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Folder Title: President Wolfensohn - Briefing Book for President's Meetings and Events - Development Economics Vice Presidency [DEC] - Jam Session - Aid Effectiveness - April 29, 1996

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Dates: 04/29/1996 – 04/29/1996

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President Wolfensohn - Briefings Books for Presidents Meetings - Meeting Materials
Development Economics Vice Presidency [DEC] - Jam Session - Aid Effectiveness

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Archive Management for the President's Office

Document Log

Reference # : Archive-01403

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Edit

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A. CLASSIFICATION

☒ Meeting Material
☐ Trips
☐ Speeches

☐ Annual Meetings
☐ Corporate Management
☐ Communications with Staff

☐ Phone Logs
☐ Calendar
☐ Press Clippings/Photos

☐ JDW Transcripts
☐ Social Events
☐ Other

B. SUBJECT: DEC: JAM SESSION "AID EFFECTIVENESS" (N)
VENUE: E1227 (CONF. RM.)
CONTACT: DEBBIE WETZEL @ 31698
IN ATTENDANCE: JDW, BAIRD, SQUIRE, DOLLAR, BRUNO, WETZEL, LOMAX, JOSIE
NOTE: THIS IS AN ORAL PRESENTATION - NO BRIEFING
EXC: JOSIE
Brief Includes copy of slides used for presentation.

DATE: 04/29/96

C. VPU

Corporate

☐ CTR
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☐ LEG
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☐ TRE

Regional

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☐ DEC
☐ ESD
☐ FPD
☐ FPR
☐ HRQ

Affiliates

☐ GEF
☐ ICSID
☐ IFC
☐ Inspection Panel
☐ Kennedy Center
☐ MIGA

D. EXTERNAL PARTNER

☐ IMF
☐ UN
☐ MDB/Other IO
☐ NGO
☐ Private Sector

☐ Part I
☐ Part II
☐ Other

E. COMMENTS:

File Location

☒ EXC ☐ ISC ☒ Archived

Cleared By

Josie Bassinette

Date:

05/09/97



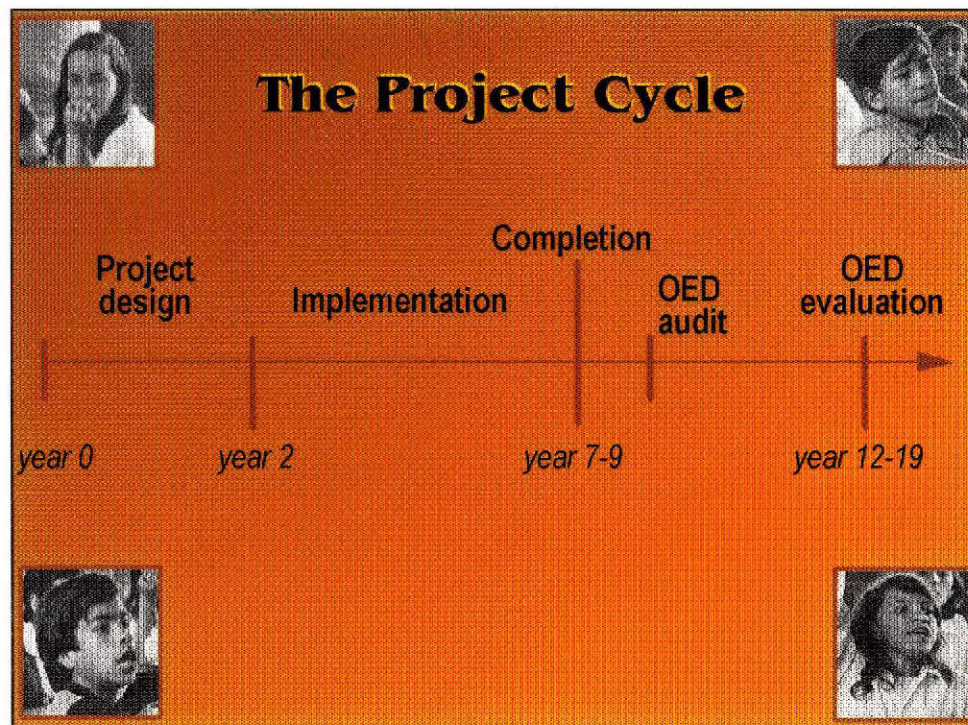
Making Aid More Effective

Learn from innovative projects
-- and learn quickly

Country-level problems require
country-level solutions

Reward good policies
-- but we haven't

*DEC briefing for Mr. James Wolfensohn, April 29, 1996 on
Making Aid More Effective.*



