



IDA14

**Economic and Sector Work (ESW)
Progress Report**

**International Development Association
Operations Policy and Country Services**

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Abbreviations and Acronyms

AAA	Analytic and advisory activities	ICA	Investment Climate Assessment
ACS	Activity Completion Summary	IDA	International Development Association
AfDB	African Development Bank	IEG	Independent Evaluation Group
AFR	Africa Region	IFA	Integrative Fiduciary Assessment
ARPP	Annual Report on Portfolio Performance	JSAN	Joint Staff Assessment Note
AsDB	Asian Development Bank	KPI	Key Performance Indicator
BW	Business Warehouse	LCR	Latin America and Caribbean Region
CAS	Country Assistance Strategy	LICUS	Low-income country under stress
CAW	Country Analytic Work	MDB	Multilateral development bank
CEM	Country Economic Memorandum	MNA	Middle East and North Africa Region
CFAA	Country Financial Accountability Assessment	OP	Operational Policy (statement)
CPAR	Country Procurement Assessment Report	OPCS	Operations Policy and Country Services
CPIA	Country Policy and Institutional Assessment	PA	Poverty Assessment
DfID	Department for International Development (U.K.)	PAMS	Poverty Analysis Macroeconomic Simulator
DO	Development objective	PEFA	Public Expenditure and Financial Accountability (program)
DPL	Development policy lending	PEMFAR	Public Expenditure Management and Financial Accountability Review
DPR	Development Policy Review	PER	Public Expenditure Review
EAC	East African Community	PFM	Public financial management
EAP	East Asia and Pacific Region	PMF	Performance measurement framework
EBRD	European Bank for Reconstruction and Development	PREM	Poverty Reduction and Economic Management
ECA	Europe and Central Asia Region	PRSC	Poverty Reduction Support Credit
ECOWAS	Economic Community of West African States	PRSP	Poverty Reduction Strategy Paper
ESW	Economic and sector work	PSIA	Poverty and Social Impact Analysis
EU	European Union	QAG	Quality Assurance Group
EXT	External Affairs, Communications and United Nations Affairs	RMS	Results Measurement System
FSAP	Financial Sector Assessment Program	ROSC	Report on the Observance of Standards and Codes
FY	Fiscal year	SADC	Southern African Development Community
GTZ	German Agency for Technical Cooperation	SPC	Strategy and Performance Contract
HIPC	Heavily Indebted Poor Countries	SAP	Systems, Applications, and Products in data processing
IADB	Inter-American Development Bank	SAR	South Asia Region
IBRD	International Bank for Reconstruction and Development	TA	Technical assistance (nonlending)

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EXECUTIVE SUMMARY

1. During the IDA14 meetings, participants highlighted the importance of good analytic work in providing an informed basis for equitable growth and poverty reduction; stressed that greater emphasis should be placed on analytic work that integrates macroeconomic, sectoral, and structural reform issues for growth; and requested an assessment of progress during IDA14. This report responds to IDA Deputies' request for an assessment of the coverage and quality of economic and sector work (ESW), the linkages between analytic work and the growth agenda, collaboration with other partners, implementation of the ESW results framework, and disclosure of ESW products. It is based on a review of the ESW outputs (reports and policy notes) for IDA-eligible countries that were delivered in FY04-06.

2. **Coverage.** Since FY03 there have been significant improvements in the coverage of core diagnostic ESW.¹ At end-FY06, 54 percent of active IDA-eligible countries were covered with up-to-date (i.e., five years old or less) core diagnostic products, compared to only 13 percent at end-FY03.² In the fiduciary area, about 85 percent of active IDA-eligible countries had an up-to-date set of fiduciary products at end-FY06 compared to only 46 percent in FY03. Nevertheless, gaps remain, especially in the Africa Region (AFR); in fragile states, which often have challenging environments—for example, capacity constraints, poor or no data, and conflict situations; and in small states where the Bank has already allocated a high share of the country program budgets compared to other countries. Efforts are being intensified to address most of the remaining gaps during FY07-08, while being sensitive to the countries' development priorities.

3. **Impact and Linkages.** The scope and depth of ESW have grown significantly as more multifaceted and complex issues become central to the Bank's agenda. ESW has deepened the understanding of the levers for growth at the country level and has helped to identify constraints to growth in such areas as governance and public institutions, private sector development, infrastructure, regional integration and human capital investment. ESW provides the basic knowledge the Bank needs to carry out policy dialogue to underpin the design of strategies, programs, and operations. Although the effects of ESW are diffused, long-term, and dependent on intervening actions (thus rendering them difficult to disaggregate, quantify, and attribute), it is clear that ESW increasingly builds on issues identified in Country Assistance Strategies (CASs) and Poverty Reduction Strategy Papers (PRSPs) and that more analytic work is feeding into the design and coverage of programs, policy actions, development policy lending operations, and the formulation of government reform strategies.

¹ Core diagnostic products include Poverty Assessment (PA), Country Economic Memorandum (CEM)/Development Policy Review (DPR), Public Expenditure Review (PER), Country Procurement Assessment Report (CPAR), and Country Financial Accountability Assessment (CFAA). An Integrative Fiduciary Assessment (IFA) integrates the work normally carried out through a PER, CPAR, and CFAA, and may substitute for them.

² Methodological differences between this report and IDA's *Thirteenth Replenishment: A Retrospective Review* (IDA/SecM2006-0308), May 30, 2006, account for variances in percentages for the same year in the two reports.

4. **Quality.** While expanding the coverage and scope of ESW, the Bank has maintained the quality of the work. Assessments from the Quality Assurance Group (QAG) show that the quality of ESW has remained stable since FY02. A recent QAG review, for example, rates 90 percent of the tasks reviewed for IDA-eligible countries as satisfactory or better and finds no significant differences in the quality of ESW between IBRD and IDA countries. As regards the quality of the process, there has been a slight increase in the average preparation time of ESW tasks in recent years—an increase that can be attributed in part to the recent trend of consolidating ESW tasks, which has resulted in larger pieces of analytic work, and in part to increased partner country and donor participation in ESW preparation.

5. **Participation and Partnerships.** In endorsing the Paris Declaration on Aid Effectiveness in March 2005, the Bank agreed to work toward conducting a greater proportion of its country analytic work jointly with other development institutions and with country governments. ESW has become more participatory in nature, with greater input from governments, as reflected in the collaborative preparation of a large number of Public Expenditure Reviews, and other reports such as Country Financial Accountability Assessments, and Country Procurement Assessment Reports. By coordinating and collaborating public financial management (PFM) work, including incorporating the Public Expenditure and Financial Accountability (PEFA) PFM indicators, the Bank and other development partners are working together to support PFM reforms and partner country efforts to strengthen the institutions that will enhance aggregate fiscal discipline, strategic allocation of resources, and efficient service delivery. Harmonization among donors can reduce costs to partner countries and contribute to strengthening their public administration, which is important for increasing aid effectiveness. At the country level, the knowledge creation and dissemination function of ESW provides partner countries and other development partners with a consistent analysis of policy issues and options to address them, raising the value and effectiveness of aid for all donors. Country analytic work is emerging as a key building block for effective development assistance. On behalf of an international partnership, the Bank hosts the Country Analytic Work website, which displays the analytic work of more than 30 bilateral and multilateral agencies facilitating coordination and cooperation among countries and donors to improve development impact and cost-effectiveness. In addition, the Bank has organized workshops to better harmonize diagnostic methodologies and approaches and promote partnership schemes.

6. **Results Tracking.** The results tracking framework introduced at the end of FY04 to measure the interim outcomes of ESW tasks is also being used to measure the impact of ESW activities at the task level and facilitate aggregate-level reporting on results. A review of ESW tasks delivered in FY05 for which Activity Completion Summaries have been filed indicated that task objectives were “largely” achieved, and there was no notable difference between IBRD and IDA-eligible countries in achievement of task development objectives and results. Strong policy focus was a key objective in both IBRD and IDA-eligible countries. It is anticipated that in the future this information will be mainstreamed into corporate reports and the Bank’s performance measurement systems. On the basis of the lessons learned by implementing the results tracking system, further refinements in tracking will be introduced to facilitate aggregate reporting on results.

7. **Disclosure.** To help disseminate the conclusions of its analytic work, the Bank discloses its ESW. All core diagnostic reports circulated to Executive Directors for information are

available to the public. The Bank is enhancing the Operations Portal to include processing of analytic work and thus enable more systematic tracking of ESW disclosure.

8. ***Effective Dissemination.*** The Bank has begun efforts to more widely disclose ESW products and findings. To enhance the impact of selected ESW activities, staff are designing and implementing communications/dissemination strategies and plans, with the support of communications professionals in the Bank's External Affairs, Communications and United Nations Affairs Vice Presidency (EXT). In addition, as part of broader dissemination, ESW products have increasingly been translated into local languages, and a range of ESW is available to the public through the Bank's public information centers and/or public information function in 94 partner countries throughout the world.

9. ***Agenda Going Forward.*** The Bank is continuing to monitor all the areas discussed in this paper, particularly the following:

- ***Coverage.*** The Bank is continuing its work to fill gaps in coverage of core ESW—for example, in the context of the Africa Action Plan, the Africa Region (AFR) plans to deliver growth-related Country Economic Memoranda for at least four countries per year through FY08. Coverage with the full set of five core diagnostics may be difficult to achieve in the near term in countries where capacity is weak or where coverage of core ESW gaps may crowd out other types of analytic work necessary to underpin sector lending operations. The Bank will continue to monitor progress in this area. The Bank has also introduced greater flexibility into the programming of core ESW, including ESW for small states: once the remaining gaps in coverage have been eliminated, core diagnostic ESW will be programmed on a country-by-country basis, depending on the type and level of the Bank's engagement, partner country priorities and circumstances, and the availability of relevant knowledge from development partners.
- ***Fragile States.*** The Bank will continue to fill the knowledge gaps not only in core diagnostics, but also to deepen understanding of the specific political, social and governance issues that are relevant for formulating the country strategy and assistance in the context of fragile states.
- ***Quality.*** The Bank will continue to monitor quality to ensure that ESW effectively responds to partner country needs and is delivered in a timely manner.
- ***Results tracking and disclosure.*** As mentioned above, the Bank will continue to enhance the results tracking system and improve the Operations Portal to better track ESW results and disclosure of ESW products.
- ***Dissemination.*** Effective dissemination needs to be planned and funded as an integral part of ESW design and management. The Bank will continue its efforts to ensure that task teams more systematically include an appropriate communication and dissemination strategy in the design of ESW to promote public awareness of development knowledge and thus encourage people to participate in their country's development—for example, by involving EXT in the process.

IDA14 MIDTERM REVIEW: ESW PROGRESS REPORT

I. INTRODUCTION

1. Economic and sector work (ESW) forms the Bank's knowledge base and provides a basis for carrying out policy dialogue with partner countries, developing Country Assistance Strategies (CASs), formulating and implementing effective lending programs, building countries' analytic capacity, and communicating knowledge to the development community.¹ In response to client requests, the composition of ESW adjusts to address emerging development issues as country situations evolve. This report responds to IDA Deputies' request for an assessment of the coverage and quality of ESW, the linkages between analytic work and the growth agenda, collaboration with other partners, implementation of the ESW results framework, and disclosure of ESW products.² Section II describes trends in coverage, quality, and other aspects of ESW, Section III outlines the focus of work for the future, and annexes provide additional details.

II. ESW UPDATE

2. This section reports on trends in the ESW outputs for IDA-eligible countries that were delivered in FY04-06; it covers 626 reports and 243 policy notes³ (Box 1 provides details and examples). The section examines (a) the coverage of countries with up-to-date core diagnostic products, (b) the use of ESW in promoting the growth agenda, (c) the quality of ESW products, (d) the scope and impact ESW, (e) the results tracking framework, (f) collaboration with development institutions and partner countries, and (g) the status of disclosure of ESW.

A. Coverage of Core Diagnostic ESW

3. In FY99, the Bank introduced reforms in several ESW areas to improve the effectiveness with which ESW resources are used.⁴ The first phase focused on quality assurance, recording and monitoring systems (i.e., the ESW governance framework). Improvements in these areas set the stage for the launch of the next phase (Phase II) in end-FY01 which among other things focused on filling gaps in core ESW coverage in country programs. In FY01, a review of core diagnostic ESW⁵—reports on key areas underpinning the Bank's assistance to active client

¹ ESW is classified into two main categories of outputs: reports and policy notes.

