

Executive Summary

This year's *Annual Review of Development Effectiveness* (ARDE) is being written against the backdrop of a global financial crisis, declining growth, and massive fiscal stimulus efforts to revitalize markets. Demand for greater development support from the World Bank has grown, along with concerns that resources be used effectively and efficiently to achieve their development objectives. This ARDE focuses on the Bank's performance record in getting results from its projects and country programs and, as is customary, examines in depth one topic relating to development effectiveness. The focus of this ARDE is on the Bank's support for environmental sustainability, in response to a Board request for a synthesis of findings from recent Independent Evaluation Group (IEG) reports on the environment.

The report shows that the Bank's performance record displays a moderately strong upward trend over the medium term, and recent performance has continued this trend. It also shows that there has been a mixed record on implementing the agenda to strengthen the Bank's orientation, capacity, and monitoring of development results—the results agenda. Institutional initiatives to strengthen project-level monitoring and evaluation (M&E), to put in place a Results Measurement System for the International Development Association (IDA), and to implement results-based Country Assistance Strategies are at different stages of deployment and have yet to demonstrate a clear impact on outcomes.

This year's special focus—getting results for sustainable development—reflects the vital role of sound environmental stewardship for development and the grave threat that inaction poses of reversing gains in growth and poverty reduction. The Bank's record in implementing the 2001 Environment Strategy and advancing the results agenda is quite mixed. New sources

of financing, including resources for global efforts, have helped lending and support for the environment to recover from the lows of the early 2000s; analytic work has fostered innovative approaches and enhanced environmental awareness; and direct support for environmental projects is showing improved performance, with tangible results. But implementation of the strategy in mainstream environmental work across sectors has been weak and must be strengthened. Project performance shows a clear improving trend.

Project Performance Shows a Clear Improving Trend

The 2008 World Bank project performance data shows improvement in achieving development outcomes, allaying concerns that the weakened performance of 2007 could signal a new downward trend. The decline in 2007 was modest, and performance rebounded in 2008.

Bank performance is rated on a six-point scale, from highly satisfactory to highly unsatisfactory (see box 2.1 in chapter 2 for an explanation of

IEG ratings). The percentage of satisfactory projects (that is, the top three ratings) increased in 2008, continuing the upward trend of the past 15 years. Average performance, which uses the full six-point scale, also shows important progress, but the gains are less than half as large compared with the percent satisfactory measure. Percent satisfactory tends to give high weight to borderline changes—those that just pass over the threshold into the moderately satisfactory category on the six-point scale. Changes over time in the Bank’s portfolio favoring better-performing Regions and sectors also explain a small part of the improved performance.

Analysis of the dates of the major turnarounds in project performance suggests that a combination of better Bank sector policies and improved country circumstances outside Bank control may explain much of the turnaround, rather than internal administrative reforms at the Bank, although the latter may have facilitated improvement already under way.

Evaluating the results of analytic and advisory activities (AAA) is inherently difficult. IEG does not regularly rate the Bank’s AAA, although it underpins projects and accounts for about one-third of spending on country services. However, a recent IEG evaluation (IEG 2008e) indicates that about two-thirds of AAA is moderately satisfactory or better, and one-third is less successful. Performance patterns suggest that impact and results for countries depend on technical quality, concrete and country-specific recommendations, country ownership of the findings, and sustained follow-up after task completion. IEG intends to pilot an approach to systematic AAA evaluation.

The 2009 Management Action Record (MAR), which tracks Bank adoption of recent IEG recommendations, indicates that adoption levels have declined in the Bank. IEG is currently examining ways to improve the MAR to create a more effective product for tracking adoption of recommendations and to identify reasons for the trend decline.

Efforts to Strengthen Performance Indicators Need Strong and Continuing Support

In response to the international drive for measurement and management for development results, the World Bank has launched major efforts to improve performance information in Bank-supported projects. The Bank has moved to strengthen M&E, introduced a Results Measurement System for IDA, and expanded rigorous evaluation of project interventions. These efforts are beginning to influence institutional priorities and business practices. However, in many projects information is not sufficiently rigorous or comprehensive to provide stakeholders with a picture of what really changed as a result of the project.

Project M&E provides building blocks for generating good information on development outcomes and has received increasing Bank attention in recent years. IEG began to assess M&E quality in 2006 and has rated the quality of M&E in projects that were reviewed in the past two years as modest or negligible in three-fifths of cases. These reviews point to several shortcomings: indicators are too numerous and often measure outputs rather than outcomes; baseline data are infrequently collected; few projects collect the data that would be required to assess impact; and client feedback suggests reluctance to adopt project M&E practices and considerable fragmentation of M&E efforts. These ratings can only be assigned to projects after they close, and are therefore lagging indicators. They provide a reference point for monitoring future trends and tracking whether current efforts to improve M&E work. The low M&E ratings, however, suggest a continuing need to revisit the incentives, use, and resourcing of M&E in Bank-supported projects with a view toward simplicity, tractability, and decision relevance.