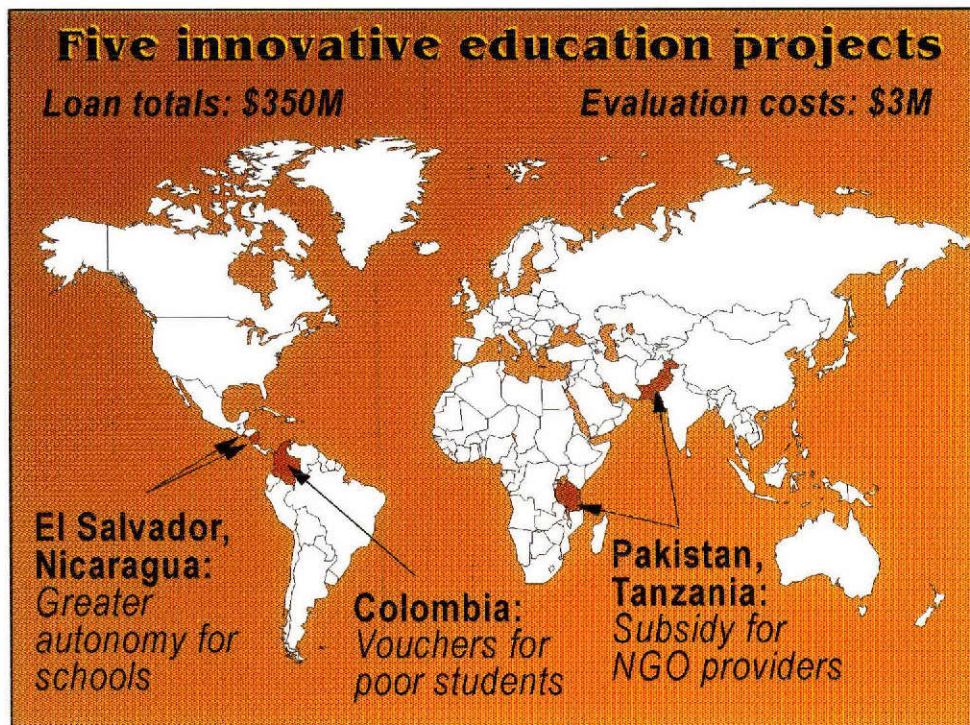
Operations Projects Are Our Key Learning Tool

- Operations projects are one of our best learning tools, yet we do not use them systematically to learn about how to make our work more effective.
- In our project cycle, impact evaluation is often an afterthought -- in general, the impact of our projects is evaluated only five to ten years after project completion, or twelve to nineteen years after a project is conceived and designed.



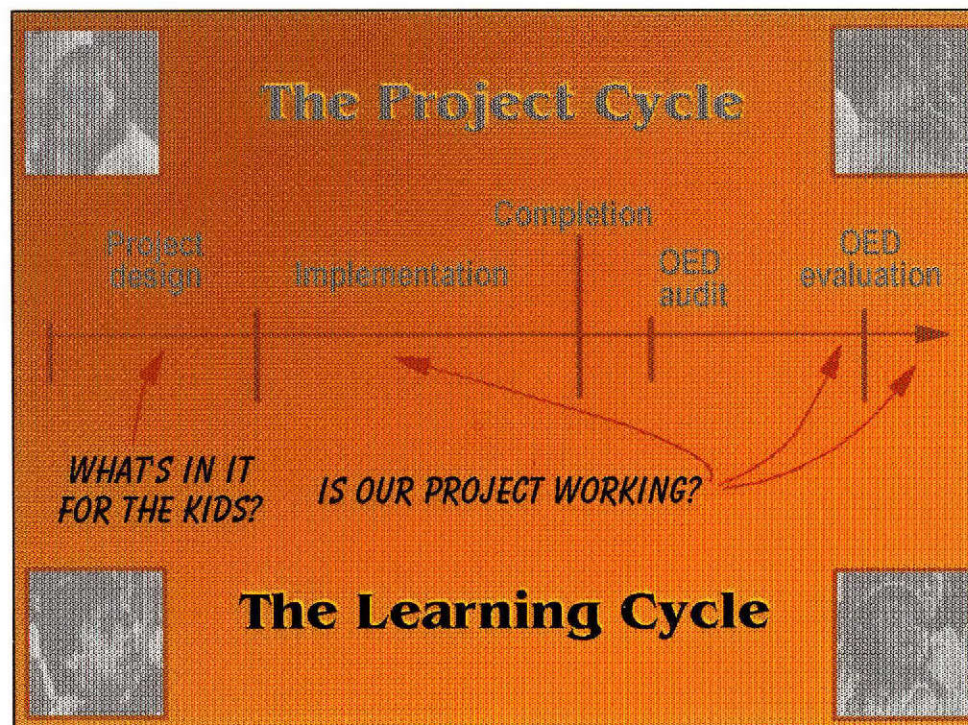
A 1993 internal review of Bank lending states:

"After 30 years of lending, the Bank still knows little about the impact of its educational projects on output measures, such as quality, access, and internal efficiency, let alone development. "



Bank Staff Are Continually Innovating

- Learning on the ground is ever more important because our operations staff is continually experimenting as the demand of our clients changes. For example, in the 1970s, almost none of our primary and secondary education projects supported decentralization reform; in the 1990s, more than half of our projects do.
- A study in the Policy Research Department has chosen five innovative projects in the education sector, and has developed impact evaluation strategies for each. The principal objective of the study is to demonstrate how institutional reform in developing countries might be evaluated.



Evaluating Innovative Projects Pays Dividends

- Allocating resources for impact evaluation is an investment in our learning on the ground; the reward is that we shorten the learning cycle.
- But we will benefit most from this learning if our projects are flexible and midstream adjustments can be made.
- Projects cannot be evaluated if they do not specify quantifiable development outcomes (e.g., how much are enrollment rates and cognitive achievement expected to rise? which vulnerable groups are expected to be reached?)
- The key to attributing success to each project is determining its appropriate counterfactual. For example, would the young Balochi girls residing in villages without girls' schools have been able to enter school without the Bank project's support of NGO provision in those villages?

The Elements of Impact Evaluation

Commitment from government and Bank staff

Local evaluation capacity

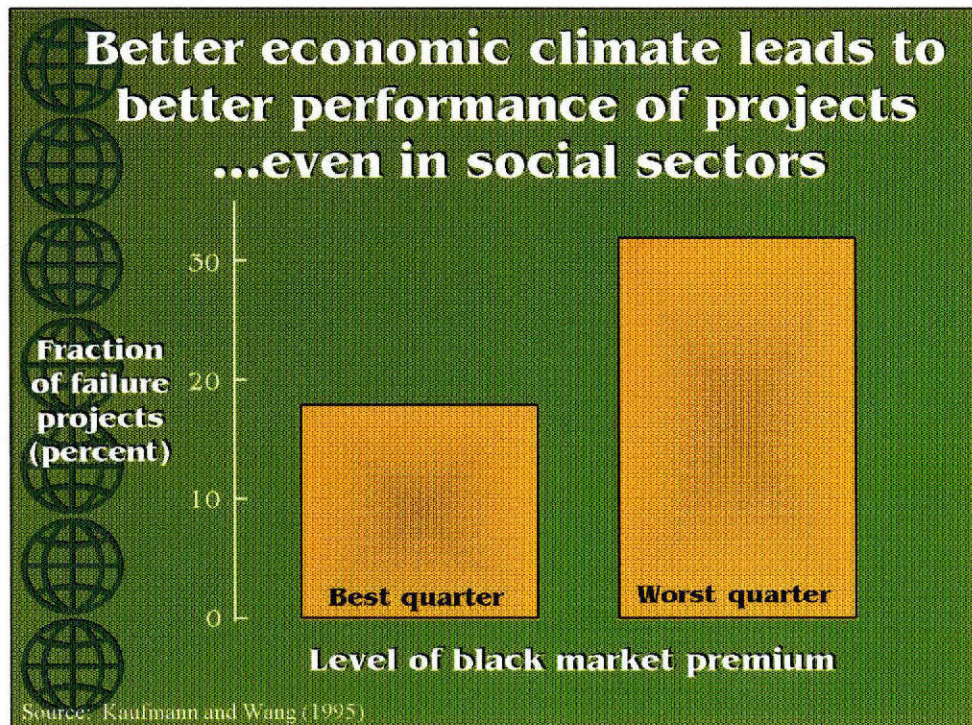
Close project supervision

Appropriate evaluation method

Feedback to government and Bank

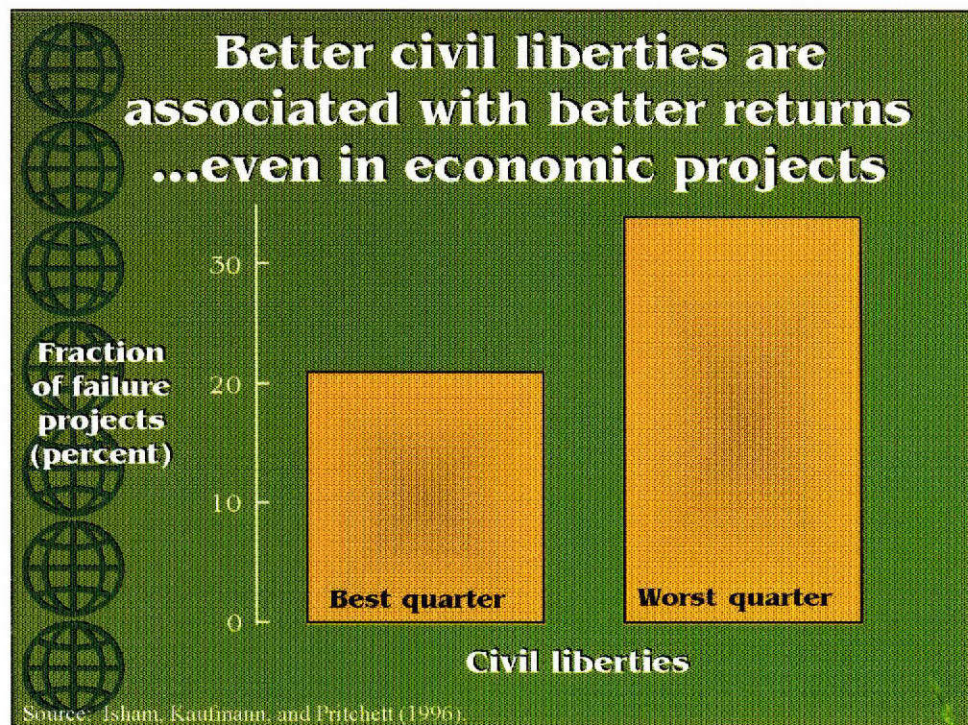
Rigorous Impact Evaluation Requires Resources

- A key ingredient is commitment by Bank operations staff and government to evaluate the impact of a project and learn from the results. Greater attention must be placed on project supervision.
- Governments especially see the benefits of evaluation when there is an effort made to build local capacity to undertake this process.
- Evaluating project effectiveness requires time and resources, like other project components, but our experience suggests that it would cost only about one percent of total lending and total local resources.