² See *Additions to IDA Resources—Fourteenth Replenishment: Working Together to Achieve the Millennium Development Goals*, from the Executive Directors of the International Development Association to the Board of Governors, March 10, 2005. See <http://www.worldbank.org/ida> for further information. In this report, IDA refers to IDA-eligible countries (i.e., it includes so-called “blend countries” that qualify for both IDA and IBRD borrowing).

³ In addition, the review examined 395 reports and 94 policy notes that cover more than one country, at least one of which may be an IDA-eligible country.

⁴ See *Fixing ESW: Where Are We?* (CODE2000-76), July 11, 2000.

⁵ Core diagnostic activities include Poverty Assessment (PA), Country Economic Memorandum (CEM)/Development Policy Review (DPR), Public Expenditure Review (PER), Country Procurement Assessment Report (CPAR), and Country Financial Accountability Assessment (CFAA). An Integrative Fiduciary Assessment (IFA) integrates the work normally carried out through a PER, CPAR, and CFAA, and may substitute for them.

Box 1. Typology of ESW Products

ESW is the primary instrument to communicate the analysis and advice that underpins the Bank's policy dialogue with partner countries. During the preparation of the Country Assistance Strategy (CAS), any gaps in the knowledge needed to support the policy dialogue as well as client needs and priorities as spelled out in PRSP or the lending program are identified. The CAS is discussed with the government and other development partners and as appropriate, ESW is programmed to fill those needs taking into account available or programmed work to be undertaken by the country and other development partners.

ESW products are classified as either **reports** or **policy notes**. Policy notes provide a flexible tool to respond to government requests for policy options and advice on a range of development issues. The specific ESW products that the Bank offers change from time to time in response to partner countries' needs. ESW is also a key instrument for building institutional capacity, especially when it is undertaken with local partners.

ESW reports have two main categories: diagnostic reports, which underpin the Bank's dialogue with clients and provide upstream analysis for lending, and advisory reports that address specialized country needs.

- **Country diagnostic reports** are divided into two subcategories core *diagnostic reports and other diagnostic reports*.

Core Diagnostics reports underpin the analysis for the CAS and the Bank's overall policy dialogue and focuses on poverty, analyses of public expenditures, assessments of accountability in public finances, reviews of procurement practices, and the provision of a framework for setting development priorities. They are: Country Economic Memorandum/Development Policy Reviews, Country Financial Accountability Assessments, Country Procurement Assessment Reviews, Poverty Assessments, Public Expenditure Reviews, and Development Policy Reviews. An Integrative Fiduciary Assessment integrates the work normally carried out through a PER, CPAR and CFAA and may substitute for them.

Other diagnostic reports address sector specific or thematic issues of high priority to provide upstream analysis to support future lending operations. They include Corporate Governance Assessments (ROCS), Country Gender Assessments, Country Infrastructure Frameworks, Education Sector Reviews, Energy-Environment Reviews, Financial Sector Assessment Program, Health Sector Reviews, Investment Climate Assessments, Risk and Vulnerability Assessments, and Rural Development Assessment.

- **Advisory reports** address a variety of sector-specific or thematic issues of high priority. These include Commodities Studies, Debt and Creditworthiness Studies and Economic Updates and Modeling, Foreign Trade, Foreign Direct Investment, and Capital Flows Studies, Law and Justice Studies, and Public Investment Reviews.

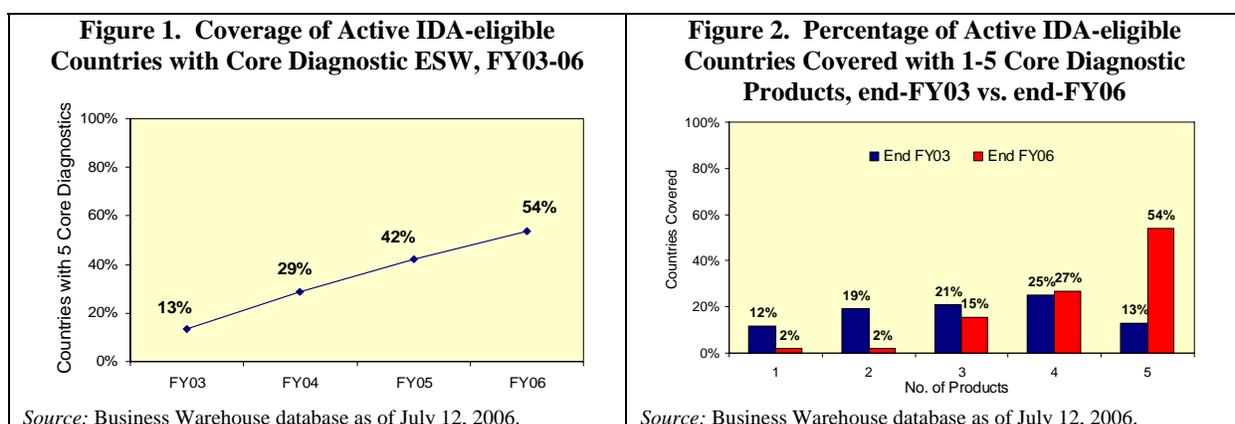
countries—revealed major gaps in country coverage: many countries either lacked diagnostic reports or had reports that were more than five years old.⁶ In response, Bank Management moved to strengthen the coverage of core diagnostic work, setting a target of end-FY04 for achieving full coverage of core diagnostic products for active clients.⁷ During the IDA13 meetings in September 2002, IDA Deputies asked to establish a timetable to ensure that core ESW is undertaken for active IDA countries.⁸

⁶ See *Fixing ESW: Phase II—Challenges and Next Steps* (SecM2001-0431), June 28, 2001. "Active" countries are those for which a full set of core diagnostic ESW is essential to carrying out the Bank's operations, taking into account individual country circumstances. For "inactive" countries—those engaged in or emerging from conflict, which usually have serious capacity constraints—the program of services the Bank delivers may include one or more core diagnostic ESW reports if the analytic work is necessary to ensure success in implementing the agreed Country Assistance Strategy (CAS).

⁷ In this report, *country coverage* refers to the availability of the five diagnostic products, each less than five years old, for "active" borrowers. Once a country is fully covered by these products, staff may take a more flexible approach and program these products only as the country circumstances require (see para. 9).

⁸ See *Additions to IDA Resources: Thirteenth Replenishment* (IDA/SecM2002-0488) September 17, 2002.

4. **Status.** Although the Bank has made good progress toward this ambitious target, some gaps continue to remain because of challenging environments as in case of fragile states—for example, capacity constraints, poor or no data, and conflict situations; and in small states where the Bank has already allocated a high share of the country program budgets compared to other countries. At the end of FY06, 54 percent of active IDA-eligible countries⁹ were fully covered by five up-to-date core diagnostic products (i.e., five years old or less), compared to 13 percent at end-FY03 (see Figure 1). In general, coverage is particularly strong in the fiduciary area: about 85 percent of active IDA-eligible countries have up-to-date Public Expenditure Reviews (PERs), Country Financial Accountability Assessments (CFAAs), and Country Procurement Assessment Reports (CPARs). Coverage has also improved from FY03 to FY06 in terms of the percentage of countries covered with any core products (see Figure 2). ESW coverage ratios differ across Regions, with the Africa Region (AFR) lagging behind: exclusive of AFR, 83 percent of active IDA-eligible countries are fully covered with core ESW. The remaining gaps are expected to be covered by end-FY08.



5. **Africa Region.** Although only 29 percent of AFR’s active IDA-eligible countries have a full set of core ESW, additional resources have been allocated to this work, and there has been significant improvement in coverage since FY04, especially on the fiduciary side. At end-FY06, more than 70 percent of active AFR countries had full coverage, compared to 25 percent at end-FY03. Delivering on the Africa Action Plan presented to the Board in September 2005 will require that well-programmed ESW be used to strengthen the depth and quality of advice to countries. As part of its corporate commitment to results-based CASSs, AFR will also develop a rolling program of analytic and advisory activities (AAA), with involvement of the governments concerned, and will provide a “basket of AAA products” (longer-run ESW to address broad challenges). It will continue to deliver core diagnostics that are aligned with the Africa Action Plan—for example, Country Economic Memoranda focused on the sources of growth—and to integrate PERs, CFAAs, and CPARs in one report. To cover the gaps in Poverty Assessments (PAs), many countries in AFR have stepped up their efforts to conduct the nationally representative household surveys that are necessary for assessing the level, trend, and

⁹ Annex A shows actual FY00-06 ESW deliveries for the 59 active IDA-eligible countries. Note that Bankwide calculations do not include Afghanistan, Angola, Guyana, Haiti, Lesotho, Timor-Leste, and the countries of the Organization of Eastern Caribbean States, which recently moved to an “active” status and will need time to cover gaps.

determinants of poverty and the impact of various policies on poor people. By the end of FY08, the Region is expected to achieve full coverage of its core diagnostic products.

6. **Small States.** At end-FY06, close to 80 percent of active small states¹⁰ had up-to-date CEMs/Development Policy Reviews (DPRs), close to 80 percent had up-to-date PERs and CFAAs, and more than half had up-to-date CPARs and PAs. Considering ESW for small states, the most significant change between FY01-03 and FY04-06 is the almost 80 percent increase in total reports delivered (particularly topic-specific and sector-specific reports addressing issues of high priority for small states). World Bank support for small states has increased significantly since the Commonwealth/World Bank Joint Task Force on Small States presented its final report to the Development Committee in April 2000.¹¹ This increased support includes the diagnosis that goes beyond core ESW: for example, comparing FY01 and FY05, the number of World Bank diagnostic reports for small states has more than tripled; and while Bank budget funding for AAA—which includes ESW and nonlending technical assistance—rose by 49 percent across the Bank as a whole during FY00-04, it rose by 64 percent for small states.

7. **Fragile States.** The Low-Income Countries Under Stress (LICUS)¹² initiative has led to a stronger emphasis on needed ESW, with particular focus on the need for a better understanding of the political, social, and governance contexts in fragile states. Analytic work in fragile states has increased significantly since FY01: in spite of the serious constraints in these countries (for example, poor data availability and low statistical capacity), more than 85 percent have up-to-date PERs and CFAAs, roughly 80 percent have CPARs, more than half have a recent PA, and more than one-third have a CEM/DPR. Going beyond core products, examples of innovative approaches in ESW in fragile states include rapid assessments to support transitional development planning, and work to strengthen the knowledge base and readiness for potential reengagement in situations of prolonged crisis. The Bank has also nearly doubled the LICUS administrative budget for analytic work (ESW and nonlending technical assistance) at the aggregate level during FY03-05 compared to FY00-02.¹³

8. **Planning of ESW.** In the context of the preparation of its CASs, the Bank reviews the adequacy of the ESW stock to ensure that it provides an up-to-date analysis of the key issues facing the country and adequately supports country policy dialogue. The ESW program in the CAS takes into account the conclusions of this review and the availability of work undertaken by the country or by other sources such as development partners. Through the participatory processes underpinning the preparation of the CAS, the planned lending and ESW programs are

¹⁰ The World Bank does not have a formal “small state” category. Among the 45 countries it informally considers as small states are 41 member countries with populations of less than 1.5 million, as well as Botswana, Jamaica, Lesotho, and Namibia (see *Small States: Meeting Challenges in the Global Economy*, Commonwealth Secretariat/World Bank Joint Task Force Report, April 2000, available at www.worldbank.org/smallstates). Of the 45 countries, 20 are IDA-eligible.

¹¹ See *Final Report of the Commonwealth Secretariat/World Bank Joint Task Force on Small States—Small States: Meeting Challenges in the Global Economy*, April 2000. Support for small states was also discussed by IDA Deputies; see *Supporting Small and Vulnerable States*, IDA, December 2004.

¹² Low-income countries under stress (LICUS), or fragile states, are among the most difficult development challenges, with weak institutions and high risks of conflict that constrain poverty reduction for their own populations and create potential negative spillovers for neighboring countries. In FY06, 33 IDA-eligible countries were considered to be in LICUS status, of which 9 were small states; see www.worldbank.org/licus.

¹³ See *World Bank Support to Low Income Countries Under Stress: An IEG Review*, July 26, 2006.

discussed with government and other development partners, thus helping to ensure that the efforts of the different development partners are complementary and that the ESW program addresses country needs. Harmonization of donor activities around a government-led development strategy provides a further impetus to these efforts. (See Box 2.)

