performance information and costing of results always seem to be promised for “next year”. Managing Departments for Results and Managing Horizontal Issues for Results  
<http://www.oag-bvg.gc.ca/domino/reports.nsf/html/0020ce.html#0.2.IUO8HU.WTHVV3.XRJW4G.86>

measurable objectives may lack reliable data sources in the borrowing member countries. With these real, practical difficulties, the best (full empirical measurement of results) is often the enemy of the good (limited, quasi-measurable results), and both Bank and country prefer to opt for vague specification of intended results and focus instead on something more manageable like outputs.

- 4.7 In this final section of the report, OVE will offer some suggestions to the Bank's management and Board of Executive Directors about concrete steps that could be taken to address these real constraints. These suggestions fall into four areas: locating projects within a developmentally meaningful framework at the country level; changing the incentives structure within which staff operate, experimenting with results-driven project models; and developing cooperative monitoring and evaluation systems with executing agencies and borrowing governments.

#### **A. Locating Projects Within the Developmental Challenges of the Country**

- 4.8 As noted in previous chapters, most development assistance organizations are moving toward a clear and explicit results orientation in their country programming process. This goes hand in hand with the increasingly explicit recognition that it is the countries themselves, rather than the development assistance agencies, that must take responsibility for improving their economies and the wellbeing of their citizens. The goal of development assistance, therefore, must be to facilitate this process of responsibility-taking by the borrowing countries.
- 4.9 In this process, the development by the countries of explicit and measurable development objectives is a necessity. The November, 2001 Communiqué of the Development Committee stressed the connection between target-focused national strategies and external development assistance.

*Ministers reaffirmed the critical importance of sound national policies and good governance as prerequisites for poverty reduction and sustained growth. They noted that the Millennium Development Goals (endorsed by Heads of State and Government in the UN General Assembly on September 8, 2000) and other internationally agreed **development targets can help guide country-owned short- and medium-term national priorities** on which external partnerships of support could be based.<sup>29</sup>*

- 4.10 The Asian Development Bank's recent Medium Term Strategic Framework stressed both the importance of a long-term engagement with the country, and the need for explicit goals to help anchor that engagement.

*In pursuit of the common goal of poverty reduction, ADB will maintain an effective long-term presence in the sectors and areas prioritized through the Country Strategy Papers (CSP). Long-term approaches imply selectivity; selectivity, in turn, will have to be defined in the context of the*

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<sup>29</sup> November 2001, Communiqué of the Development committee. [http://wbln0018.worldbank.org/DCS/devcom.nsf/\(communiquesm\)/A722120900293C4885256B0800732149/OpenDocument](http://wbln0018.worldbank.org/DCS/devcom.nsf/(communiquesm)/A722120900293C4885256B0800732149/OpenDocument)

*CSPs, which will set long-term targets and performance benchmarks against which to measure development impact.*

- 4.11 The global initiative to assist the Highly Indebted Poor Countries (HIPC) has mandated a connection between debt relief and the construction of goal-focused national strategies for poverty reduction. The technical document designed to assist countries in preparing such strategies noted the role and importance of specific and focused targeting:

*Setting realistic, quantified development targets forms a key component of the PRSPs. Such targets are meant to help governments focus their resources and to make them accountable for their actions. To serve these purposes targets must be SMART; they must be Specific, Measurable, Achievable, Relevant, and Time-bound.<sup>30</sup>*

- 4.12 The OVE Working Paper on evaluability of country strategies discussed previously (WP-02/01) offered a number of suggestions for moving IDB country programming practice in this direction. It argued for basing country programming on clear strategies, based on goals negotiated with the country, supported by detailed economic and sector work that selected a limited number of areas for action and formulated measurable targets, which could be used to monitor progress toward objectives. The paper suggested that this form of programming would be similar to the kinds of performance agreements, which form the core of the results-based management paradigm in public sector reform throughout the world. In this model, the country would be the initiator of the agreement, setting out explicit results it hoped to obtain from its cooperation with the Bank.

