

III. DESIGN OF THE CAS

1. CAS design is based on four building blocks—vision, diagnosis, results, and programming. This chapter discusses how recent CASs address each of these areas.

A. Vision: Alignment, Participation, and Collaboration

2. Country ownership of and commitment to a development strategy is a necessary condition for aid effectiveness. Therefore, the CAS must be based on a country-owned vision, developed by the government with broad stakeholder participation and consultation, so that the Bank program can be aligned with the country's own priorities.

1. Links to Country-Owned Development Strategies

3. All CASs take as their starting point the country's own vision of its development goals and its strategy for achieving them. Recent CASs and CPSs are well-aligned to countries' own strategic vision.

4. For IDA-eligible countries, the vision is usually set out in a poverty reduction strategy (PRS). All IDA CASs are aligned with the PRS, although the quality of the alignment depends also on the quality of the PRS itself. Alignment of development assistance to countries' own priorities has been a concern of the international aid community. Implementation of the Paris Declaration principles led to significant progress in collaboration between development partners. More recently, the Accra Agenda for Action highlighted the importance of ensuring alignment of aid programs with country priorities. The Bank has a long track record in synchronizing CAS preparation around governments' PRS schedule.¹ In some cases, CASs and PRSs are prepared simultaneously—for example, in Tanzania. In Vietnam, the CAS and PRS pillars are the same, while in Uganda and Ghana, the CAS programs specifically support parts of the PRS. Overall, the timing of the PRS and the CAS seems to be a determinant of the degree of alignment: CASs appear to draw directly from the government's own strategy in cases such as Uganda, Bhutan, and Ghana, but they are more weakly aligned where the two documents were prepared at different times. Now that PRSs are well established for IDA countries,² the benefits of aligning an IDA CAS with the country's PRS depend on the quality of that national strategy. The quality of PRSs is improving and, more importantly, they are increasingly being merged into national strategy and made more realistic through budget documents and processes (see Box 3).

Box 1. Rising Quality of Poverty Reduction Strategies

¹ The PRS was introduced by the World Bank and IMF in 1999 to help countries improve national development strategies and their implementation and to serve as a framework for facilitating alignment with country priorities and reliance on national institutions. The Bank's CAS guidelines were updated in 2002 to indicate that all CASs in IDA-eligible countries should be aligned with a country's PRS.

² As of June 2009, of 80 IDA-eligible countries, 60 are implementing a PRS, and 33 are implementing their second PRS. Among the other 20 countries, 4 have set out their medium-term strategy in either an interim PRS (Comoros, Grenada, and Togo), or a transitional results matrix (Sudan). See also Annex C, which provides an *Overview of Poverty Reduction Strategies, Interim PRSs, and Transitional Results Matrices in IDA-Eligible Countries*.

In the last five years, countries have made significant gains in strengthening their poverty reduction strategies.^a Looking at three factors—a unified strategic framework, prioritization within that framework, and a link between the national development strategy and the budget—67 percent of the 62 countries included in a recent review have significantly improved their national development strategies. Notably, the countries that have made the greatest progress are among those that are implementing second generation PRSs. The three factors are:

Unified strategic framework. The country's own national development strategy serves as the PRS for most IDA-eligible countries. Though many of the first PRSs were undertaken separately from traditional constitutionally or legally-mandated national development strategies or plans, PRSs are now being absorbed back into national processes while retaining PRS principles. Such consolidation makes the strategies much more likely to be implemented and sustained.

Prioritization. Many countries are also making progress in improving prioritization, often by integrating of sector strategies (covering not only the social sectors but also such cross-cutting aspects of development as infrastructure, private sector development, governance, gender, HIV/AIDS and the environment) into the national development strategy. In addition, prioritization has improved as more countries integrate long-term goals, many drawn from the MDGs, with medium-term targets. Closer collaboration among external donors and between external partners and governments has helped. For example, the integration into national development strategies of MDG assessments, improved diagnostic work on budget constraints, and shared or joint growth and poverty alleviation analytic work has helped countries to reconcile diverse views into a single strategy. In addition, improved prioritization has often been facilitated by improved collaboration within government, particularly when ministries of finance and planning are merged or the president's office takes leadership to ensure that finance and planning ministries cooperate more closely.

Strategic link to the budget. Relatively less progress has been made on establishing a link between the national strategy and the budget. A medium-term fiscal framework (MTFF) can determine the overall fiscal envelope. Links between a MTFF and program-based medium-term expenditure frameworks can then inform resource allocation for the implementation of sector strategies. Many countries have made some progress in developing these frameworks, but substantial progress can be made only as agreement on desired program and sector results is forged within a country, as sector strategies are costed, and as central and line ministries improve coordination during the preparation of the budget. Often times, this cannot be fully achieved when a PRS, a strategic document, is prepared.