Box 2. Partnership CASs and ESW

For the *FY05 Cambodia CAS*, the Bank, the Asian Development Bank (AsDB), and the United Kingdom's Department for International Development (DfID) agreed to follow a joint country strategy formulation process. The CAS is also substantially aligned with the UN Development's Assistance Framework. The process provided an opportunity to build consensus around proposed analytic work and to build institutional capacity around identified problems and policy options. The FY06 Poverty Assessment, for example, draws on a broad range of partners to synthesize and then elaborate the state of knowledge about poverty in Cambodia.

The *FY06 Bangladesh CAS* was prepared jointly with the AsDB, DfID, and Japan. Under the joint approach, each institution maintains its own program, but joint results matrices show outcomes and benchmarks for the CAS period together with all the interventions by the four partners supporting a given outcome, including joint analytic work; thus helping to ensure that the interventions are complementary.

The *Uganda Joint Assistance Strategy (FY06)* covers seven development partners: the African Development Bank, Germany, the Netherlands, Norway, Sweden, DfID, and the World Bank Group. The participatory CAS provided a key vehicle for the Bank to harmonize its support with its development partners and selectively engage in sectors and activities that align with its comparative advantage. The CEM prepared in partnership with several partners identifies the constraints to, and the drivers of, growth and provides a key underpinning for the approach.

The *FY05 Nigeria CAS* is a joint strategy of the Bank Group and DfID. To ensure a stronger impact, nearly all analytic work will be carried out in partnership with state and federal stakeholders, strengthening existing institutional capacity.

Source: <http://www-wds.worldbank.org/CAS>.

9. **Mandatory Coverage/Introduction of Flexibility.** In some country programs, limited budget resources may force difficult program choices, particularly when coverage of core ESW gaps may crowd out other types of analytic work necessary to underpin sector lending operations. Large programs can easily meet the expenses of a full set of core diagnostic reports, but small programs with budget constraints and other pressing priorities may be able to afford only some of this work in a given year. To address this concern, the Bank has decided that once a country is fully covered by all five products, the country director will determine the frequency and programming of diagnostic work in that country, depending on the type and level of the Bank's engagement and the country's priorities and circumstances, and taking into account the availability of relevant knowledge from partners (which might, in principle, obviate the need for particular diagnostic work by the Bank). The choice of analytic tools and the scope of work will be spelled out in the CAS and regularly updated during the annual country business planning exercises. The country director is responsible for formulating the diagnostic program and ensuring that adequate resources are allocated for each task, following consultation with relevant sector/thematic specialists.¹⁴

10. **Country-Driven Selectivity.** The Bank is strengthening its emphasis on country-driven products as illustrated by examples in the South Caucasus (Armenia, Azerbaijan, and Georgia) and other countries.¹⁵ For example, at the request of Armenian authorities, the Bank delivered

¹⁴ See *Improving the Bank's Analytic and Advisory Services—Progress Report* (OM2004-0047), July 26, 2004.

¹⁵ See *India—India Financing Highways* (Report No. 30363-IN), October 21, 2004; *Azerbaijan—Azerbaijan Issues and Options Associated with Energy Sector Reform* (Report No. 32371-AZ), March 31, 2005.

two smaller ESW products: an integrated approach to public financial management, and a cross-cutting approach to budget planning in infrastructure. These specific ESW products led to policy changes in the regulatory regime for communications (civil aviation, railways and telecommunication). In Azerbaijan, the energy report delivered in FY05 focused on particular issues identified by the authorities in oil revenue management and the gas sector. Responsiveness to country requests has driven the preparation of reports elsewhere in the world. For example, in FY04 the Bank undertook a Road Sector Policy Note at the request of government of Sri Lanka, re-engaging in that country's road sector after an absence of some 10 years. Similarly, after completion of a Bank-initiated study on long-term issues in transport in India, the Government of India (GoI) requested the Bank to undertake a study on highway finance to support the Government's substantially expanding investment program in the sector. Roughly in the same period, the GoI asked the Bank to help build consensus in a couple of key aspects of a recently adopted National Electricity Act that were facing implementation difficulties. The topics were identified in consultation with the GoI, state government officials, regulatory authorities, and power utilities. Over the 2005-06 period, short case studies and structured workshops at the state and national level were delivered and their key recommendations have contributed to inform the design of the GoI financial support instruments to help advance power sector reforms at the state level.

11. **Lending and ESW.** Earlier work on the determinants of ESW showed a strong relationship between ESW and the Bank's lending program, country size and country performance.¹⁶ Measuring resources spent, this work concluded that there is a positive correlation between the amount of ESW undertaken and the size of the lending program planned for the country. An analysis of the links between the ESW for FY04-06 and the lending pipeline for FY07-09, using the same approach, confirmed the earlier conclusions, and found that the link between lending and ESW was robust to different specifications of the framework, including a per capita formulation. However, in countries where Bank lending is limited—because of the availability of other resources or specific country circumstances—the Bank often stays engaged in the country's development through ESW. For example, during FY04-06, the Bank carried out ESW to address development challenges in the small states of Bhutan, Maldives, and Tonga,¹⁷ and to enhance sector-specific knowledge and maintain operational readiness in the fragile states of Sudan, Somalia, and Côte d'Ivoire.¹⁸

B. ESW: Promoting Sustained Growth

12. Recognizing the role played by ESW in providing options that help inform the design of government policies to promote equitable growth and poverty reduction, IDA Deputies asked the Bank to emphasize analytic work that integrates the macroeconomic, sectoral, and structural

¹⁶ Ibid.

¹⁷ See Bhutan—*Bhutan Transport Sector Note* (Report No. 28522-BHU), August 16, 2006; Maldives—*Maldives Country Economic Update Sustaining Robust Development* (Report No. 30965) December 15, 2004; and Tonga—*Tonga Transport Sector Review* (Report No. 35237) December 1, 2005.

¹⁸ See Somalia—*Somalia from Resilience towards Recovery and Development A Country Economic Memorandum for Somalia* (Report No. 34356-SO), January 11, 2006; Sudan—*Framework for Sustained Peace, Development and Poverty Eradication: Progress Monitoring Note*, February 2006; and Côte d'Ivoire—*Ivory Coast—Strengthening Public Expenditure Management and Controls Public Expenditure Review* (Report No. 27141-IVC), December 16, 2003.

dimensions of growth. This section describes how ESW has supported the drivers of growth and other factors that are essential to growth and poverty reduction (Annex B provides additional examples).

1. Supporting the Drivers of Growth

13. A review of more than 30 CEMs/DPRs delivered during FY04-06 shows that these products typically contain an integrated analysis of macroeconomic conditions and sectoral and structural reform issues for growth at the country level.¹⁹ Among the countries covered were Bolivia, Bosnia and Herzegovina, Djibouti, Honduras, Lao PDR, Mozambique, Nepal, Nicaragua, Sri Lanka, Yemen, and Zambia. The Bolivia, Bosnia and Herzegovina, and Zambia reports build on issues identified in CAS documents, whereas the growth strategy focus in reports for Djibouti, Honduras, Lao PDR, Mozambique, Nepal, Nicaragua, Sri Lanka, and Yemen emerges from PRSP documents, and the CEMs for Moldova and Vietnam are impacted by both the relevant CAS and PRSP²⁰ (see detailed examples in Box 3). CEMs/DPRs for Angola, Ethiopia, Mozambique, and Tanzania underscore the commitment made in the Bank's Africa Action Plan to deliver growth diagnostics for at least four countries per year through FY08.²¹

¹⁹ In most cases, the CEM/DPR adopted a multisectoral approach to growth, incorporating recommendations concerning a variety of sectors such as infrastructure (including transport, power, water, and telecommunication) and human development, in particular education. Some CEMs cover more than one country (e.g., CEM for the Organization of Eastern Caribbean States).

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²¹ See *Meeting the Challenge of Africa's Development: A World Bank Group Action Plan* (SecM2005-0445), August 17, 2005. See [Africa Action Plan](#) for further information.

Box 3. Examples of Growth-Related Work

The 2004 Nepal DPR provides a review of the country's progress and discusses the development policy agenda and priorities to accelerate development. The report is based on the PRSP and presents a menu of policies that address three related development themes. The first focuses on the need to restart and accelerate growth through commercializing agriculture and increase trade and competitiveness. The second policy priority underlines the importance of promoting a more inclusive growth, by focusing on developing agriculture and the lagging Western regions. The third theme is improving governance and public service delivery by strengthening institutions at both the national and local government levels.

The analysis in the Mozambique CEM builds on the growth-poverty linkages explored in Mozambique's PRSP progress report and joint staff advisory note. The CEM examines these linkages, combining an analysis of past growth trends with prospects for growth in the next decade. It discusses the sources of growth in the recent past to evaluate the prospects for growth in the next decade, to examine the likely implications for poverty and to outline policies that will be needed sustain growth and poverty reduction.

The DPRs for both Honduras and Nicaragua discuss the development agenda from a growth perspective. This focus emerges from their respective PRSPs, which identify growth as the main determinant of poverty reduction. Both review policy developments in various economic, social and infrastructure sectors.

Djibouti's CEM provides an analytic contribution to the government's growth strategy. It aims to fill a knowledge gap regarding the growth prospects and reform agenda in the country. Critical bottlenecks to growth are identified and the main components of a sustainable growth strategy are outlined.

The CEM for Bosnia and Herzegovina discusses potential sources of high and sustained growth that the country could exploit. The policy recommendations in the report would help maximize the potential of the country's economy to achieve higher real GDP growth and increase job generation. This focus emerges from the CAS that covers FY05-07 and lays out the objective of creating conditions for sustainable and balanced economic development.

Source: [WorldBank Countries website](#).

14. ***Governance and Public Institutions.*** To support good governance the Bank's diagnostic work includes Reports on Observance of Standards and Codes (ROSCs).²² The standards and codes initiative was launched in 1999 as a major component of efforts to strengthen the international financial architecture and to enhance countries' resilience to shocks. They are undertaken in agreement with the countries and their publication is voluntary. The Bank encourages countries to participate in standard assessments and to publish the findings. The initiative aims at promoting greater financial stability, both domestically and internationally, through the development, dissemination, adoption, and implementation of international Standards and Codes. The ROSC initiative covers several areas and associated standards related to policy transparency, financial sector regulation and supervision, and market integrity. ROSCs are evolved from a collaborative process with a strong involvement of policymakers and other country stakeholders. The Bank collaborates with the IMF to carry out the program and prepares three types of ROSCs:

- ***Corporate governance.*** Since FY04 the Bank has delivered ROSCs in Armenia, Azerbaijan, Bhutan, Bosnia and Herzegovina, Ghana, India, Indonesia, Moldova,

²² See *The Standards and Codes Initiative—Is It Effective? And How Can It Be Improved?* (SecM2006-0278), July 1, 2005. ROSCs are available at http://www.worldbank.org/ifa/rosc_icr.html.

Nepal, Pakistan, Senegal, and Vietnam to identify the strengths and weaknesses of their governance systems. These reports review the country's legal and regulatory framework, and the practices and compliance of its listed firms against internationally accepted standards.

- **Accounting and auditing.** During FY04-06, the Bank completed 18 Accounting and Auditing ROSCs for IDA-eligible countries, compared to only 2 in the previous three-year period. These reports review the accounting and auditing standards and practices in member countries' corporate sector, focusing on the institutional capacity to support high-quality practices.
- **Insolvency and creditors' rights.** These reports provide a detailed comparative assessment of the capacity of a country's legal and institutional framework to support the development of an inclusive and robust financial sector, and ensure financial stability. In FY04-06 the Bank delivered Insolvency and Creditors' Rights ROSCs in Bolivia, Honduras, India, Kenya, Kyrgyz Republic, Nicaragua, Sri Lanka, Uganda, and Vietnam. The insolvency ROSC diagnostic work is typically coupled with a prioritized action plan, and the Bank has often been called upon to provide technical assistance in forms ranging from legislative assistance to institutional capacity building.

15. **Complementary Work.** This work was complemented by parallel diagnostic work, including Institutional and Governance Reviews, which assess the institutional drivers of public sector governance. Examples include a devolved service delivery study for Pakistan, which discusses progress in creating incentives for local governments to improve service delivery.²³ In addition, the Bank used such reports as PERs and CFAAs to assess public financial management systems (PFM) and recommend ways to strengthen them—for example, Bolivia's PER and CFAA.²⁴ Legal and Judicial Sector Assessments help countries develop comprehensive legal reform plans that take into account the country's legal, economic, social, and political environment, as well as its resource and capacity constraints; recent examples of this work include assessments for Ethiopia, Honduras, Kenya, Moldova, and Uganda.