**Box 4.1: Evaluabilidad de las estrategias de país (OVE-WP/02/01)**

El CP reflejaría así un acuerdo sobre las estrategias acordadas con el país que el Banco apoyará en los próximos años. Pero para que dicho acuerdo sea realista y cuente con los elementos necesarios para su seguimiento, es necesario que se traduzca en un marco de resultados, es decir, en un conjunto de indicadores para el período correspondiente, incluyendo metas y “milestones” que faciliten la evaluación y permitan medir si la estrategia escogida está encaminada a lograr los objetivos identificados. Al final de cuentas, el marco de resultados del CP sería el corazón del documento, es decir, la versión sintética, con prioridades establecidas, y acordada de lo que se espera del apoyo del Banco en los próximos años.

- 4.13 One important obstacle to this kind of exercise is the problem of accountability for results. Almost any objective worthy of inclusion in such a program involves changes in big systems (e.g. agricultural productivity, national or regional poverty, export growth, etc.), which are influenced by many factors. Neither the Government nor the Bank can be held fully accountable for delivering such large-scale results, and so both are reluctant to construct the kind of performance agreement contemplated.
- 4.14 This is a core problem in all results-oriented management approaches, where people and institutions are afraid to make commitments because of fear that they cannot achieve the intended results. Yet the failure to make explicit statements of intended results has its

<sup>30</sup> Poverty Reduction Strategy Sourcebook, <http://www.worldbank.org/wbp/strategies/chapters/targets/targets.htm>

own negative consequences, the most important of which is that it may lead to the expenditure of time and resources to very little effect.

4.15 One helpful approach to this issue comes from the UNDP, which made a commitment to results-based management in 1996. In their work, they developed the concept of “shared accountability” (See Box 4.2), which helps address these issues. The concept focuses on the learning function, affirming the importance of knowing whether and why outcomes are being achieved, and giving individual actors not the ultimate responsibility of producing outcomes, but of being aware of outcomes and managing to improve progress toward goals.

**Box 4.2: Shared Accountability**

*The outcomes...should reflect the key results against which managers wish to be assessed. However, because outcomes are not the result of one single actor's intervention, enforcing individual and personal accountability in respect of the substantive attainment of outcomes would be unreasonable. The attainment of outcomes is subject to shared accountability among partners. A full understanding of the factors determining why outcomes are achieved (or not) requires in-depth evaluation that situates the results in the country context. While managers can be held accountable for ascertaining that outcomes are monitored, their full accountability can be applied only to outputs. In a situation of shared accountability, it is important that responsibilities and performance expectations be clearly defined. Managers, while not being held accountable for the achievement of outcomes, are expected to report on progress against intended outcomes.*

<http://www.undp.org/eo/methodology/methodology.html>

4.16 A recent report on results-based management in development cooperation agencies further clarifies the issue of shared accountability, noting that: “*Under this new paradigm, managers might be held accountable for working with partners to achieve higher-order results, for learning from failures, and for continually using performance information in their decision-making processes. In other words, they would be held accountable for forming partnerships, for learning, and for managing-for-results, rather than for achieving specific results, especially those out of their control.*”

4.17 The critical implication of these concepts is that an explicit performance agreement between the Bank and the Country has virtue because it focused the attention of all parties on intended results, facilitates learning, enhances flexibility in program execution, and, over time, should improve the capacity of the relationship to deliver sound development results. In this approach, the value of explicit and quantitative goals lies in the processes they generate as much as in the immediate achievement of the goals which drive these processes.

**B. Changing the Incentive Structure for Bank Staff**

4.18 A results-focused programming process will go a long way toward shaping individual projects which are aware of, and responsive to, the achievement of specific national development objectives. Supporting this process, however, will require attention to the incentive structures currently governing the Bank's internal organization..