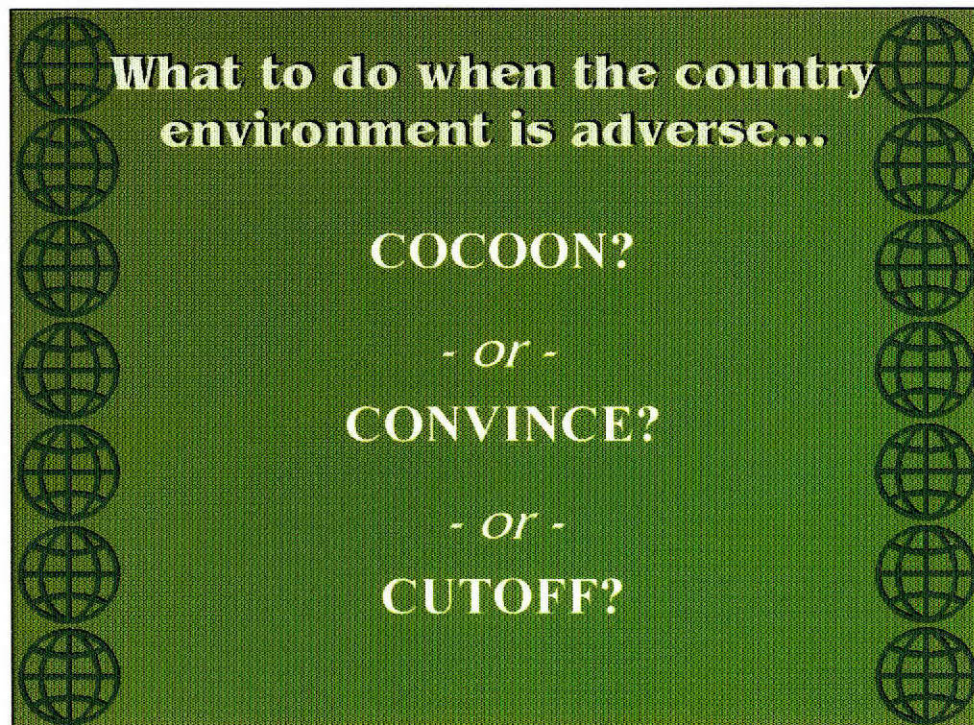
Country Level Factors

- Projects implemented in countries with poor economic policies (as proxied by a high black market premium) are more than 50 percent more likely to fail.
- This is true even in the social sectors, which are often thought to be insulated from macroeconomic factors.



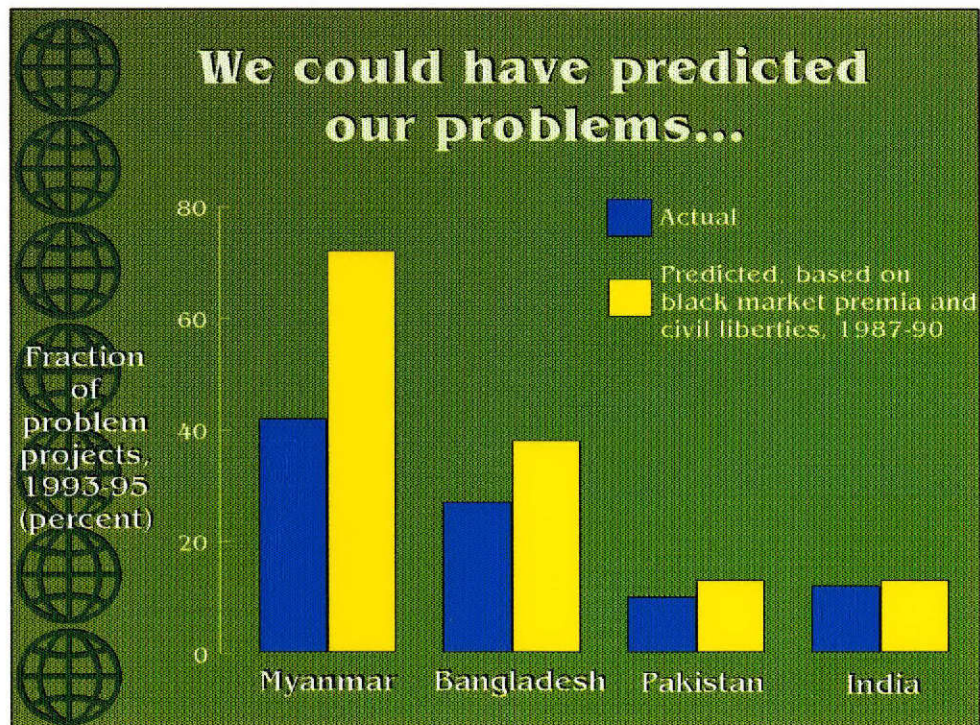
Governance Matters

- Projects implemented in countries with poor civil liberties are also much more likely to fail -- even in the economic sectors.
- There are exceptions; China is a notable one. But the exceptions are outweighed by the many countries in Africa with weak civil liberties and poor histories of project success.