16. **Infrastructure.** In IDA countries where basic infrastructure networks have not been completed, infrastructure services contribute significantly to economic growth. ESW is often instrumental in identifying or laying the ground for lending operations, and it can significantly strengthen country policies and programs in the sector. After several years of severely declining Bank engagement in infrastructure, the Bank recognized that private investment in infrastructure was not meeting country infrastructure investment needs to the extent that had been anticipated

²³ See *Pakistan—Devolution in Pakistan—Main Report: An Assessment and Recommendations for Action* (Report No. 29912-PK) September 1, 2004.

²⁴ See *Bolivia—Public Expenditure Management for Fiscal Sustainability and Equitable and Efficient Public Services* (Report No. 28519-BO), November 18, 2004; and *Bolivia—Country Financial Accountability Assessment* (Report No. 34913-BO), January 5, 2005.

in the 1990s. Hence, a decision was taken early in this decade to again scale up IDA's infrastructure program, as expressed in the Infrastructure Action Plan.²⁵

17. In FY04-06, the number of individual ESW products mapped to infrastructure²⁶ in IDA-eligible countries grew by almost 50 percent from FY01-03 levels, to about 26 annually, and the share of such reports within the total grew as well. In the water supply and sanitation sector, for example, strengthened diagnostics in 41 priority countries (of which 63 percent were IDA-eligible) provided the basis for Millennium Development Goals (MDGs) action plans and for country water resources strategies. With growing emphasis being placed on regional infrastructure, particularly in Africa, the annual average of multi-country²⁷ ESW outputs mapped to infrastructure rose to 19, and included Regional infrastructure ESW flagships that are becoming an increasingly important basis for work plans in the sectors.²⁸ The expanded ESW underpinned the scale-up of lending in infrastructure.²⁹

18. **Private Sector Development.** Investment Climate Assessments (ICAs) assist countries to take stock of the obstacles to private sector expansion, facilitate policy discussions, and support a pragmatic dialogue among governments, local businesses, and donors. They draw on the findings of enterprise surveys, Doing Business surveys,³⁰ and other available data. During FY04-FY06, about 35 ICAs were delivered in IDA-eligible countries, compared to 10 ICAs during the previous three-year period. The findings of ICAs are being incorporated in CASs—as in Cambodia—and operations, as in Burkina Faso's poverty reduction support credit (PRSC) and Mali's Economic Policy and Public Finance development policy loan.³¹

19. **Trade and Development.** As part of efforts to help countries mainstream trade into PRSPs and national development strategies, the Bank has played a major role in the Integrated Framework for Trade-Related Technical Assistance,³² undertaking 22 Diagnostic Trade Integration Studies over FY04-06 in IDA-eligible countries. In addition, studies to identify opportunities and obstacles to trade competitiveness were undertaken for several other IDA-eligible countries in FY04-06.

²⁵ See *Implementing The World Bank Group Infrastructure Action Plan* (Report No. DC2003-0015), September 13, 2003. See [Infrastructure Action Plan](#) for further information.

²⁶ This includes ESW outputs mapped to the following infrastructure sectors boards: water, sanitation, and flood protection; transportation; information and communications; and energy and mining.

²⁷ Refers to ESW tasks that cover more than one country, any of which may be eligible for IDA, IBRD, or blend IDA/IBRD borrowing.

²⁸ Such ESW flagships include *Connecting East Asia: A New Framework for Infrastructure, 2005*, and *Infrastructure in Latin America and the Caribbean: Recent Developments and Key Challenges* (Report No. 32640-LCR), 2005.

²⁹ The quality of this expanded ESW was generally sound. Thus, a recent QAG assessment of country analytic and advisory activities (which includes but is not limited to ESW) rated 93 percent of such work as satisfactory. See *Quality of Country AAA: A QAG Assessment*, November 22, 2005.

³⁰ See *Doing Business 2005: Removing Obstacles to Growth* and *Doing Business 2007: Reforms That Make a Difference*.

³¹ See Burkina Faso—*Fifth Poverty Reduction Support Credit Project* (Board approval date April 7, 2005) and Mali—*Economic Policy and Public Finance Management Credit* (Board approval date December 19, 2005).

³² The Integrated Framework for Trade-Related Technical Assistance is a cooperative venture among donors and six international organizations: the IMF, International Trade Center, United Nations Conference on Trade and Development, United Nations Development Program, World Bank, and World Trade Organization.

20. **Regional Integration.** Regional trade agreements benefit IDA-eligible countries by improving the efficiency of trade logistics, a critical priority for growth. Bank efforts to support such integration have included studies that explored the scope for increasing trade links between India and Pakistan; the experience with trade and investment integration of Europe and Central Asia Region (ECA) countries transitioning to a market economy; and the prospects for greater regional trade integration in the Caribbean, Central America, Central Asia, and South Asia.³³ For example a report on free trade agreements in Central America noted that these agreements tend to promote economic growth and help in poverty reduction³⁴ and a South Asia³⁵ trade study emphasizes that countries in the region need to make the fundamental shift from protected, import-substituting to competitive export-oriented activities. For AFR, regional integration is one of the priorities under the Africa Action Plan as part of the focus on accelerating growth and improving human services. Regional and subregional diagnostic studies in AFR have covered such areas as review of implementation of customs unions, gaps in regional infrastructure (especially trade corridors to regional power systems and telecommunications), and financial sector integration (especially to broaden access to trade-related financial instruments. In addition, three financial sector integration reports for Africa were delivered in FY06 for the East African Community (EAC), Southern African Development Community (SADC), and Economic Community of West African States (ECOWAS). All three reports identify financial sector priorities and develop an action plan toward financial integration.³⁶ African leaders are drawing on this body of work to inform their policy choices related to regional trade and financial integration.

2. *Investment in Human Capital*

21. Among the most important facets of work to reduce inequality and foster sustained economic growth are education, health care,³⁷ and gender issues. ESW country reports focusing on education in IDA-eligible countries increased to 34 (in 28 countries) during FY04-06, from 11 (in 10 countries) in the preceding three fiscal years, and covered a range of subjects including tertiary, technical, and vocational education (see Box 4). In Africa, which accounts for the single

³³ For example, for Central America, *DR-CAFTA: Challenges and Opportunities for Central America*, (Report No. 32288-LAC), December 6, 2005; and for South Asia, *Trade Policies in South Asia: An Overview* (Report No. 29949) September 7, 2004.

³⁴ See *DR-CAFTA: Challenges and Opportunities for Central America*, (Report No. 32288-LAC), December 6, 2005. The report focuses on the developing countries of Central America, namely Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua.

³⁵ See *Trade Policies in South Asia: An overview* (Report No. 29949) September 7, 2004. The study focuses on five countries: Bangladesh, India, Nepal, Pakistan, and Sri Lanka.

³⁶ See "East African Community (EAC) Financial Integration Report", June 2006; Southern African Development Community (SADC) Financial Integration Report," June 2006; and "Economic Community of West African States (ECOWAS) Financial Market Integration Report," June 2006. Note that EAC members include Kenya, Tanzania, and Uganda; SADC members include a majority of IDA and Blend countries: Angola, Botswana, Democratic Republic of Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Tanzania, Zambia, and Zimbabwe; and ECOWAS members include Benin, Burkina Faso, Cape Verde, Côte d'Ivoire, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone, and Togo.

³⁷ The FY05 World Development report also advocates that distribution should be put at the center of strategies for human development and calls for policies that correct inequalities in opportunities. These policies include investing in human capital by increasing access to quality health and education services and by providing safety nets for vulnerable groups.

largest share of region-wide studies in education, the dominant themes in such works included girls' education,³⁸ secondary education,³⁹ and tertiary education.⁴⁰ These ESW activities on human development and education are being supplemented by various initiatives, such as impact evaluation clinics based on education projects, and the introduction of Working Paper series on human development and education in Africa, and East Asia and Pacific regions.⁴¹ A number of Gender Assessments analyzed gender-related barriers⁴² and their relation to poverty reduction and sustainable development, and identified actions to reduce these barriers. The Bank has also included gender analysis in other diagnostic work, such as PERs, CEM/DPRs, and PAs.⁴³ (See Box 5).

Box 4. Improving the Effectiveness of Public Spending in Education

The *Benin PER* completed in 2004 is a good practice example of using ESW to assess fiscal needs and support reforms—in this case, in the education sector. Recognizing education as important for achieving the development outcomes envisaged in the Benin PRSP, the PER presented a comprehensive background of the sector, examined growth in school enrolments, and outlined key issues to improve education quality. The analysis covered trends in public spending on education, per-pupil expenditures by level of education, and the composition of recurrent expenditures by organizational level and spending category. It evaluated the funding formula for distributing transfers to Parent-Teacher Associations and analyzed the main inputs into education, including the role of the private sector. In the context of a medium-term expenditure framework, the report provided estimates of medium-term financing requirements for education and examined related public expenditure management issues. It recommended measures to improve the allocation of education resources as well as school outcomes through results-based budgeting, teacher management reforms in primary education, reevaluating teaching strategy for grades 1 and 2 to ensure that all pupils acquire literacy competency, and reevaluating the funding formula for transfers to primary Parent-Teacher Associations to increase per-pupil allocations for poorer schools or regions. It also made the case for increasing budget shares for primary education. The results of the PER fed into public expenditure management reforms supported by the Bank's Public Sector Reform Adjustment Credit.

Source: Benin: Enhancing the Effectiveness of Public Spending—A Review of Three Sectors (Report No. 29656-BEN), December 2004, Country Department 13, AFR.

Box 5. Coverage of Gender Issues in Country Diagnostic ESW

In addition to discussing gender differences in human development, *Benin's PA* analyzed the gender gap in the labor market and differences in the composition of time use by men, women, and children, and identified cross-sector linkages and limits on women's decision-making power. The report examined traditional beliefs, cultural norms, and customary and statutory laws that relegate women to a subordinate role in society with no control over productive resources, and it discussed the different coping and survival strategies of men and women living in poverty. The report recommended gender-responsive actions based on the analysis.

The *Nepal DPR* addressed the under-representation of women in government, especially in the civil service and Parliament, examined the effect of women's social exclusion on poverty and empowerment, and discussed policy initiatives to improve women's social inclusion. It also discussed specific government policies and programs to promote gender inclusion and equality, especially efforts to improve legal rights for women. Lastly, the report discussed grassroots development programs targeted at women and proposed recommendations that followed from the gender diagnosis and analysis.

Source: Gender and Development (PRMGE).

³⁸ World Bank (2004) *Girls' Education in Africa: What Do We Know About Strategies that Work?*

³⁹ World Bank (2004) *Proceedings From the First Regional Conference on Secondary Education in Africa*

⁴⁰ World Bank (2004) *Improving Tertiary Education in Sub-Saharan Africa: Things That Work.*

⁴¹ World Bank (2005) *Education Sector Update IDA/SecM2005-0662.*

⁴² In FY05, Gender Assessments were carried out in Afghanistan, Nigeria, and Pakistan.

⁴³ World Bank (2006): *Sector Strategy Implementation Update, FY05 (SecM200600125).*

22. Country reports focusing on health also increased to 28 (in 26 countries), in comparison to 18 (in 13 countries) in the preceding three years, and coverage ranged from the response to HIV in Ethiopia to population growth in Niger. Box 6 illustrates some country examples.

Box 6. Addressing Health Sector Issues

The Albania health sector note provided an important input to the launch of the Bank's dialogue with the new government on health sector reforms. The note was discussed with a wide range of government officials and provided a major input for a policy workshop that brought together key health sector stakeholders and donors involved in the sector. It helped confirm the new government's support for reforms that had been broadly outlined in the Albania Health Sector Strategy adopted by the outgoing administration. This analytic work informed the design of the Bank's FY06 health system modernization project, which supports improved access to high quality primary health care services, enhanced service delivery, and the strengthening of hospital management.

The recent Papua New Guinea work on health, HIV/AIDS, and education illustrates how the Bank is engaging countries through analytic work in the health sector. The report was prepared in collaboration with Australia and AsDB and its recommendations are already having some impact. With respect to HIV/AIDS, for example, a new AsDB project was designed following the recommendations of this work, and AusAID has been reviewing its HIV/AIDS program to look at impact and results. The government has also shown interest in additional analytic work in this area. Some of the recommendations of the draft report (e.g., stronger links between National AIDS commission and the concerned government departments) have been implemented.