- 4.19 The most important defining element of Bank internal culture with respect to development is the organizational separation of project design from project execution. Headquarters staff design, country office staff execute. This organizational division creates a profound “two cultures” problem within the institution. For the culture of design, success is defined as an elegant document which moves smoothly through the approval process. What happens once the document is approved is largely irrelevant to the career of the designer, who has already moved on to the next design task.
- 4.20 For the culture of execution, success is defined as prompt and timely disbursement, accompanied by assured compliance with Bank procedures and contractual commitments. Achievement of developmental outcomes is not part of the currently-defined job of country office staff.
- 4.21 Within this structure, nobody is accountable for development results, and there are few incentives to attend to this complex, difficult but essential task. Changing institutional incentives is a long and difficult process, and requires a high level of commitment from staff, Management and Board. What follow are some suggestions for modest institutional changes which could initiate a process of re-engineering the incentive structure toward a more robust focus on results.
- 4.22 With respect to design and review, it would be worthwhile to consider some modifications to the current Logical Framework Methodology to create incentives for project teams to incorporate specific results frameworks into project design. Reviews by OVE and by ROS have demonstrated that logframes in project documents are often inadequate. Generally, the response to such observations has been to suggest further technical training for project teams in logframe theory and methodology. While training doubtless has merit, the persistence of design problems in Bank projects despite considerable technical training suggests that part of the problem may lie in the instrument itself, rather than in the inadequate training of Bank staff.
- 4.23 One possible place to start is an attempt to reintroduce cost-benefit analysis, wherever appropriate, in project design. The 1981 decision to shift away from cost-benefit determination to cost-effectiveness was largely the result of two technical factors: the technical difficulty of reliably estimating prices in highly distorted economies, and the conceptual issues involved in measuring rates of return in social projects. Anticipating that these technical obstacles would eventually be overcome, the 1981 policy revision also stated: “It is to be expected that the cost-effectiveness method will be replaced by standard economic efficiency analysis, as more reliable methods for estimating economic benefits are developed.”
- 4.24 Today, most economies in the region have transparent and market-set prices, and there has been considerable technical and conceptual progress regarding the issue of rates of return to social investment. These factors suggest that it might be possible to increase the use of cost-benefit calculation in Bank projects in the coming years.
- 4.25 A second approach would be to add an explicit focus on results to the guidance provided by the Logical Framework Methodology. While the logframe matrix (See Box 3.6, on

pg. 27) clearly requires that projects define objectives at the level of “Purpose.” Objectives at this level are “...a statement of the direct impact or result to be obtained from using the Outputs produced with the project.” This is helpful as far as it goes, and does place the focus squarely on outcomes (uses made of outputs) rather than outputs themselves. But constructing objectives at this level is very difficult, and as only one cell of a 12-cell matrix, this instruction is often bypassed in project design.

4.26 To reinforce the focus on results of individual projects, more explicit guidance could be helpful. In our Country Program Evaluation work, OVE has been experimenting with an evaluation matrix, which focuses on the specific results components of projects. In this formulation, a project has a “complete” results framework if it incorporates, for each, objective, the following items.

- **An Objective:** a clear statement of what is problematic in the current situation and how it is to be improved. Objectives must always be defined with reference to how project outputs will be used to improve a situation.
- **A Baseline:** An analysis describing in measurable terms, the current state of affairs prior to a development intervention, against which progress can be assessed or comparisons made
- **Indicators:** Quantitative or qualitative factors or variables that provide a simple and reliable means to describe the baseline condition, to measure achievement, to reflect the changes connected to an intervention, or to help assess the performance of a development actor.
- **A Target:** An anticipated future value, at a date certain, for each relevant indicator. Where possible, targets should be set using **Benchmarks**, which are reference points or standards against which performance or achievements can be assessed. Note: A benchmark refers to the performance that has been achieved in the recent past by other comparable organizations, or what can be reasonably inferred to have been achieved in the circumstances.
- **Milestones:** Specific intermediate values (with dates) anticipated for indicators, indicating the pace at which movement is expected from baseline to target.
- **Monitoring and Evaluation System:** A concise description of who will be observing movement in the indicators, and what reporting will be provided to the executing agency on the progress in goal achievement.

4.27 OVE recommends that Management reviews these (along with other possible candidates) for inclusion in an explicit “results framework” section to be incorporated both in project design and in execution-monitoring systems (PPMR and PCRs). Such an explicit framework would supplement the logframe assessment by providing a much sharper and clearer focus on intended and observed results from Bank interventions.