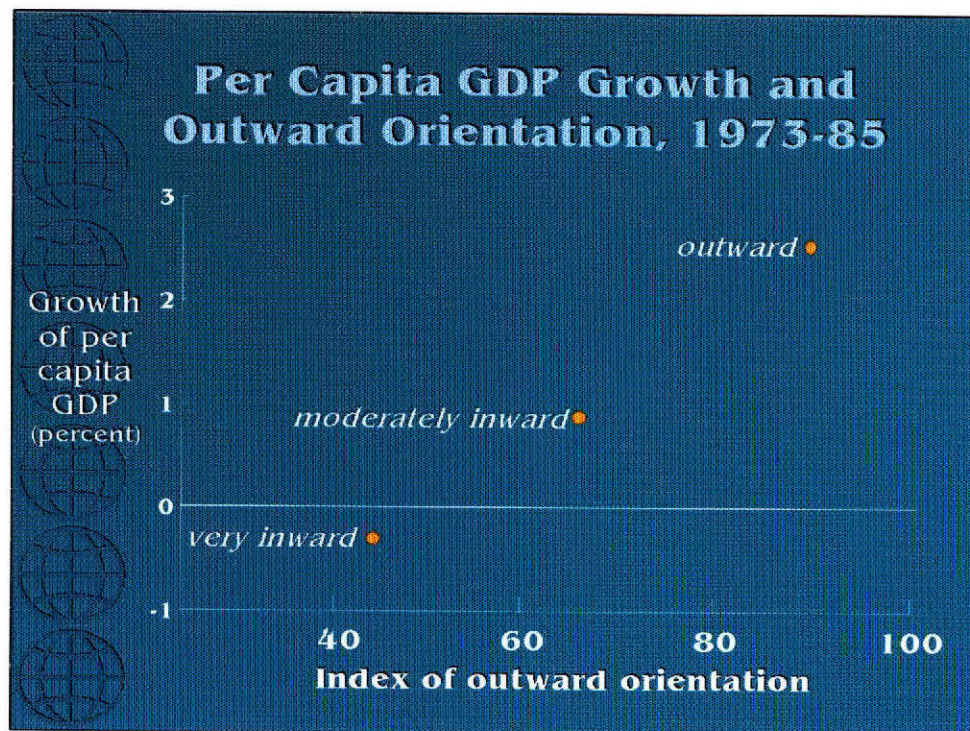
Cocooning Projects

- Donors have often responded to poor economic conditions and/or governance problems by attempting to “cocoon” development projects from the larger country environment. Special management units separate from the rest of government, or special import or financing mechanisms are examples of cocooning.
- The higher failure rate of projects in poor economic and governance environments demonstrates that cocooning has at best limited effect.
- Furthermore, cocooning of development projects has the danger of detracting from effectiveness elsewhere in the economy, by drawing financial and human resources away from other priority projects.



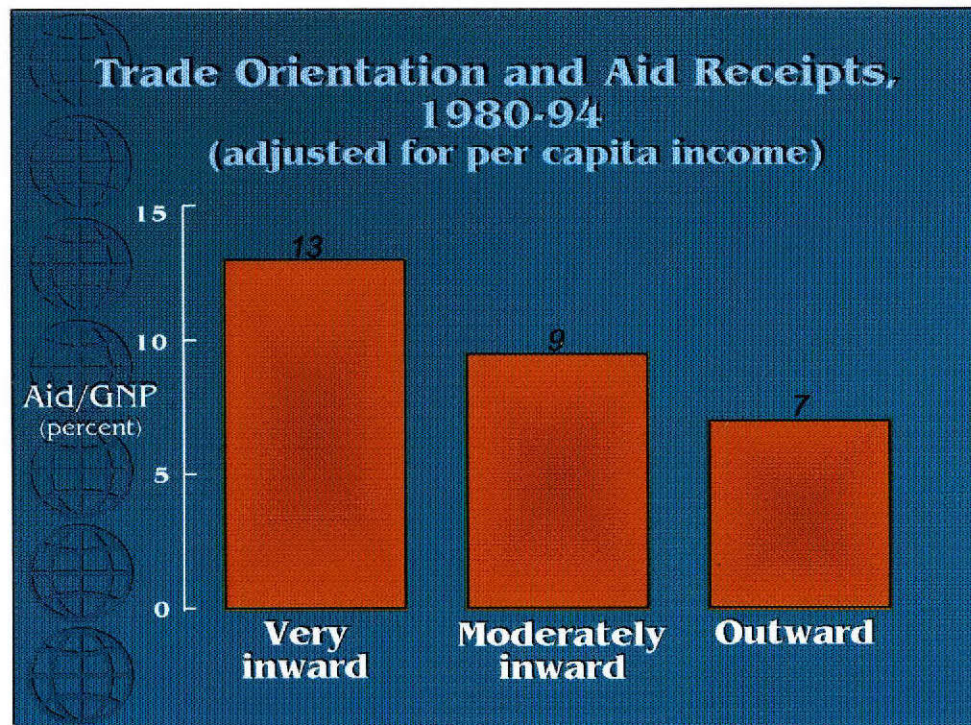
Selectivity

- We could have predicted many of the countries with large numbers of problem projects in our current portfolio. The conditions in Bangladesh and Myanmar in the late 1980s, for example, made their portfolio problems in the early 1990s predictable.
- We need to be more selective. In poor country environments we need to focus more on convincing governments to change or else cutting back on our financial involvement.