^a *Results-Based National Development Strategies: Assessment and Challenges Ahead* (SecM2008-0009), January 10, 2008.

5. For IBRD-eligible countries, the government's vision is often set out in a national development strategy, or in sectoral and subnational strategies. Priorities often include a focus on strengthening delivery of infrastructure services, institutional issues, such as subnational public sector management, addressing youth unemployment or income inequality across regions and population groups, inclusion of excluded populations, and increasingly developing policies and institutions to improve environmental management.

6. **Flexible Implementation is Key to Alignment.** Changes in country demand during the CAS period means that the Bank needs to remain flexible during CAS implementation, to ensure continued alignment with country priorities. In higher-income MICs with access to a variety of other sources of financing and knowledge services, and in fragile and conflict-affected states – where needs on the ground often change quickly – the Bank needs to change and adapt its services during CAS implementation. In addition, external or domestic shocks can often change country priorities. Over the past fiscal year, as food and oil prices spiked and the global financial crisis unfolded, Bank clients stepped up demand for knowledge and financial services from the

World Bank Group, requiring at times significant departures from existing CASs. The Bank's ability to respond was made possible only by a flexible implementation of country strategies.

2. Participation and Disclosure

7. Broad participation by stakeholders and consultations with civil society, supported by disclosure of CAS documents, can help identify the internal and external challenges countries face, delineate the most effective interventions for the Bank, and build support for the Bank program. Today most CASs—and, to a lesser extent, Interim Strategy Notes and CAS PRs—are drafted in close consultation with government, usually with numerous ministries and agencies and at various levels, from national to local; often, parliaments are also consulted. The Bank also often undertakes consultations with a broad array of stakeholders—civil society and the private sector (NGOs, labor unions, universities, and business associations), as well as other development partners. Those consultations are most successful where they are closely aligned with government processes for national development strategies. Depending on the country, the degree and depth of consultations varies.³

8. ***Participation in CASs Reviewed.*** Some country teams have made significant efforts to deepen government involvement and leverage a sense of shared accountability through creative mechanisms. For example, the Tajikistan CAS was refined during a two-day out-of-country retreat between senior Bank Group staff and the entire team of government decision-makers. This approach, based on joint diagnosis and discussion rather than on presentation of a pre-developed draft strategy, allowed the Government to discuss the various challenges and proposed Bank interventions and emerge with a clear understanding of the underlying logic of the proposed strategy.

9. ***Disclosure of Country Strategy Documents.*** Participation has been underpinned by the Bank's disclosure policy, which has a strong presumption in favor of public access to CAS product documents. Changes in information disclosure policies over the past 10 years have substantially improved the disclosure of the Bank's country strategies: it is expected that all CAS product documents are disclosed, with very few exceptions. The Bank's track record in the area of disclosure of CAS products is strong: all but one of the 89 CAS documents of the last three years have been or are being disclosed.⁴ In many countries, Bank staff are proactively promoting dissemination of the CAS, rather than simply facilitating passive disclosure of the document. This process follows naturally from the stakeholder and partner consultation and coordination that has become mainstreamed in CAS design.

³ This review used five factors to assess the quality of participation: (a) level of intragovernmental participation; (b) extent and nature of civil society involvement, including direct consultations with poor and vulnerable groups; (c) institutional mechanisms for donor coordination and collaboration; (d) continuous feedback mechanisms for follow-up (during and after formulation) and mechanisms for information disclosure; and (e) linkages with existing processes (such as PRSPs).

⁴ Three CAS products, two in FY08 (Côte d'Ivoire and Eritrea ISNs) and one in the first half of FY09 (Sierra Leone CAS PR) were still waiting for government authorization for disclosure at the time this report was drafted. The FY08 Somalia ISN was not disclosed because there was no government in power at the time of the strategy that could authorize disclosure. Bank operations in the territory of Somalia were to be based on an explicit request from the international community as represented by UN agencies (see OP 2.30, *Development Cooperation and Conflict*, para. 3).