- 4.28 An effective results-based approach for Bank operations will also need to give renewed attention to the incentive structures governing project execution. The TAPOMA report expressed great concern for the “culture of control” in the Bank’s country offices, and urged that it be replaced with a culture more focused on results. The Institutional Strategy expanded on this theme, noting:

*Efforts to date have primarily concentrated on establishing clear expectations for the project at initiation, rather than on ensuring that the project design continues to evolve and seek its goals through the execution Paragraph 6.33*

- 4.29 The Institutional Strategy recommended that projects should have “a clearly defined sense of purpose”, which would ensure that “direction setting is ongoing until it finds its target.” (Parag. 6.32)
- 4.30 OVE intends to conduct a review of project supervision in 2002, but data from project, thematic and country evaluations done thus far suggest strongly that projects in execution are not now the type of “goal seeking missiles” envisioned in the Institutional Strategy. A results-focus is still not characteristic of most of the Bank’s country offices. Nor is it the principal focus of the Annual Portfolio Review exercise performed at headquarters.
- 4.31 Implementing a results-focused culture in an execution process which is institutionally isolated from design is not easy and may not be possible. The Bank has a long tradition of separating project design from execution, assigning the former to staff at headquarters and the latter to staff in the field offices. Background, credentials, recruitment patterns and career paths for the groups are very different, and most of the Bank’s systems and manuals for country office work continue to demand attention to compliance with contractual clauses, Bank procurement and disbursement procedures, and other accounting details, rather than development results.
- 4.32 While accounting compliance is important, so is the search for development results. The most dramatic assault on this problem would be a radical organizational re-design which ended the institutional segregation of design and execution. This could be accomplished by having project teams at headquarters be responsible for managing execution, or by having projects designed and executed in country offices. Alternatively, the Bank could move away from the current project model entirely, and devise financial instruments which disbursed only upon evidence of results achieved.
- 4.33 OVE is not recommending such sweeping changes at this point. Experience at the World Bank has shown clearly that dramatic organizational changes have huge unanticipated costs and do not always yield their intended results. They are mentioned here in the hope that they will stimulate internal thinking about issues of institutional culture and incentives. What follows are more modest suggestions designed to begin to work on altering institutional processes and incentives toward a more explicit focus on results.
- 4.34 A first step is to approve project instruments which incorporate the kind of “local guidance structures” called for in the Institutional Strategy. The recently-approved

innovation loans are one such instrument, for their very design assumes that data acquired in the course of execution will determine the substantive direction of the project. OVE is monitoring these new instruments, but there has been too little progress in execution to determine at this point if they are contributing to the objective of strengthening the results focus in country offices.

- 4.35 A second step could involve incorporating results-reporting in the annual portfolio review by the Regional Operations departments and country offices, as well as incorporating information on development results in the Annual Report on Project in Execution done by ROS. Reporting creates incentives for focusing on the things being reported on. The 2000 Annual Review indicates Management's willingness to move in this direction when it observed:

*“Portfolio management and monitoring needs to be enhanced through the further development and application of monitoring instruments and tools, as well as the transfer of know-how to borrowers through a shared responsibility in the achievement of concrete development results. ...”*

*“While advances have been made in improving discrete actions required for better monitoring, a more holistic approach to performance monitoring needs to be set in motion on a systematic basis. This will occur only when there is a better understanding of the entire project monitoring and evaluation cycle and its relevance for lessons learned, and the establishment of improved monitoring and evaluation systems to track progress. The Bank must therefore continue efforts to enhance project implementation and performance reporting, as previously noted.”*

- 4.36 One mechanism for moving forward on this agenda would be to build a section dealing with results into each country's annual portfolio review exercise, to include a section on findings from these exercises in the Annual Report on Projects in Execution which is provided to the Board of Executive Directors, and to include a discussion of results as a routine section of the Bank's Annual Report.
- 4.37 OVE's evaluability assessment exercise also suggests the need to modify the incentives created by the project review process. OVE found that the current review process does not consistently generate projects, which are designed to transparently demonstrate the developmental outcomes of Bank action. The exercise also found that comments made to the Loan Committee did not generate meaningful improvement in project design. This observation suggests that the best opportunities for improving the results-focus of projects may lie somewhere “upstream” from the Loan Committee, either at the Programming Committee, when a project is initially approved for inclusion in the pipeline, or in subsequent phases of the review process.
- 4.38 The Bank's project review process has had a long evolution, driven largely by attempts to balance the two objectives of timely approval and developmental quality. For many years, Bank projects have been initiated by the Regional Departments as a result of