Shortcomings in M&E design and implementation may contribute to problems found in project supervision and reporting. For an average of 12 percent of projects each year, there is a disconnect between the Bank’s self-assessments and

IEG project performance ratings. For these projects, the internal supervision of project performance through the life of a project frequently appears to be overly optimistic and sometimes lacks candor regarding risks to development objectives. Delays in accurate reporting lead to final supervision assessments that come too late for corrective action to be taken.

An outgrowth of the IDA negotiations since 2003 has been development of a Results Measurement System to measure and aggregate development outcomes in a way that is relevant to stakeholders and donors. This is a commendable effort to track and report results in a coordinated fashion. A brief assessment in advance of the November 2009 IDA Midterm Review, based on documentary evidence, staff interviews, and a survey of IDA donors, suggests that the initiative has made progress, yet faces significant challenges to fuller implementation.

Impact evaluation is gaining much greater traction in the Bank as a tool that holds promise for providing estimates of project efficacy and impact. Over 250 impact evaluations are under way in the Bank, many in the Human Development Network. A review of recently closed projects in the Agriculture, Environment, and Water Sectors indicated that few collected even the minimum information to assess results, and projects with baselines amenable to analysis are concentrated in the East Asia and Europe and Central Asia Regions. Thus requisite information for basic quantitative analysis is still rare. IEG will initiate analysis over the coming year to better understand the quality, relevance, and costs of the current impact evaluations in the Bank.

Finally, economic cost-benefit analysis is the traditional method, long practiced in the Bank, for organizing information on project benefits and costs in a manner relevant to decision making. The Bank's use of cost-benefit analysis peaked in the early 1970s but is now applied to only about one-quarter of projects. This indicates that cost-benefit criteria are now used far less as

a basis for project funding decisions. Although part of this change may be attributed to the shifting nature of development assistance, not all of it is. An assessment of the use of cost-benefit tools in environmental projects largely confirms this conclusion. This issue will be taken up in greater detail in an IEG special report in fiscal year 2010.

Support for Environmental Sustainability Is Expanding but Needs to Go Much Further

Addressing environmental degradation is one of the central challenges of our time. The Bank is uniquely positioned to support country, regional, and global efforts to address environmental challenges such as climate change, air and water pollution, and deforestation and biodiversity loss in a manner compatible with economic growth and poverty reduction. Greening the growth path need not come at the expense of growth or of helping the poor. For example, there are extensive untapped opportunities to reduce greenhouse gas emissions through incentives for greater efficiency. Moreover, providing 2 billion poor people with basic electricity access would add little to world greenhouse gas emissions—less than 0.4 percent of current emissions, even if carbon-intensive means are used.

This year's ARDE spotlights the Bank's activities and performance in helping countries to address these environmental challenges, based on the findings of recent IEG evaluations and supplementary analysis. These evaluations include, but are not limited to, the following: *Environmental Sustainability: An Evaluation of World Bank Group Support*; *Climate Change and the World Bank Group, Phase I: An Evaluation of World Bank Win-Win Energy Policy Reforms*; *The Development Potential of Regional Programs: An Evaluation of World Bank Support of Multicountry Operations*; and a forthcoming review of the Bank's forestry activities.

Bank management has begun to initiate new strategies for the World Bank Group, including for climate change, energy, and the environment.

This ARDE reflects on the findings of the body of IEG's recent evaluation work in the area of the environment, but also goes beyond these findings by updating the portfolio and performance data through fiscal year 2008 and supplementing materials from IEG's project, country, and global evaluation products.

The Bank's environment strategy, launched in 2001, furthered the shift in the Bank's stance from "do no harm" to active promotion of environmental goals, a shift that began in the early 1990s. This created the potential for much greater effectiveness through mainstreaming attention to the environment across the Bank's project portfolio and country assistance strategies. It is too early to assess the 2007 organizational changes intended to facilitate mainstreaming and consolidate environment into the Sustainable Development Network. Preliminary indicators suggest that mainstreaming has decreased in some sectors, such as agriculture, energy, and transport, and that cross-sector collaboration has been particularly weak between water supply and health.

Since 2001, new funding sources—including carbon funds, expanded Global Environment Fund resources, and new trust funds—have contributed to a recovery in Bank support for the environment. This funding has also shifted the focus of work from traditional mainstreamed activities such as pollution management toward innovative approaches relating to climate change. The Bank is currently stepping up its role in helping finance solutions to tough issues such as climate mitigation and adaptation or biodiversity losses, where the institution can potentially make a vital difference.