Source: Albania—*Health Sector Note* (Report No. 32612-AL), February 2006, Albania—*Health System Modernization Project* (Report No. 33415-AL), February 17, 2006; Papua New Guinea “Strategic Directions for Humana Development”, June 2006.

23. The Bank also prepares Risk and Vulnerability Assessments that complement the analysis in some of the products mentioned above. These assessments account more explicitly for the impact of shocks on household welfare, and help identify both how multiple sources of risk affect individuals and communities, and the principles for guiding public expenditure so as to ensure poor people's access to basic social services. This risk-focused perspective strengthens the ability of policymakers to devise diverse strategies and instruments to address the key sources of household poverty and vulnerability. During FY04-06, the Bank delivered six such assessments for IDA-eligible countries (Azerbaijan, Burkina Faso, Cambodia, Democratic Republic of Congo, Dominica, and Ethiopia) compared to three in the previous three-year period.

24. ***Poverty and Social Impact Analysis.*** In IDA-eligible countries, Poverty and Social Impact Analysis (PSIA) is increasingly used to assess the potential effects of reforms on different groups, and in particular on poor and vulnerable people,⁴⁴ and to provide governments and other national stakeholders with policy options to inform national debate. PSIA has been undertaken in all

⁴⁴ PSIA is an analysis of the distributional impact of policy reforms on the well-being or welfare of different stakeholder groups, with a special focus on vulnerable and poor people. See www.worldbank.org/psia for further information.

Regions for a wide range of reforms, and has increasingly informed Bank operations⁴⁵ and support. For example, in Cambodia, PSIA on social land concessions and related ESW on land issues were used to support the government's land titling and redistribution programs; and in Tajikistan, a report on cotton farmland privatization identified the main obstacles to improving the welfare of cotton farmers and the main sources of distortion in the cotton sector, quantified the losses in this sector and estimated the impact on farmers' incomes, and highlighted the opportunity cost to Tajikistan.⁴⁶ The PRSC in Benin was informed by the *Poverty and Social Impact Analysis on the Cotton Sector Reforms*,⁴⁷ and the PRSC in Mozambique relied on the findings from the PSIA on the impact of reducing primary school fees.⁴⁸ Recent studies⁴⁹ have shown that systematic upstream consideration of PSIA in designing programs enhances program quality, and embedding PSIA work institutionally in the country's own planning processes makes it more likely that distributional impacts are systematically understood and considered. Early disclosure of the results of the analysis is also conducive to more effective dialogue and more informed decisionmaking. Finally, multidisciplinary approaches that combine qualitative and quantitative methods, collaboration with national partners, and explicit efforts to strengthen the capacity of governments and national analysts enhance the impact of the analysis on policy and on policymaking processes.

C. Quality

25. While expanding the coverage and scope of ESW, the Bank has maintained its quality. Ex post assessments of a random sample of ESW tasks (289 tasks in 36 countries) conducted by the Quality Assurance Group (QAG) concluded that by working closely with partner countries and development partners, and by improving task monitoring and reporting, the Bank has raised the overall quality of ESW for IDA-eligible countries. Of the tasks reviewed, 105 were in 16 IDA-eligible countries; and 90 percent of these tasks were rated as satisfactory or better.⁵⁰ Earlier QAG assessments rated ESW products delivered to IDA-eligible countries as generally lower in quality than those delivered to IBRD countries: in FY98-99, for example, QAG gave a satisfactory or better rating to 84 percent of ESW in IBRD countries, compared to 64 percent in IDA-eligible countries.⁵¹ More recently, the QAG Country Analytic and Advisory Activities report notes that there is no difference in quality between IBRD and IDA countries, that strong

⁴⁵ Operational Policy (OP) 8.60, *Development Policy Lending*, which calls for the analysis of the poverty and social impacts of reforms, is an important tool in the effort to mainstream PSIA in the Bank. It calls for upstream analysis of analytic work to support design of the operations and to determine whether the specific policies are likely to have significant poverty and social consequences (see OP 8.60, para. 10).

⁴⁶ See Cambodia—Country Assistance Strategy (Report No. 32118-KH), April 18, 2005; and Tajikistan—*Welfare Implications of Cotton Farmland Privatization: A Poverty and Social Impact Analysis*, June 24, 2004.

⁴⁷ See Benin—*Second Poverty Reduction Support Credit Project* (Report no. 30397), May 16, 2005; and Benin—*Cotton Sector Reforms: A Poverty and Social Impact Analysis* (Report no. 29951), August 1, 2004.

⁴⁸ See Mozambique—*Second Poverty Reduction Support Operation Project* (Report no. 32890), August 4, 2005; and Mozambique *Poverty and Social Impact Analysis—Primary School Enrollment and Retention: the Impact of School Fees* (Report no. 29423), January 31, 2005.

⁴⁹ See Aline Coudouel, Anis A. Dani, and Stefano Paternostro, *Poverty and Social Impact Analysis of Reforms: Lessons and Examples from Implementation*, World Bank, Washington, DC, 2006; *Stakeholders, Power Relations and Policy Dialogue: Social Analysis in Agriculture Sector PSIA* (Report No 36498-GLB), June 26, 2006; and *Development Policy Lending Retrospective* (SecM2006-0319), July 7, 2006, which covers a set of 50 development policy operations for 37 countries (23 IDA-eligible countries) approved before March 31, 2006.

⁵⁰ See *Quality of Country AAA: A QAG Assessment*, November 22, 2005.

⁵¹ See *Quality of ESW in FY99: A QAG Assessment* (CODE200-75), July 10, 2000; and *Quality of ESW in FY00: A QAG Assessment* (CODE2001-0033), April 2, 2001.

programs are found in countries with both high and low Country Policy and Institutional Assessment (CPIA) scores, and that overall quality remains quite good, particularly at the task level.⁵² Building on the findings of the Phase I Assessment, QAG is now conducting a Phase II assessment, covering AAA quality in about 20 additional countries and focusing on such areas as capacity-building impacts on partner countries, the scope and quality of collaboration with development partners, and managerial oversight of the overall AAA program.⁵³

26. ***Other Quality Reviews.*** The results of other evaluations support the QAG findings described above. The FY05 Annual Report on Portfolio Performance (ARPP), for example, reports that there has been no deterioration in ESW quality since the last Bankwide review of ESW in FY02, and rates 92 percent of ESW tasks in IDA countries as satisfactory or better.⁵⁴

27. ***Quality Reviews Assessing Specific ESW.*** QAG's Other Economic and Sector Work Assessment (OESW) Assessment rates 96 percent of the sampled tasks as satisfactory.⁵⁵ A recent IEG evaluation assessing the relevance, quality, and effectiveness of inputs to and outputs from the Financial Sector Assessment Program (FSAP)⁵⁶ notes that overall quality is good, although the quality, and appropriateness of coverage of specific areas are uneven,⁵⁷ and that the FSAPs' findings and recommendations need to be better integrated into the country programs. IEG is currently assessing the effectiveness of the Bank's fiduciary instruments to examine the extent to which they have contributed to enhanced development effectiveness by influencing financial management and procurement reform in partner countries.⁵⁸ An informal PREM Network review covering 12 countries of the integration of analyses of macroeconomic performance, sectoral and structural reform issues, and growth found that country-specific diagnostics and analysis are essential to inform growth-promoting strategies for different countries, but that there is a need for greater analytic rigor and closer linkages between

⁵² See *Quality of Country AAA: A QAG Assessment*, November 22, 2005. When referring to country AAA, the report includes only ESW and technical assistance. AAA comprises six product lines: ESW, TA, Donor and Aid Coordination, Research Services, Impact Evaluation, and the World Development Report. Quality assessment in FY02 and the country AAA assessment are not strictly comparable. The AAA country assessment sample was restricted to ESW tasks in 36 countries and does not represent the Bankwide universe of ESW tasks. The FY02 assessment included a random sample of Bankwide ESW.

⁵³ *QAG Country AAA Phase II Assessment Approach Paper*, September 22, 2005.

⁵⁴ *FY05 Annual Report on Portfolio Performance (ARPP) (R2006-18)*, Washington, DC, 2005. The sample included 84 ESW products delivered during 2000-2006.

⁵⁵ See "Assessment of the Quality of "Other Economic and Sector Work," Powerpoint presentation, QAG, March 15, 2005. In this case satisfactory includes "moderately satisfactory" or better on a six point scale: Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory and Highly Unsatisfactory. The QAG sample included both IDA-eligible and IBRD countries.

⁵⁶ See *Financial Sector Assessment Program: IEG Review of the Joint World Bank and IMF Initiative*, 2006. FSAP, a joint IMF and World Bank effort introduced in May 1999, aims to increase the effectiveness of efforts to promote the soundness of financial systems in member countries. In the reviewed sample 21% were IDA-eligible countries.

⁵⁷ Banking sector coverage was satisfactory, but coverage in the nonbank financial sectors was not consistently of the same quality.

⁵⁸ IEG's report "The Effectiveness of World Bank Fiduciary Assessments: An Evaluation of Country Financial Accountability Assessments and Country Procurement Assessment Reports" is scheduled to be discussed by CODE in Q2 of FY07.

evaluation of policy effects, growth analytics, and assessment of growth prospects.⁵⁹ Efforts are being made to follow up these reviews with action—for example, using the pilot results to design country-specific policies, and applying growth diagnostics to more countries. Steps to address quality concerns involve enhancing the analytic capabilities of country economists and exposing them to updated investigative tools; developing guidelines to help staff work creatively in designing an appropriate framework tailored to country-specific issues; systematic monitoring of quality through management and peer reviewers; and developed an incentive system that gives recognition to high-quality work.

28. **Process Quality: ESW Preparation Time.** Recent years have seen a slight increase in average preparation time of ESW tasks (see Table 1). This increase can be attributed in part to the trend to consolidate ESW tasks—a move that can optimize resources, improve management oversight, and prevent fragmentation of nonlending activities, but that results in larger pieces of analytic work. In addition, anecdotal evidence suggests that increased partner country and donor participation in ESW preparation may contribute to increase in average preparation time.

Table 1. Average Preparation Time for ESW
(in months)

<i>Category</i>	<i>FY04</i>	<i>FY05</i>	<i>FY06</i>
IDA-eligible	13.5	13.9	14.1
IBRD	12.0	12.5	13.0
Global/regional/subregional/multicountry ^a	12.8	13.9	13.5

Source: Business Warehouse database, July 23, 2006.

Note: Preparation time is the time from inception (activity implementation start/concept note) of an ESW product to the delivery-to-client date (i.e., when the main results, findings, and conclusions of a task are substantially communicated to the client).

^aRefers to ESW tasks that cover more than one country—any of which could be eligible for IDA-only, IBRD-only, or IBRD/IDA borrowing—or tasks in countries that are not eligible for IBRD/IDA borrowing.

D. Impact of ESW

29. By its diagnostic nature, ESW has diffused and long-term effects on outcomes, and depends on intervening actions, so its directly attributable impact is difficult to distinguish and quantify. The timing, scope, and implementation of policy reforms are highly dependent on political economy considerations, and that determines how a country achieve consensus regarding the reform process (including on related mitigation measures) among the government and the different stakeholders in a country. From the Bank’s perspective, addressing government requests for policy advice and communicating the results of the Bank’s analysis, requires taking into account country circumstances by using the appropriate tool (standard reports, policy notes, technical assistance). Thus, rather than trying to assess the ultimate impact on development outcomes such as growth and poverty reduction, the examples in this paper illustrate cases where the Bank’s ESW informed lending, contributed to informing country policy, built country analytic capacity, or informed public discussion (see Boxes 7 and 8). These examples illustrate that analytic work is increasingly building on issues identified in CASs or PRSPs, and that it is feeding into the design of programs, policy actions, and operations. For example, with respect to lending, most program documents note the importance of analytic underpinnings for informing

⁵⁹ The study was part of the Growth Diagnostics Pilots project led by PREM. It covered selected IBRD and IDA countries: Armenia, Baltic States (Estonia, Latvia, and Lithuania), Bangladesh, Bolivia, Brazil, Cambodia, Egypt, India, Madagascar, Morocco, Tanzania and Thailand. The review covered policy-based loans and CASs, CEMs, PAs, DPRs, and PERs prepared from 1990 to 2004.

the design, timing, and sequencing of policy choices in development policy lending, and many operations draw on several pieces of analytic work (see Table 2 for examples)—underscoring that ESW is fulfilling its intended role in the Bank’s work.