guidance received from the Programming Committee. Of the many ideas launched in this form, only some are turned into a fully-developed project through a production process involving several different actors. Until 1994, this process was based on a “two key” system for project approval. The Bank’s Operations Department held one key, while the Project Analysis Department held the other. Both Departments reported to the EVP, and both had to certify that a project was ready before it could be considered for approval. During the financial crises of the 1980s, the Bank established an expedited one-key approach for the design of sector loans, giving the Department of Plans and Programs exclusive jurisdiction over this instrument. The reorganization of 1994 moved further in the direction of expedited approval, moving sector lending to the Regional Operations Departments while at the same time allowing them to incorporate the technical units formerly reporting to the Project Analysis Department.

- 4.39 This consolidation of project preparation has probably increased the flexibility and responsiveness of the Bank, but at the cost of tipping the balance away from extensive documentation of anticipated results. After 1994, quality control was the responsibility both of the Loan Committee, assisted primarily by the Office of the Controller. The institutional emphasis on responsiveness and origination, however, led to a decline of this system of checks and balances, a process which culminated in the abolition of the Controller’s Office in 1999. OVE’s 2001 evaluability exercise suggests strongly that this process provides an inadequate focus on building explicit, transparent, documented, and evaluable results frameworks into Bank operations.
- 4.40 In thinking about reforming this system to get better results, several structural characteristics of the Bank’s approval process need to be kept in mind. Prior to 1988, project development work was carried out by Project Committees with the participation of OPS and PRA staff (and of other departments as warranted, following a two document/two step procedure. The approval by the Loan Committee of a Project Request Summary was supposed to trigger the start of technical work on a project. The Loan Proposal presented at a later stage to the Loan Committee was supposed to reflect the results of the project preparation and appraisal process. A broad review of Bank processes in 1988 found that this approach was bringing relatively few projects for Management discussion and review, and that the Summaries were being presented at a very late stage in the process, where many design decisions had already been made, and commitments with borrowers implicitly undertaken.
- 4.41 To improve this process, the 1988 restructuring split projects into three stages: Profile I, Profile II, and Loan Document. The Profile I was a summary of the problem and the basic project “idea” was approved by the originating department and sent to the Programming Committee for information. The Profile II was designed as a more detailed document, setting the terms of reference for the analysis phase of the project. Profile II documents were reviewed formally by the Loan Committee. Loan documents are the final project documentation as sent to the Board for approval and are also approved by Loan Committee, although a formal discussion is required only if a member of the Loan Committee requests it.