3. *World Bank Group CASs*

10. IBRD- and IDA-funded activities have greater development impact in a country if they are designed and implemented in the context of an integrated Bank Group-wide approach. The case for integrated World Bank Group country strategies—including IDA and IBRD with IFC and MIGA—has recently been confirmed in IEG’s evaluation of Bank support for middle-income countries (MICs) and in the MIC Strategy⁵ endorsed by the Development Committee. At the same time, IDA15’s increased emphasis on private sector development argues for a growing involvement of IFC in IDA-eligible clients.⁶ The MIC Strategy also proposes that additional gains to CASs are possible if CASs include Treasury’s financial services and trust fund activities.

a. Joint Bank-IFC CASs

11. A vibrant private sector is central to growth and poverty reduction, and the public and private sector arms of the World Bank Group support private sector development in their respective areas of competence—IDA and IBRD helping governments improve the environment for private sector activities (including the regulatory system and the delivery of infrastructure and public services), and IFC fostering the private sector through strategic financial engagements, technical assistance, and development of markets. Collaboration can increase the development impact of both arms, while keeping conflicts of interest to a minimum. Since the first joint World Bank Group country strategy in 1996, such documents have become increasingly common: over the last decade, the share of jointly prepared CAS products has increased from about one-fifth in FY96-98 to near two-thirds in FY06-09). While there are examples of good practice, there is scope to enhance Bank-IFC collaboration – namely through updated guidance on joint Bank-IFC CASs and the implementation and assessment of a pilot to enhance joint CASs.

12. ***Role of Bank Group Joint CASs.*** CAS guidelines call for Bank-IFC CASs in all countries where the Bank and IFC see substantial scope for collaboration and synergy in private sector development activities. While exploiting potential synergies ultimately is a matter of collaboration on the operational level, joint CASs can set the stage by discussing the private sector role in addressing key development challenges, articulating private sector support in that light, exploring potential synergies of IDA/IBRD and IFC activities (and MIGA guarantees, where appropriate) in particular areas, and establishing a framework for collaboration on the operational level. Recent joint CASs, for both IDA and IBRD clients, point to some common factors in good practice World Bank Group strategies: a mutual need for cooperation and strong private sector engagement in the country, and frequent and constructive engagement among Bank and IFC staff at the working level.

13. ***IBRD-IFC CASs.*** In recent joint IBRD-IFC CASs, the presentation of Bank and IFC support for private sector development varies widely with respect to format, detail, and level of integration: some CASs have separate IFC paragraphs without clear ties to specific parts of the

⁵ See IEG’s *Development Results in Middle-Income Countries: An Evaluation of the World Bank’s Support* (CODE2007-0042), June 19, 2007; see also *Strengthening the World Bank’s Engagement with IBRD Partner Countries* (DC2006-0014), September 7, 2006.

⁶ *Additions to IDA Resources: Fifteenth Replenishment: IDA: The Platform for Achieving Results at the Country Level*, draft, November 2007.

Bank's support program, while a few are comprehensive and integrated strategy documents (see Box 4). Overall, the CAS for Peru comes closest to presenting a comprehensive framework for collaboration. Key features that are also apparent in the CAS for Brazil include the active interest of government and private sector actors in development services across the public-private spectrum, the matching (where relevant) of IFC's and the Bank's areas of focus, the screening of program areas for potential synergies, and the establishment of a mechanism or process for collaboration on the operational level. (Box 5 replicates a box in the Brazil CAS, which includes a good practice example of a collaborative framework.)

Box 2. Examples of Good Practice in Joint IBRD-IFC CASs

The Chile CAS presents a WBG program that includes IFC and Bank activities in the area-by-area description of objectives and WBG engagement and also offers a box with a good practice example of a collaborative framework. It describes synergies and coordinated activities in one area (energy security), specifies other areas with potential synergies, states that possibilities for coordinated engagement in these areas are being reviewed with the Government, and commits management to monitor and facilitate staff efforts to identify opportunities for collaboration and carry out implementation.

In the CAS for Russia, IFC activities dominate WBG support for one of the four building blocks—sustaining rapid growth. The presentation of this pillar integrates IBRD's policy advisory work and potential investment lending for federal and regional government projects into a support strategy for private sector-led growth.

The CAS for Peru provides the best example of integration, with a substantive discussion of the complementarities of Bank and IFC activities in achieving the objectives of the joint program. The text also explores potential synergies and possibilities for collaboration, e.g., in income-generating projects for the poor in the Sierra, development of the urban informal sector, and the delivery of water and sanitation services. The CAS notes that the Government takes an active interest in the coordination of Bank and IFC activities on the operational level

Box 3. One World Bank Group in Brazil: How the IFC and IBRD are Working Together

There is growing recognition in Brazil that effective development solutions involve actions by both the public and private sectors. As the IBRD side of the business focuses increasingly on the “desafios paradigmáticos” for the public sector, so the IFC increasingly focuses on areas where the private sector in Brazil needs to develop and change. There is a growing demand from clients—public and private alike—for better integrated public/private action on key themes.