Box 7. Analyzing the Distributional Impact of Petroleum Subsidy Reform in Indonesia

The reform of the petroleum subsidy in Indonesia is an example of how the Bank’s analytic work can contribute to inform the design of the government’s reform, specifically to identify measures to mitigate potential adverse social effects. The analytic work was carried out through the Bank’s multiyear Indonesia Poverty Analysis Program (INDOPOV), in close partnership with DfID. The Bank also supported the reforms through a development policy operation.

The 2005 Government’s decision to reduce the regressive fuel subsidy was underpinned by substantial analysis, public debate and political consideration of the social impact of the reform and options to mitigate such effects. The fuel subsidy had become the Government’s biggest expenditure and transfer program, crowding out other social programs. It was highly regressive with the benefits accruing to the richest 10 percent more than five times higher than those accruing to the poorest 10 percent. The removal of the subsidy, however, would raise fuel prices, transportation expenses, and general inflation, and have a substantial impact on most poor and near poor households. To address these effects the Government relied on poverty and social impact analysis to design this reform, including mitigating measures, and sought analytic inputs from the Bank and other agencies.

To mitigate the short-term impact of the reform on the poor and near-poor, the funds saved from the regressive fuel subsidy were reallocated to a cash transfer program, which was rolled out in parallel with the announcement of the fuel price increase, and targeted 15.5 million near-poor families. The price increases were preceded by a Government public relations effort to explain the reform through discussions in public forums, including the national media, and through discussion with various stakeholder groups, including the private sector, political parties, parliamentarians and regional governments. The PSIA results contributed to inform this widespread public debate that helped to sensitize the public to the rationale behind the reform.

Box 8. Selected Examples of ESW Impact

Programmatic Poverty Assessments in **Armenia, Azerbaijan, and Georgia** have had a major impact on the quality of household budget data and poverty analysis as well as on the design of anti-poverty interventions. For example, Armenia now publishes an annual social snapshot which is a direct consequence of the programmatic Poverty Assessment, and the PA has led to improving the targeting of the poverty benefit package. In Georgia, the poverty work resulted in major changes in poverty measurement methodology. In Azerbaijan, the poverty work informed policy developments, including the introduction of targeted social assistance.

The Health Sector Review in **Azerbaijan** delivered in FY05 informed the Health Sector Reform project approved on June, 29, 2006. The Review was published at time when there were differing views of how to move forward in health in Azerbaijan. The Review was used to build consensus and engage senior policymakers. The reforms indicated in the Review now lie at the heart of a new momentum for health sector reform.

In-depth assessments of public financial management and procurement systems have been carried out In **Tanzania** through a CFAA and a CPAR. The Public Expenditure Management Country Assessment and Action Plan prepared in 2004 concluded that over the previous three years Tanzania has made significant progress in the public expenditure management reform process. The procurement system does not meet the benchmark due to weak enforcement and limited accountability in the current system. The PRSC contains a strong focus on government's efforts to address the identified weaknesses in the areas of internal and external audit as well as procurement. A Public Management Reform program is in place to ensure sustained improvements in Tanzania's public expenditure management system.

In **Armenia**, the agenda for improving the transparency and accountability in budget management builds on the CFAA supported through a series of PRSCs. Some of the key policy changes include the establishment of a Medium Term Expenditure Framework that reflects government priorities and the adoption of a budget classification system that is comprehensive and conforming to international standards. The government produces regular monthly, quarterly and annual reports on budget execution, and improvements in VAT and excise tax collection. In addition, efforts to strengthen the tax administration are under way.

The 2002 **Pakistan DPR** prepared shortly after a decade of economic crisis and increased poverty, outline policy options to increase fiscal space for education, health, and infrastructure expenditures, and reduce the burden of external public debt to sustainable levels. Pakistan's debt burden by the end of the 1990s had reached over 80 percent of GDP, and debt service was absorbing a large share of resources. Several of the recommendations were incorporated in the Government's program and were supported by Bank operations, in particular SAC I and II and the PRSCs. Generous donor support on concessional terms helped created additional fiscal space for development. Public debt has now fallen to 55 percent of GDP from almost 80 percent in 2001. The government's PRSP targets for education and infrastructure spending have now been exceeded.

Some of the recommendation in **Sri Lanka CPAR** resulted in streamlining the review, approval, and length of time taken to process public procurement. A revision of the Sri Lanka Public Procurement Guidelines has both minimized the risk of corruption and allowed for greater consistency across all line ministries. The introduction of a Code of Ethics improved discipline in public procurement, while the establishment of a National Procurement Agency has played a strong role in promoting good governance measures. Strengthening the Bribery Commission and Auditor General's Department through training of its staff has been useful in strengthening the understanding of procurement procedures. Largely due to the development of a five-year training plan in conjunction with the proposed establishment of a National Institute for Procurement Training and Research, the availability of competent procurement professionals has also increased in recent years. In addition, defining the functional specifications for commonly procured items has reduced the time for bid document preparation.

Source: Tanzania—CFAA (Report No. 25804-TZ) May 1, 2001; and CPAR (Report No. 26431), April 30, 2003; Tanzania—Third PRSC (Report no. 33166-TZ), Board approval date August 10, 2005. Armenia—PRSC II (Report no. 34452-AM), Board approval date December 20, 2005; PRSC (Report no. 30179-AM), Board approval date November 21, 2004. *Pakistan DPR* (Report No. 23916-PAK), April 3, 2002. Pakistan—PRSC (Report no. 28268-PK), Board approval date August 5, 2004. Pakistan—*Structural Adjustment Credit*, (Report No. P7443-PAK), Board approval date May 16, 2001. Pakistan—*Structural Adjustment Credit II*, (Report No. 23847-PAK), Board approval date May 15, 2002. Sri Lanka—CPAR June 2003.

Table 2. Examples of Analytic Underpinnings Referenced in Development Policy Operations

<i>Country</i>	<i>Approval FY</i>	<i>Development policy operations</i>	<i>ESW products</i>
Bolivia	FY05	Social Sector Programmatic DPC	FY01 – CPAR FY03 – Health Sector Review FY04 – PER FY04 – CFAA FY05 – PA
Burkina Faso	FY05	PRSC-5	FY01-05 – CPAR FY02 – CFAA FY04 – PER FY04 – Risk and Vulnerability Assessment FY05 – PA FY05 – Gender Assessment
Mali	FY06	Economic Policy and Public Finance Management	FY03 – CFAA FY03 – Other Agriculture Study FY04 – CPAR FY05 – ICA
Armenia	FY06	PRSC-2	FY02 – PER FY03 – CPAR FY04 – CFAA FY05 – CEM
Bangladesh	FY06	Development Support Credit	FY00 – CPAR FY01– CFAA FY01– Institutional and Governance Review FY02 – PER FY02 – PA FY03 – DPR FY03 – ICA FY03 – ROSC (Accounting and Auditing)

Source: Business Warehouse database, July 23, 2006.

E. ESW Results Tracking Framework

30. In May 2004, the Bank introduced a results tracking framework to improve the focus and impact of ESW tasks and facilitate reporting of interim outcomes.⁶⁰ At the beginning of each task, task team leaders record the activity's development objectives (DOs)⁶¹ and expected results; they may add additional results at midstream; and they evaluate the level of success achieved after they deliver the task to the client, by filing the Activity Completion Summary (ACS) in the Bank's SAP system (see Annex C for details on results tracking). Aggregated results-level reports for ESW were developed in FY06; in the future, this information will be mainstreamed into corporate reports and the Bank's performance measurement system.⁶² The accuracy of ACSs depends on information reported by task teams. For effective reporting, it is important for task teams to complete and file the ACS in a timely way.⁶³ In an FY06 review of the quality of

⁶⁰ The interim IDA13 Results Measurement System (RMS) had some indicators and targets related to ESW; however, the more elaborate IDA14 RMS does not include any specific indicators. Going forward, inclusion of AAA work could further refine and complement the RMS for the next replenishment period.

⁶¹ Team leaders choose from five development objectives: (a) inform lending; (b) inform government policy; (c) build analytic capacity; (d) inform stimulate public debate; and (e) influence the development community.

⁶² See *Sector Strategy Implementation Update FY05* (SecM2006-0125), March 21, 2006, reports on ESW results.

⁶³ The ACS is expected to be filed in SAP within six months after the delivery-to-client date as long as all tasks associated with the activity are completed.

ACSs, QAG found that the ACS is often not filed on time, particularly for tasks funded by trust funds.⁶⁴ At present, ACSs are on file for 59 percent of ESW tasks delivered in FY05. The report noted the need for improvements in filing compliance as well as in the quality of the conclusions and recommendations documented in the ACSs for the sampled ESW activities.

31. ***FY05 Results.*** A review of 180 ESW tasks completed⁶⁵ in FY05 for IDA-eligible countries (59 percent of the total ESW delivered for IDA-eligible countries) indicated that the tasks' overall development objectives were "largely" achieved,⁶⁶ with no notable difference between IBRD⁶⁷ and IDA-eligible countries. Strong policy focus was a key objective in both IBRD and IDA-eligible countries⁶⁸ (represented in 68 percent of the sample tasks in both IDA and IBRD); for IDA-eligible countries the next most frequent development objectives were providing the analytic basis for lending preparation (46 percent), stimulating public debate (38 percent), building client analytic capacity (34 percent), and influencing the development community (33 percent).

F. Participation and Partnerships

32. In endorsing the Paris Declaration on Aid Effectiveness in March 2005, the Bank agreed to work towards conducting a greater proportion of its "country analytic work, including diagnostic reviews," jointly with other development institutions and with country governments. The Paris Declaration recognized that joint analytic work can have a high payoff in terms of better harmonized programs, strengthened country ownership, improved alignment with country priorities, and reduced burden on partner countries. Strategically, it also helps to lay a solid basis for more collaborative provision of financial assistance to address the issues studied. The international community established a target for 2010 of 66 percent joint analytic work. The Bank is committed to raising the share of analytic work that it carries out jointly with other development institutions, and to continuing to increase the ESW that it carries out in a participatory way, with significant government input. According to the Key Performance Indicator data in FY06 20 percent of ESW was done jointly compared to 14 percent in FY05 in IDA-eligible countries. Comparable figures for the Africa Region are 19 percent in FY05 and 29 percent in FY06.⁶⁹

⁶⁴ See *Quality of Global & Regional AAA (GRAAA): A QAG Assessment (draft)*, September 21, 2006, for a more detailed assessment of ACS quality for tasks delivered between July 2004 and December 31, 2005.

⁶⁵ See Table C1 in Annex C. ESW tasks are considered completed after the team leader evaluates the impact of the tasks by completing an ACS in the institutional system.

⁶⁶ The conclusions drawn from 59 percent of completed ESW tasks for FY05 are necessarily tentative.

⁶⁷ Sixty percent of the tasks delivered in IBRD countries were completed. Informing government policy was the objective in 68 percent of ESW tasks, followed by stimulating public debate (36 percent), building client analytic capacity (33 percent), informing lending (31 percent), and influencing the development community (17 percent).

⁶⁸ In addition, 59 percent of the tasks delivered in the "not assigned" category (ESW tasks that cover more than one country that can be eligible for IDA-only, IBRD-only, or IBRD/IDA borrowing, and tasks done in countries that are not eligible for any Bank borrowing) were completed. Stimulating public debate (54 percent) and informing government policy (49 percent) were the key objectives of 112 completed tasks.

⁶⁹ An ESW product qualifies as a joint output if (a) its preparation involves substantial financial or in-kind contribution, covering 10 percent or more of the cost of the output, from at least one multilateral or bilateral donor; and (b) the donor(s) accept(s) the product as a joint output with the Bank, as signalled clearly in the document. Excludes policy notes. Data as reflected in BW/SAP September 22, 2006, and confirmed by the Bank's Regional teams. Note that Bank systems do not yet capture joint work with the government, which is estimated to increase these figures by a few percentage points.