Although constituting only 5 percent of total environmental commitments, regional (multi-country) environmental projects have been a promising area of growth. Regional environmental commitments more than doubled over the past six years; the largest volume of commitments is in Africa. The regional pilot initiative, introduced in IDA14, provided additional grant financing from IDA to help overcome incentives

that weigh against more complex multicountry programs.

Analytic work has also lent support to key environmental initiatives across a broad spectrum. Examples include work on improving policies and institutions for sustainable forest management and on developing carbon markets and project-based technical knowledge that has helped development of internationally approved methods for the certification of emissions reductions.

There are areas of success, but significant internal and external forces constrain the Bank's environmental portfolio. Weak country demand for loans arises from the public good nature of many environmental interventions. Where the benefits can be locally captured, the incentive to act is stronger, as in the case of pollution control in China. Political competition and corruption surrounding resource rents may also constrain demand. Knowledge and capacity constraints, particularly where Bank support has wavered over time, inhibit lending. Internal knowledge gaps, inadequate technical and operational skills to integrate environment considerations into investment and policy reform projects, and poor dissemination of evidence on effectiveness within the Bank impede effectiveness and limit growth. Finally, internal staff and management incentives favor large projects, such as infrastructure or power, which disadvantages the typically smaller environmental projects.

Some Noteworthy Results Have Been Achieved, but Weak Monitoring Compromises Results Measurement

The overall outcomes of environment projects, like the Bank's portfolio as a whole, have been improving over time. But projects managed by sectors other than the environment, which comprise most of the Bank's support for the environment, generally lack systematic reporting of environmental outcomes.

The Bank's direct project support for the environment has helped develop market-based instruments for environmental management and has

extended lessons on the design of these systems throughout Latin America and into Africa. The Bank has also achieved some gains in the challenging but critically threatened area of biodiversity conservation. It has been the world's largest source of support for biodiversity, including blended finance from the Global Environment Facility. This has provided support for a significant expansion of protected areas as well as for the sustainable use of biodiversity outside these areas, but more attention needs to be paid to the effectiveness and sustainability of these efforts.

Environmental results are not limited to projects. At the country level, environmental concerns have received growing attention in assistance strategies and country program evaluations, but performance has been found wanting. Environmental components, on average, have performed less well than overall country strategies. The Bank's record on environmental stewardship has been uneven. For example, the Bank has helped some countries reform energy pricing by supporting the removal of costly subsidies while protecting the poor through social safety nets, but has only given modest attention to national policies to promote energy efficiency.

The growing body of regional projects offers the opportunity to address transnational environmental challenges surrounding the use of shared bodies of water such as the Nile Basin, Lake Victoria, and the Black and Aral Seas. The Bank has been effective in fostering multicountry cooperation to establish regional institutions to address regional environmental challenges through analytical work, project preparation, and resource mobilization, but it has been less effective in helping countries resolve longstanding resource conflicts.

At the global level, there is evaluation evidence that global programs are adding value to country programs by providing concessional financing for country-level investments that have global environmental benefits and by generating knowledge about best practices in environmental management. New partnerships and facilities

designed to promote energy efficiency, climate change adaptation, and greenhouse gas emissions reduction from deforestation and land degradation—such as the Climate Investment Funds and the Forest Carbon Partnership Facility—are deepening Bank involvement and potential impact on climate change issues.

Conclusions

Project outcomes represent a key building block in achieving results through World Bank support to countries. These outcomes have shown significant improvement over the past 15 years. Bank-wide, there has been a much greater focus in recent years on results, yet there remains a long distance to go to demonstrate a real change in measurable outcomes and impacts. Because the volume of Bank lending is expected to increase in response to the current financial crisis, this agenda becomes all the more vital.

Environmental sustainability is one of the most compelling areas for urgent action if development results are to be delivered at the country, regional, and global levels. Bank support for the environment has partially recovered since hitting a low point in 2002, and there are encouraging signs that project results, long below Bank-wide averages, are now improving for the roughly one-quarter of environmental projects whose results are systematically tracked. For the other three-quarters of projects, where environmental initiatives are embedded in other sectors (transport, water and sanitation, and so on), the promise of mainstreaming that emerged from the Bank's 2001 Environment Strategy has not been realized.

In some increasingly important and innovative areas, such as the development of carbon funds and the extension of protective areas to support sustainable forestry and biodiversity, there are gaps in our knowledge of where the Bank is making headway and achieving real results. Progress will depend on far better mainstreaming of the environment into Bank decisions across sectors and on addressing issues of in-house skills, staff incentives, and external demand constraints that impede Bank effectiveness.

Looking ahead, crises offer a rare chance for transformational change, change that is essential to achieving the vision and potential for Bank support for environmental sustainability. The challenge for the Bank is to increase attention to

key environmental areas and to facilitate more effective development outcomes by leveraging its knowledge, financial resources, and convening authority.