- 4.42 Theoretically, a greater focus for results could be inserted at any and all stages of this process. Profile I documents could be required to discuss a problem in measurable terms and provide a start at generating a baseline assessment. Profile II documents could be required to have the development of a results framework as a specific item in the terms of reference for subsequent analysis, and Loan Documents could be required to show evidence of developed results frameworks before being sent on to the Board.
- 4.43 These changes relate to guidelines and procedures, but a review of practice in other financial institutions, both multilateral and private, draws attention to the issues related to the incentives facing staff involved in originating lending operations. Most of these studies acknowledge that the pressures and incentives created within units involved in loan origination create what the Bank's own TAPOMA Report called an "approvals culture." To guard against excessive approvals pressure, other financial institutions have established independent units to manage quality control functions.
- 4.44 In the World Bank, quality control has been addressed through the creation in 1997 of a Quality Assurance Group (QAG), an independent body heavily reliant on outside technical experts, to rate the "quality at entry" of projects, as well as providing quality of supervision reviews for a sample of ongoing projects and quality reviews of economic and sector work. The existence of the QAG has had an impact on project quality via direct review of projects and via changes in the institutional incentive system. While the QAG only reviews a sample of projects, and provides "quality at entry" ratings only after project approval, the ratings are published and the potential for QAG review improves the incentives for rigorous project design.
- 4.45 In private financial institutions, risk is the critical dimension of quality, and it is considered good practice to have risk assessment of all projects managed by a separate department, completely independent of loan origination. Disputes between originators and risk assessors are brought to loan committees for resolution. The recent External Review Group on the IDBs Private Sector Operations recommended a similar structure for addressing risk management issues in the Bank's lending to the private sector without government guarantee.
- 4.46 Just as private sector projects have financial risk, all of the Bank's projects also have development risk—the possibility that countries may borrow money and get a flow of future benefits, which is significantly smaller than the future debt service costs. Unlike financial risk, development risk is a risk to the borrower that the project may not yield sufficient results, regardless of the risk to the lender that the loan would be repaid. Development risk assessment could therefore be a potent tool for improving development effectiveness of project design, and, if applied uniformly across the entire range of Bank instruments, would provide some mechanism to assess the relative developmental risks posed by each different type of instrument.
- 4.47 This line of thinking suggests that the creation of a separate Development Effectiveness Assessment Unit, with a direct reporting line to the EVP, would subject all projects (not merely a sample as with the QAG) to an independent review on development effectiveness issues as part of the approval process. Conflicts regarding project design

would be brought to the Loan Committee for resolution. Potentially, such a unit would also review Country Papers with a view to improving the results focus of country programming. (See Parag. 4.8 to 4.16), and review the quality of supervision in bringing about improved results during the execution process. Such a unit would help Management hold project teams accountable for the design and execution of projects, which demonstrate measurable achievement of country-specific development goals.

- 4.48 It should be stressed that the mere creation of a new organizational unit is no panacea. It creates a new set of actors operating with slightly different incentives, and, if taken seriously in the review process, could contribute to a shift in Bank-wide incentives toward a more consistent focus on results. These types of changes are complex, however, and demand careful attention to detail as well as thoughtful consideration regarding recruitment of staff and the structure of incentives within which they operate. Pursuing this path demands careful analysis by Management of the issues involved, a process, which could benefit greatly, as it has in the past, from the input of independent business-process re-engineering expertise.

### C. Experimenting with Results-Driven Project Models

#### Box 4.1

- 4.49 In addition to improvements in the project review process, the Bank should more actively experiment with new lending instruments having an explicit focus on results. Management has for several years been bringing forward ideas for new instruments along these lines, but has not so far been able to develop them into concrete instruments.

- 4.50 In 1997, Management brought forward a proposal for a new instrument called the Institutional Adjustment Loan. The instrument was designed to be: “*..sector-focused and built upon a sector reform plan for efficiency improvements in the sector. A **sector reform plan** would be prepared at the initial stage of any IAL operation. The plan would specify goals for the sector, establish benchmarks for monitoring progress toward these goals, and clearly identify the expenditures to be generated by the sector reform.*” This instrument was not authorized by the

#### **The Performance Driven Program Loan (PDPL)**

A PDPL would be a policy-based loan, which would focus on achieving actual developmental results in a sector rather than focusing on the actions to carry out reforms or institutional change as do traditional PBLs. The purpose of the PDPL would be to support borrowers in implementing programs to meet a pre-negotiated schedule of improvements in key sector indicators of performance. Actual sector performance would regulate the flow of funds to the borrower. Disbursements would be triggered by compliance with pre-established performance indicators in the sector. When sector-wide performance indicators react slowly to actions and interventions, intermediate outputs could be used as proxies to final performance outcomes.

#### **Sector Reform Expenditure Loan (SREL)**

The purpose of this instrument would be to assist countries in undertaking sector reforms that require high but transitional fiscal expenditures, and to provide resources to help finance these expenditures. It would be sector-focused and built upon a reform plan for efficiency improvements in a sector. A sector reform plan would be prepared at the initial stage of the operation. The plan would specify goals for the sector, establish benchmarks for monitor progress toward these goals, and identify and quantify the expenditures that the reform process would generate.

Board of Executive Directors, but work continued within Management to elaborate on the basic concept.