33. **Partnerships.** As previously noted, in several cases during CAS preparation the Bank has actively collaborated with its development partners on the planning of a wide range of diagnostic products. In addition, in FY04-06, the Bank partnered with other development agencies on PERs (including in Ghana, Kenya, Niger, Tanzania, and Tajikistan), analyzing the efficiency and effectiveness of resource allocations and identifying areas for improvement in public spending. Other fiduciary work carried out jointly with partners include a CFAA and CPAR for Honduras jointly undertaken with the Inter-American Development Bank,⁷⁰ CFAAs conducted jointly with the African Development Bank for Uganda and Ghana,⁷¹ and CPARs for Cambodia and Timor-Leste⁷² jointly undertaken with the Asian Development Bank (AsDB). For the Integrative Fiduciary Assessment for Afghanistan, the Bank collaborated with other agencies working on specific areas: IMF covered revenues, the United Kingdom's Department for International Development focused on state-owned enterprises and security, the European Union covered highways, and AsDB handled procurement; and the team worked closely with the Government of Afghanistan, especially the Ministry of Finance.⁷³ Increasingly the Bank's PFM work incorporates the international Public Expenditure and Financial Accountability (PEFA) PFM indicators. For the future, it is envisaged that nearly all PFM work will be undertaken by integrated country teams and conducted jointly with other donors, in collaboration with governments. But if joint work is well advanced in the fiduciary products, it is only just beginning in fragile states—whose low capacity and weak governance systems make collaboration among donor agencies essential. The Bank has been working closely with other development agencies on analytic work in such countries as Haiti, Somalia, Sudan, and Timor-Leste.⁷⁴

34. **Participatory ESW.** Participation by the country in ESW can produce important benefits for both the country and the Bank—it increases country capacity, provides the Bank with deeper knowledge of and greater sensitivity to the country's circumstances, and, by leading to greater transparency, helps the country build consensus on the formulation and implementation of the recommended policies. For example, in Moldova the recent *Moldova Growth Study* (CEM), *Education Note*, and *Agriculture Note* were all carried out with active country engagement, with a Government-assigned working group/counterpart team participating in the design and creation of the report/policy notes and the post-completion discussion and dissemination workshops.⁷⁵ Other examples of participatory ESW are described in Box 9.

⁷⁰ See *Honduras—Country Procurement Assessment* (Report No. 32791), February 1, 2005; and *Country Financial Accountability Assessment* (Report No. 28418), January 3, 2004.

⁷¹ See *Uganda—Country Financial Accountability* (Report No. 29116), May 1, 2004; and *Ghana—Country Financial Accountability* (Report No. 32291), June 1, 2004.

⁷² See *Cambodia—Country Procurement Assessment* (Report No. 29950), September 14, 2004; and *Timor-Leste—Country Procurement Assessment* (Report No. 28552), May 5, 2004.

⁷³ See *Afghanistan—Afghanistan Managing Public Finances for Development* (Report No. 34582-AF), December 22, 2005.

⁷⁴ See *Haiti—Social Resilience and State Fragility in Haiti: A Country Social Analysis* (Report No. 36069-HT), April 27, 2006; Sudan—"Framework for Sustained Peace, Development and Poverty Eradication: Progress Monitoring Note", February 2006; Somalia—*Somalia from Resilience towards Recovery and Development A Country Economic Memorandum for Somalia* (Report No. 34356-SO), January 11, 2006; *Timor-Leste—Country Procurement Assessment* (Report No. 28552), May 5, 2004.

⁷⁵ See *Moldova—Opportunities for Accelerated Growth: A Country Economic Memorandum for the Republic of Moldova* (Report No. 32876-MD), September 9, 2005; *Moldova—Education Policy Note: Analysis in Support of Improvements in Quality, Equity, and Efficiency in the Education Sector* (Report No. 32882-MD), July 1, 2005; and *Moldova—Agriculture Policy Note*, June 5, 2006.

Box 9. Participatory ESW

Malawi—Poverty Assessment 2006. The Malawi Poverty and Vulnerability Assessment is the product of close collaboration among the World Bank, the Ministry of Economic Planning and Development, and the National Statistical Office. In the initial stage, a team chosen by the Government was assigned to conduct a comprehensive analysis of the second Integrated Household Survey, a fresh assessment of poverty levels in the country and the determinants of poverty. The preliminary results of the findings were then presented over the course of two workshops.

Cambodia—Poverty Assessment 2006. The Cambodia Development Resource Institute contributed significantly to the Poverty Assessment with several participatory field studies, while the Economic Institute of Cambodia worked with the Bank to conduct case studies in four rural districts. In addition, a conference was organized by the World Bank, AsDB, DfID, and United Nations in collaboration with the Royal Government of Cambodia to discuss the country's progress in reducing poverty and the importance of strengthening partnerships.

Source: AFR and EAP.

35. **Other Initiatives.** The Bank's other activities to promote, facilitate, and track coordination and cooperation among development partners in diagnostic work include the following:

- On behalf of an international partnership, the Bank hosts the Country Analytic Work (CAW) website,⁷⁶ which displays analytic work of more than 30 bilateral and multilateral donor agencies. In 2003, to inform countries and partners about ongoing efforts on harmonization and collaboration, the Bank developed a CAW e-newsletter, which is now disseminated to some 1,300 subscribers.
- Workshops have been held to better harmonize diagnostic methodologies and approaches and promote partnership schemes. The fifth workshop on country analytic work, organized by the World Bank, was held in Washington, DC, in June 2005, and drew representatives from 20 development agencies and governments. This workshop focused on the increasing importance of joint analytic work and better partnership to meet the Paris Declaration target.
- The Key Performance Indicator (KPI) for joint ESW was developed in 2005 and is being tracked institution wide in the institutional systems (SAP/Business Warehouse).

G. Disclosure

36. The Bank's information disclosure policy provides that all ESW reports⁷⁷ distributed to Executive Directors for information be available to the public after such distribution. Of the completed ESW in FY05-06,⁷⁸ all reports distributed for information to the Executive Directors were made publicly available. The Bank's information disclosure policy also provides that ESW reports other than those distributed to Executive Directors may be made available to the public at

⁷⁶ For further information see CAW website: <http://www.countryanalyticwork.net>.

⁷⁷ "ESW reports" include core diagnostic reports (CPARs, CFAAs, PAs, PERs, CEM/DPRs, and IFAs), other diagnostic reports, advisory reports, and policy notes. This provision applies to all ESW reports distributed to Executive Directors except those prepared under the Financial Sector Assessment Program (FSAP), which are disclosed after the country consents to disclosure.

⁷⁸ Includes all ESW reports for which an Activity Completion Summary was prepared in FY05-06.

the discretion of the relevant Country Director after consultation with the country concerned.⁷⁹ Monitoring the disclosure of these reports, however, has been challenging. While ESW reports that are distributed to the Executive Directors are routinely transferred to the Bank's Internal Documents Unit (which posts them as appropriate on the "documents and reports" site of Bank's external website), ESW reports that are not distributed to the Executive Directors are not systematically transmitted to the Internal Documents Unit.⁸⁰ Because the disclosure of such reports is discretionary, they are typically disclosed on a case-by-case basis—upon request by an interested outside party, through other Bank websites (for example, country-specific websites) or as publications, thus making it difficult to monitor their disclosure status. To address this issue, Management is taking steps to include the processing of all ESW in the operational portal—which is expected to serve as a one-stop shop for processing and monitoring all analytical work carried out by the Bank. These system enhancements will be accompanied by more training for staff on disclosure aspects.

37. ***Effective Dissemination.*** In addition to efforts to disclose the bulk of diagnostic work, the Bank has begun efforts at wider disclosure of ESW products and findings. For ESW activities, staff are increasingly designing and implementing communications/dissemination strategies and plans, with the support of communications professionals, to enhance ESW impact. These strategies and plans have identified key economic findings and policy recommendations tailored to various stakeholders, and delivered them through appropriate messages and channels. One good practice example is the recent diffusion of the "Afghanistan: Managing Public Finances for Development" report presented at the London Conference on Afghanistan in 2006.⁸¹ This ESW product was packaged and presented through different channels to increase understanding among diverse stakeholders and to prompt policy action. It was also widely disseminated in Afghanistan by engaging properly identified stakeholders that are involved in the development agenda in the country. In addition, as part of broader dissemination, ESW products are increasingly being translated into the local language; in FY05-06, ESW was translated into such languages as Dari, Serbian, French, Vietnamese, Portuguese, and Albanian.⁸² And finally, a

⁷⁹ For multicountry ESW or regional ESW, the relevant director means the Regional Chief Economist; in the case of global ESW, the relevant director means the Chair of the relevant Sector Board.

⁸⁰ Of the 347 reports for which an Activity Completion Summary was prepared in FY05-06, 95 have already been distributed to the Executive Directors, and are available to the public. Of the 67 that have been transferred to the Bank's Internal Documents Unit, 45 (about 67 percent) are publicly available.

⁸¹ The conference, co-chaired by the UN and Afghanistan, was held on January 31 and February 1, 2006. For more information, see the website. <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/SOUTHASIAEXT/0,contentMDK:20797159~pagePK:146736~piPK:146830~theSitePK:223547,00.html>

⁸² See Afghanistan—*Afghanistan Managing Public Finances for Development* (Report No. 34582-AF), December 22, 2005; Mauritania—Mauritania Transport Sector Overview (Report No. 30039-MR), September 29, 2004; Djibouti—*Republic of Djibouti Public Expenditure Review Making Public Finances Work for Growth and Poverty Reduction* (Report No. 34624-DJI) April 2006; Serbia and Montenegro—*Serbia and Montenegro Republic of Montenegro: Economic Memorandum: A Policy Agenda for Growth and Competitiveness* (Report No. 32623-YU) October 27, 2005; Vietnam—*Vietnam Managing Public Expenditure for Poverty Reduction and Growth: Public Expenditure Review and Integrated Fiduciary Assessment* (Report No. 30035-VN), April 28, 2005; Angola—*Angola Public Expenditure Management and Financial Accountability* (Report No. 29036-AO), February 16, 2005; Albania—*Albania Health Sector Note* (Report No. 32612-AL), February 2006.

range of ESW is available to the public through country's websites, public information centers and services, universities and local institutions.⁸³

38. **Challenges.** While there has been progress in disseminating ESW products, there is still insufficient attention to the strategic dissemination aspects of ESW at the concept stage and during task implementation.⁸⁴ Effective communication must be built into the activity from the beginning. If it is not, the Bank and the country may miss opportunities to engage stakeholders for greater impact, and may ultimately limit their potential to contribute to the policy dialogue for change and reform. Thus it will be important to ensure that strategic communications and dissemination are more strategically integrated into the ESW preparation cycle.

III. CONCLUSIONS

39. There have been continuing improvements in the coverage of core ESW since FY03, especially in the fiduciary area. However, gaps still remain; especially in AFR and in fragile states. The Bank expects to address most of the remaining gaps during FY07-08 (while remaining sensitive to countries' development priorities). For example, under the Africa Action Plan, AFR plans to deliver growth-related CEMs for at least four countries per year through FY08; and to facilitate the completion of PAs, several countries in AFR are updating their household surveys. In spite of the serious constraints facing fragile states, the Bank has significantly increased analytic work in these countries not only on core diagnostics but also through other products tailored to the specific issues relevant to the fragile states to support transitional development planning, and work to strengthen the knowledge base and readiness for potential reengagement in situations of prolonged crisis.

40. **Scope and Quality.** The scope and depth of ESW have grown significantly as more multifaceted and complex issues become central to the Bank's agenda. ESW has deepened the understanding of the levers for growth at the country level; fostered better integration of growth and macroeconomic, sector, and structural reform issues; and identified constraints to growth in such areas as governance and public institutions, private sector development, infrastructure, and regional integration. PSIA is being increasingly integrated as an approach in ESW to inform and influence the design of Bank operations. Notwithstanding the widened coverage of ESW, recent quality assessments by QAG indicate the overall quality of ESW remains stable, at about the same high levels as in FY02.

⁸³ The Bank extends information sharing and dissemination through its network of public information centers and services especially in countries where web penetration is low or too costly. The public information centers and/or public information function in 94 partner countries throughout the world are conveniently located to be accessible to the public for the discussion of development-related ideas and the diffusion of development-related information. Public information staff, who work under the External Affairs umbrella, are in charge of implementing an outreach and information dissemination strategy within the country, according to CAS objectives, and targeting stakeholders in the development agenda. More than 60 percent of the centers in capitals around the world are located in IDA-eligible countries. In addition, about 35 information centers and about 100 satellite centers are functioning in coordination and partnership with other donors and local institutions, to provide countrywide and one-stop access to information and participation, and contribute to local capacity development. (See the map of public access to information worldwide in Annex D.)