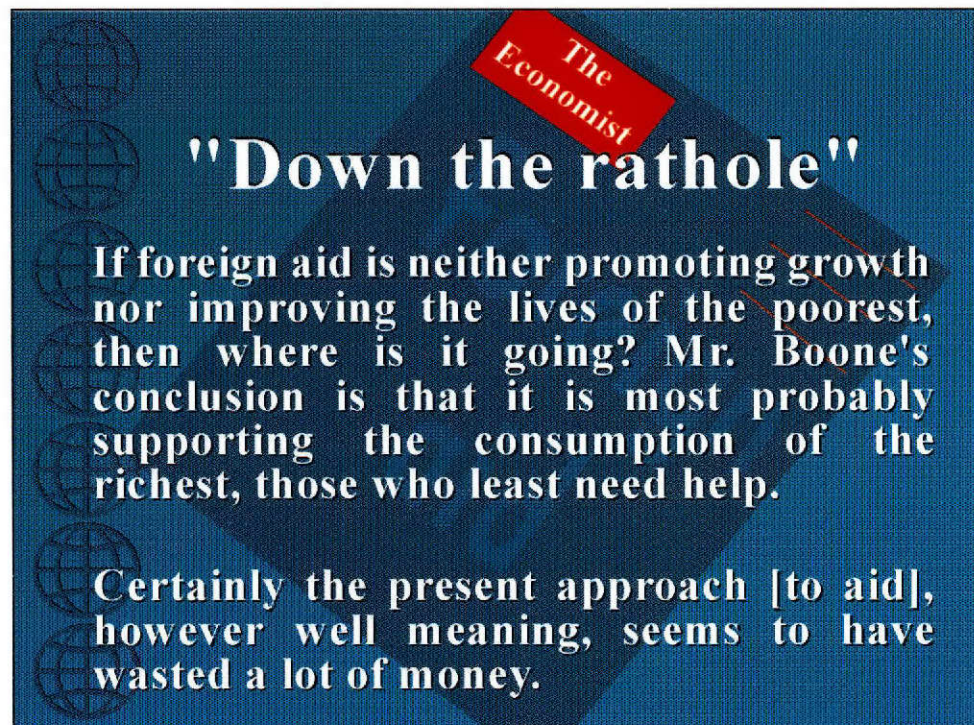
Aid and “Good” Policies

- What are “good” policies? Some policies are clearly associated with successful development in the post-war period. For example, outward-oriented developing economies have grown more rapidly than inward-oriented ones. The latter economies are ones with high tariffs, many quotas and other trade restrictions, and overvalued exchange rates.
- Other policies that are associated with sustained growth are low fiscal deficits and low-to-moderate inflation.



Has Aid Rewarded “Good” Policies?

- For economies at the same level of income, donors have provided nearly twice as much assistance to inward-oriented ones compared to outward-oriented ones.
- This result (covering all aid from 1980-94) may reflect donor willingness to step in and finance balance of payment gaps. However, indirectly it encouraged countries to maintain restrictive trade policies that were not good for their long-term development.



Overall Impact of Aid

- Developing countries that have received more aid in the past two decades have not grown faster; nor have they had better success with poverty alleviation.
- A recent study demonstrating this result was featured in the Economist magazine, under the heading, "Down the rathole".
- The inward-oriented economies that have received large amounts of aid have had slow growth and poverty reduction; this is a major reason why the overall relationship between aid and poverty reduction is weak.

Poor Countries and Policy Reform

Franc zone Africa

*aid may have delayed
necessary devaluation and
reform*

Ghana and Vietnam

*non-lending services aided
reform; financing supported
new policy direction*

Myanmar and Nigeria

*aid has been reduced but no
significant reform so far*

Operational Implications

- The Bank should take the lead in changing the incentives so that, for countries of the same income level, ones with good policies receive more aid. In addition to creating the right incentives, this is a practical approach to supporting poverty reduction: the research cited in the previous section indicates that projects are more likely to succeed in a good economic environment.
- In practice, this means strengthening the link between IDA and good policies, and also making a greater effort to educate and convince other donors.
- Nonlending services can be used in creative ways to encourage policy reform in poor countries. Ghana and Vietnam are good examples of countries in which analysis, advice, and training helped shape reform programs that were later supported by financial assistance.