- 4.51 In 2001, Management brought forward a proposal for a number of new lending instruments, two of which clearly had a strong focus on results: the Performance Driven Program Loan (PDPL) and the Sector Reform Expenditure Loan (SREL). (See Box 4.1 for details) The first was designed to tie disbursements to the achievement of specific sectoral objectives, while the second would require countries to establish goals for the sector, and to establish benchmarks for monitoring progress toward the goals. Both instruments share the same focus on results as the Adaptable Program Loan approved for use in the World Bank in 1998.
- 4.52 The virtue of experimentation with new instruments focused on specific results is that it would provide the Bank with a laboratory for working on projects within this new paradigm. It would allow both the Bank and the Countries to try out new design concepts in a learning-oriented context, rather than trying to graft the results-oriented focus only existing and familiar lending structures. Such an experimental effort would also provide opportunities for evaluating the approach, building methodologies, and adapting the tool to regional circumstances.

#### **D. Developing Cooperative Monitoring and Evaluation Systems**

- 4.53 Finally, an improved focus on results must be a shared responsibility with the borrowing member countries. Country program results frameworks need to be developed by the country, and should delineate areas of activity for the IDB and other development finance actors. IDB programs and individual projects, should be making contributions toward the country's own development goals, and therefore should be monitored by domestic planning and evaluation units. Reinforcing such administrative structures where they exist, and developing them where they do not, should be an essential component of Bank operations.
- 4.54 The close connection between results management and in-country evaluative capacity was recognized cogently in Management's own document recommending the creation of new results-focused lending modalities. The background paper on new instruments prepared in June of 2001 noted:

*In order to use a performance-based lending modality, the borrower needs to have a well functioning and credible performance monitoring and evaluation system in place. At present countries and sectors in the region with such systems are the exception rather than the rule. The implementation of this modality will require the Bank to become significantly more involved in helping borrowers to strengthen or develop permanent monitoring and evaluation systems that can measure changes in performance indicators of a sector. (GN 2156-2, Parag. 4.74)*

- 4.55 OVE also addressed this issue in 2001, issuing a Report on Evaluation Capacity Building (RE-252) pursuant to the mandate given the Office under the IDB-8 agreement. The report discussed the complexity of the task facing the borrowing member countries, reviewed some past Bank initiatives in this area, and suggested opportunities for future joint work with the borrowing countries on this issue.
- 4.56 The report argued that evaluation was an essential tool for maintaining both horizontal and vertical accountability in the public sector, thus contributing both to the effectiveness of public action and the legitimacy of democratic government. If the Bank embraces the challenge of improving the development effectiveness of its operations, it will succeed in this effort only if it finds an effective counterpart in each borrowing country. In the last analysis, it is countries which should care most about development effectiveness, since countries must answer to their citizens for the results of the projects they have asked the Bank to finance.
- 4.57 In this context, the Bank probably sent the wrong signal to borrowing member governments when it allowed them to waive the requirement for ex-post evaluation of Bank projects. Clearly, there were problems with the old requirement, most notably that it tended to demand project-specific evaluation structures with no connection to the broader processes of resource allocation and evaluation in the country. The solution to this problem, however, is to work more effectively with countries to connect the evaluation of Bank projects to the development of broader systems of accountability in the public sector, not to abandon the evaluation issue entirely.