⁸⁴ See *Quality of Country AAA: A QAG Assessment*, November 22, 2005. See also "Assessment of the Quality of Other Economic and Sector Work," PowerPoint presentation, QAG, March 15, 2005.

41. **Impact and Linkages.** ESW provides the basic knowledge the Bank needs to carry out policy dialogue to underpin the design of strategies, programs, and operations. Although the effects of ESW are diffused, long-term, and dependent on intervening actions (thus rendering them difficult to disaggregate, quantify, and attribute), it is clear that ESW increasingly builds on issues identified in CAS or PRSPs, and that more analytic work is feeding into the design and coverage of programs, policy actions, development policy lending operations, and the formulation of government reform strategies.

42. **Participation and Partnerships.** The participatory approach to ESW is proving to be much more productive in engaging counterparts and in building ownership and capacity: greater borrower participation in the preparation of ESW has led to greater acceptance of the recommendations. The Bank is increasingly coordinating or working jointly with other donors on ESW activities, especially in the area of PFM reform.

43. **Areas for Follow-up.** The Bank will work to improve ESW performance in several areas:

- **Fragile States.** Going forward the Bank will continue to work to fill the knowledge gaps not only in core diagnostics, but also in areas that are specifically relevant in the fragile states context namely to strengthen our understanding of the political, social, and governance contexts.
- **Preparation time.** The Bank will continue to monitor trends in preparation time to ensure timely delivery of the output to the partner country.
- **Results tracking.** The results tracking system is quite new; the data presented here are the first to be collected from it. By measuring the interim outcomes of ESW tasks the tracking framework will facilitate aggregated reporting on results. The Bank will continue working to refine the tracking process and improve the tracking of results by ensuring that task teams' timely report on the ESW activities they carry out.
- **KPI: Share of ESW products done jointly.** The Bank is working to automate the population of KPIs developed in 2005 for tracking the share of ESW products done jointly with the development partners. OPCS will continue to work with staff to improve the timely entering of the information, and to spot-check the data.
- **Disclosure.** To enable more systematic tracking of disclosure, the Bank is enhancing the Operations Portal to include processing of analytic work. The success of this enhanced system will largely depend on task team efforts to reflect information accurately and in a timely manner. Training programs will include discussions of the importance of disclosure and will increase staff's awareness of how to process analytic work appropriately.
- **Effective dissemination.** Effective dissemination can involve a range of activities—identifying stakeholders, messages, and channels; planning and costing of dissemination activities, including translations and web packages; and arranging workshops, seminars, policy dialogues. Thus it needs to be planned and funded as an integral part of ESW design and management. Teams will continue to be encouraged

to consult with representatives of EXT—the professional communications staff working in Regions, Networks, country offices, and the Communications for Development unit within EXT—to design a communications/dissemination strategy early in the process.

Coverage of Fiduciary Diagnostics by Region, FY03 vs. FY06

<i>Region</i>	<i>Number of countries</i>	<i>FY03 Coverage (%)</i>	<i>FY06 Coverage (%)</i>
AFR	28	25	71
EAP	5	100	100
ECA	9	78	100
LCR	3	33	100
MNA	2	0	100
SAR	5	80	100
All Regions	52	46	85

Notes: Fiduciary diagnostics include PERs, CFAAs, and CPARs. This analysis includes only “active” countries. Afghanistan, Angola, Guyana, Haiti, Lesotho, Timor-Leste, and the countries of the Organization of Eastern Caribbean States, which recently moved to an “active” status are not included as they need more time to cover gaps.

Source: Business Warehouse database, July 12, 2006.

Core Diagnostic Coverage by Region, end-FY06

<i>Region</i>	<i>Number of countries</i>	<i>Coverage by 5 products</i>	<i>Coverage by 4 or more products</i>
AFR	28	29	64
EAP	5	60	100
ECA	9	89	100
LCR	3	100	100
MNA	2	50	100
SAR	5	100	100
All Regions	52	54	81

Notes: Analysis includes only “active” countries. Afghanistan, Angola, Guyana, Haiti, Lesotho, Timor-Leste, and the countries of the Organization of Eastern Caribbean States which recently moved to an “active” status are not included as they need more time to cover gaps.

Source: Business Warehouse database, July 12, 2006.

ANNEX B. ESW AND THE GROWTH AGENDA

1. This annex provides additional examples of how ESW has supported the growth agenda in IDA-eligible countries.

2. ***Growth-Related Work:*** Reports analyzing the reasons for stagnation of growth and laying out recommendations concerning policy directions and priorities include the following:

- A DPR for India¹ focuses on improving service delivery, particularly to poor people, by ensuring greater accountability and expanding the benefits of rapid growth across sectors, regions, and people.
- A study in Afghanistan highlights policies and institutions needed to make progress on state building, rapid and sustained broad-based economic growth, and poverty reduction. It also establishes priorities for action and implementation.²
- A study in Nigeria identifies policy options for long-term growth and poverty reduction compatible with the high degree of macroeconomic volatility and the challenging institutional realities faced by Nigerian policymakers.³
- A growth and export competitiveness study in Pakistan emphasizes that macroeconomic stability must remain the foundation for enhanced growth and highlights the critical macroeconomic dimensions of economic growth.⁴
- Sub-national studies in South Asia advocate economic, fiscal, and institutional reform to improve outcomes for income growth, job creation, poverty reduction, and human development.⁵

3. ***Public Institutions.*** To support partner countries in building and strengthening accountable public sector institutions, the Bank has carried out work such as the following:

- In Burkina Faso, recommendations of a Public Expenditure review (PER) and a Country Procurement Assessment Report (CPAR) delivered in FY05 were incorporated into the government's plan for strengthening budget management and will be reflected in future Poverty Reduction Support credits (PRSCs).⁶

¹ See *India Inclusive Growth and Service Delivery: Building on India's Success*, Development Policy Review (Report No. 34580-IN), June 15, 2006.

² See *Afghanistan: State Building, Sustaining Growth, and Reducing Poverty* (Report No. 29551-AF), September 9, 2004.

³ See *Nigeria Policy Options for Growth and Stability* (Report No. 26215- NG), July 31 2003.

⁴ See *Pakistan Growth and Export Competitiveness* (Report No. 35499- PK), April 25, 2006.

⁵ See *Pakistan Punjab Economic Report Towards a Medium-Term Development Strategy* (Report No. 29373-PAK) March 31, 2005 and *Pakistan - Northwest Frontier Province (NWFP) economic report : Accelerating Growth and Improving Public Service Delivery in the NWFP: The Way Forward* (Report No. 32764-PK) December 2005.

⁶ See *Burkina Faso—The Budget as Centerpiece of PRSP Implementation: Public Expenditure Review*, (Report No. 29154-BUR), June 25, 2005; and *Burkina Faso—Country Procurement Assessment Report* (Report No. 35933-BF), September 9, 2005.

- In Timor-Leste improvements in public financial management were supported by a PER delivered in June 2004.⁷

4. ***Private Sector Development.*** The findings of Investment Climate Assessments (ICAs) are being incorporated in CASs and PRSPs, and some operations have picked up on investment climate reform priorities. For example:

- Findings of the Lao PDR Investment Climate Assessment that was conducted jointly with Asian Development Bank formed the basis of the Private Sector Development Action Plan to coordinate key policy and institutional reforms.
- In Kenya, a recently completed ICA is providing a better understanding of the factors that determine investment and business activity in that country.⁸

5. ***Trade and Development.*** Of the 22 Diagnostic Trade Integration Studies the Bank has undertaken over FY04-06 in IDA-eligible countries, 17 have been completed (Angola, Benin, Burundi, Chad, Ethiopia, Guinea, Lao PDR, Madagascar, Malawi, Mali, Mozambique, Nepal, Rwanda, Sao Tome and Principe, Tanzania, Uganda, and Zambia) and 5 are in progress (Burkina Faso, Central African Republic, and Sierra Leone, with preparatory missions undertaken in Niger and Sudan). In addition, studies to identify opportunities and obstacles to trade competitiveness were undertaken for several other IDA-eligible countries in FY04-06: Bangladesh, Indonesia, Kenya, Kyrgyz Republic, Moldova, Mongolia, Pakistan, and Tajikistan.

⁷ See *Timor-Leste—Public Expenditure Review* (Report No. 27886-TP), July 19, 2004.

⁸ See *Kenya—Enhancing the Competitiveness of Kenya’s Manufacturing Sector: The Role of the Investment Climate Kenya* (Report No. 33664), November 2004.

ANNEX C. RESULTS TRACKING FRAMEWORK

1. The results tracking framework is designed to link individual economic and sector work (ESW) task development objectives (DOs) more closely with (interim) results achieved on the ground through a simplified system of activity reporting/monitoring. Reporting on ex ante task DOs provides a means for systematic and methodological ex post self-assessment of whether DOs have been achieved. A Development Objective/Result tab in each stage of task activity (Activity Initiation Summary, Activity Update Summary, Activity Completion Summary templates) enables task team leaders to record the development objective of the activity ex ante and the level of success achieved ex post. Assistance is provided to task managers on how best to identify task development outcomes/objectives and articulate their linkages to measurable result indicators. A brief summary of the results tracking framework, including more specific task objectives and their related result indicators, is presented below.

Rating Scale	
1	Fully met
0.75	Largely met
0.50	Partially met
0	No rating

<i>Development Objective (DO)</i>	<i>Result Indicators (R)</i>
DO1 - Inform lending	R1-1 Agreed lending program for sector/country R1-2 New loan under preparation/implementation R1-3 Other R1-4 Other
DO2 - Inform government policy	R2-1 New legislation adopted R2-2 Government decree issued R2-3 New government strategy adopted R2-4 Other R2-5 Other
DO3 - Build client analytic capacity	R3-1 Client makes major analytic contribution R3-2 Client learns to produce output independently R3-3 Other R3-4 Other
DO4 - Inform/stimulate public debate	R4-1 Media widely reports Bank analysis R4-2 Major stakeholders reflect on Bank views R4-3 Academic publications reflect on Bank views R4-4 Other R4-5 Other
DO5 - Influence development community	R5-1 Additional resources mobilized R5-2 Shift in donor policy/priorities R5-3 Other R5-4 Other

Table C1. Self-Assessment Ratings for Completed ESW Tasks, FY05

Country category	No. of products	Average rating for					Average no. of indicators per task	Total average rating
		DO1	DO2	DO3	DO4	DO5		
IDA/Blend	180	0.82	0.75	0.81	0.81	0.77	3	0.79
IBRD	120	0.85	0.74	0.82	0.86	0.77	2	0.80
Global/regional/ subregional/multicountry ^a	112	0.70	0.70	0.76	0.87	0.75	2	0.78

Note: ESW tasks are considered completed after the team leader evaluates the impact of the task through the Activity Completion Summary in the institutional system. Rating scale: 1 = Fully met; 0.75 = Largely met; 0.50 = Partially met, and 0 = No rating.

^a Refers to ESW tasks that cover more than one country, any of which may be eligible for IDA, IBRD or IBRD/IDA borrowing, and to tasks in countries that are not eligible for any bank borrowing.

Memo item: Of the total 694 FY05 delivered tasks, the ratio of completed tasks was as follows: 59 percent (304) IDA/Blend; 60 percent (200) IBRD countries; 59 percent (190) global/regional/subregional/multicountry.

Source: Business Warehouse database, July 30, 2006.

Table C2. DO Selected for Completed ESW Tasks, FY05

Country Category	No. of products	Percent				
		DO1	DO2	DO3	DO4	DO5
IDA/Blend	180	46	68	34	38	33
IBRD	120	31	68	33	36	17
Global/regional/ subregional/multicountry ^a	112	29	49	20	54	36

Note: ESW tasks are considered completed after the team leader evaluates the impact of the task through the Activity Completion Summary in the institutional system.

^a Refers to ESW tasks that cover more than one country, any of which may be eligible for IDA, IBRD or IBRD/IDA borrowing, and to tasks in countries that are not eligible for any bank borrowing.

Memo item: Of the total 694 FY05 delivered tasks, the ratio of completed tasks was as follows: 59 percent (304) IDA/Blend; 60 percent (200) IBRD countries; 59 percent (190) global/regional/subregional/multicountry.

Source: Business Warehouse database, July 30, 2006.

ANNEX D. PUBLIC ACCESS TO WORLD BANK INFORMATION, 2006