**Projects with Completed PCRs Rated “Highly Probable” of  
Achieving Development Objectives**

Number	Approval Date	Title	ERR in Original	Re-estimated ERR	Results Type
AR0214	1991	AGRICULTURAL SERVICES PROJECT	no		transitory
BR0062	1992	AGRICULTURE MODERNIZATION (PROMOAGRO)	no		systematic
CH0027	1992	MODERNIZATION & IMPROV. AGRIC. SECTOR	yes		outputs only
CR0110	1986	COTO SUR AGRICULTURAL DEVELOPMENT	no		anecdotal
PN0070	1983	PROG. FOR SEED PRODUCTION, PROCESS & DISTRIBUTION	yes	no	outputs only
DR0122	1991	IMPROVEMENT OF BASIC EDUCATION SYSTEM	yes	no	unattributable
ES0035	1990	TECHNICAL VOCATIONAL EDUCATION	yes	no	unattributable
PR0025	1993	PRIMARY EDUCATIONAL STRENGTHENING	no		outputs only
BH0014	1991	FAMILY ISLANDS ELECTRIFICATION PROGRAM	yes	no	outputs only
CO0158	1992	ELECTRICAL SECTOR FINANCIAL SUPPORT	yes	yes	outputs only
CR0029	1989	ELECTRICAL DEVELOPMENT II	yes	no	outputs only
JA0040	1990	REHABILITATION OF HYDROELECTRIC POWER	yes	no	outputs only
BR0155	1995	MULTISECTORAL GLOBAL CREDIT PROGRAM	no		outputs only
EC0089	1991	MULTISECTORAL GLOBAL CREDIT PROGRAM	no		outputs only
BR0308	1999	SOCIAL PROTECTION REFORM PROGRAM	no		transitory
CO0243	1999	COFFEE PRODUCTION AXIS EARTHQUAKE	no		outputs only
ES0062	1993	SOCIAL INVESTMENT FUND II	no		outputs only
ES0084	1994	EL SALVADOR SOCIAL INVESTMENT FUND STAGE III	no		outputs only
HA0011	1995	EMERGENCY AND ECONOMIC RECUP. PROGRAM (EERP)	no		outputs only
HA0081	1991	ECONOMIC AND SOCIAL FUND	no		outputs only
ES0037	1993	GLOBAL CREDIT FOR MICROENTERPRISE	no		outputs only
AR0116	1991	NATIONAL POTABLE WATER AND SEWERAGE	yes	no	outputs only
BO0146	1990	REGIONAL DEVELOPMENT AND SANITAT. PROGRAM	yes	no	outputs only
BR0186	1992	SANITATION IN FORTALEZA	yes	no	outputs only
BR0190	1992	DECONTAMINATION OF TIETE RIVER – STAGE I	yes	no	outputs only
CO0082	1993	RIO MEDELLIN BASIC SANITATION	yes	no	outputs only
BO0034	1994	GLOBAL MULTISECTORAL CREDIT PROGRAM II	no		outputs only
ES0057	1995	MULTISECTORIAL CREDIT II	no		outputs only
RG0010	1993	CORPORACION ANDINA DE FOMENTO MULTISECTORAL	no		outputs only
UR0063	1992	GLOBAL MULTISECTORAL LINE OF CREDIT	no		unattributable

AR0069	1993	PRE-INVESTMENT MULTISECTORAL PROGRAM	no		outputs only
BO0164	1992	MULTISECTORAL PREINVESTMENT PROGRAM	no		outputs only
ES0100	1991	PREINVESTMENT PROGRAM - STAGE III	no		outputs only
AR0053	1992	REFORM OF NATIONAL ELECTRIC COMPANIES	no		outputs only
AR0187	1995	PROVINCIAL BANK PRIVATIZATION	no		transitory
BO0094	1995	STRUCTURAL REFORM AND CAPITALIZATION	no		outputs only
EC0103	1993	TCR MODERNIZATION OF THE TAX SYSTEM II	no		outputs only
ME0197	1996	CONTRACTUAL SAVINGS DEVELOPMENT	no		outputs only
PE0109	1994	RTC CUSTOMS UPDATING	no		outputs only
PE0171	1997	TC LOAN. IMPLEMENTATION CUSTOMS QUALITY SYSTEM	no		outputs only
UR0057	1992	INVESTMENT SECTOR LOAN & RTC	no		outputs only
UR0108	1996	SOCIAL SECURITY REFORM	no		outputs only
VE0041	1991	TC TAX SYSTEM MODERNIZATION AND REFORMS	no		outputs only
PE0030	1993	STRENGTHENING OF HEALTH SERVICES PROGRAM	no		anecdotal
BR0198	1992	TRANSPORT CORRIDORS STATE STA. CATARINA	yes	yes	systematic
ES0019	1990	REHABIL. & MAINTENANCE RURAL ROADS III	yes	no	transitory
HO0040	1991	ROADS REHABILITATION	yes	yes	unattributable