Over the past two years the IFC and IBRD have begun exploring areas where they can work more effectively together. Preparation for this has included several working meetings bringing together IBRD and IFC staff, with the specific objective of identifying “low-hanging fruit,” where cooperation could give results in the short term. Substantial progress has been made in several areas.

Foremost among these is the Amazon, where the IFC and IBRD have developed a joint engagement framework. IBRD works with states in improving land titling and environmental management, while the IFC works with major private firms to start a process of ensuring that agricultural and livestock activities respect environmental and social laws. Third-party certification plays an increasing role in such activities.

A second emerging example is IFC engagement with the rural poverty programs financed by the Bank in the Northeast. As the focus of these programs shifts from service provision to production, so the role of the private sector (as producer, purchaser of products, and an intermediary) becomes vital, and the partnership between the IBRD (with long experience in working with 40,000 organized communities) and the IFC

(which knows how to identify and develop supply chains) becomes highly productive.

A third area of growing collaboration has been via the IFC/IBRD Subnational Facility. The Ministry of Finance has authorized this facility to operate with independent public entities, such as state utility companies. IBRD and IFC staff are working closely on developing a portfolio of activities with state water companies, with the idea that more of these should emulate the best (which are already listed on Wall Street). In doing this, priority is given to those states where the IBRD is supporting other major programs, so that this becomes another element in overall support to reforming governors.

A fourth area is business climate. The IFC has been active in doing business climate surveys in 13 states in Brazil. Where the IBRD works with states and municipalities involved in this process, it seeks to translate the results of the IFC surveys into practical changes.

14. **IDA-IFC Joint CASs.** IFC and IDA have a history of ad hoc collaboration that includes joint analytic work, IFC advisory work complementing IDA or IBRD credits or policy dialogue, sequenced projects (where an IFC investment follows an IDA credit), and joint projects (where an IFC investment and an IDA credit finance complementary project components). In principle, the joint preparation of CASs should allow the scaling-up of joint activities—making them less dependent on individual staff initiatives—provided it leads to a substantive agreement on the private sector development strategy, based on a shared analysis of the key issues, and to the identification of opportunities for collaboration in the country. Some of the 18 recent joint IDA-IFC (or blend-IFC) CASs simply map IFC activities into a Bank-designed support program; but others provide useful examples for more significant collaboration with IFC (see Box 6).

Box 4. Examples of Good Practice in Joint IDA-IFC CASs

The *Tajikistan* CAS places IFC in the lead for designing the WBG program for one of three pillars (“Improve business opportunities in rural and urban areas”). This leads to complementary and coordinated IFC, IDA, and partner activities aimed at working with the Government on a strategic framework for private sector development, reducing the cost of doing business as measured by IFC surveys, improving access to financing by private businesses, and increasing income opportunities for farmers following up on IDA’s Agriculture Sector Strategy.

The *Madagascar* CAS stands out in guiding collaboration on the operational level for one of its two pillars (“Remove the bottlenecks to investment and growth in rural and urban areas”). It presents various joint projects or activities (with IDA and IFC financing project components), including replication of a successful Integrated Growth Poles project, guarantees for PPP investments in a hydropower project, an IDA-IFC Risk-Sharing Facility, and joint work with the Government on a specific concession arrangement. The CAS also explores areas for collaborating on complementary activities such as facilitating access to credit and other financial services, such as leasing and improving the regulatory environment in mining, forestry, and tourism.

The *Albania* CAS provides a separate IFC strategy in an annex in which it analyzes the underlying development issues for each of IFC’s areas of engagement (manufacturing and corporate sector, financial sector, infrastructure, and the outsourcing of public services to the private sector). That analysis clearly informs the Bank’s diagnosis (in the main text) of the country’s key development challenges with respect to maintaining high rates of growth and improving service delivery—that is, the Albania CAS is

based on a shared analysis of the key issues. The IFC strategy also identifies areas of opportunity for joint IDA-IFC activities, though it would have been more effective if picked up in the program discussion of the main text.

15. ***Enhancing Bank-IFC Collaboration.*** Although the numbers of joint Bank-IFC CASs have grown, they are still relatively few—partly because CASs are already heavy documents, and partly because significant differences in the *modus operandi* of the Bank and IFC have made closer collaboration difficult. However, these differences are narrowing: for instance, IFC is gradually adopting a country focus, moving toward a more programmatic approach, and working to measure the broader development impact of its activities; and the Bank is shortening the preparation times of operations while increasing its adaptability and speed of response. To improve the joint CAS process, the Bank’s OPCS and IFC’s Strategy Department⁷ have launched a joint CAS pilot involving six country teams: Albania, Burkina Faso, Nepal, Philippines, Sierra Leone, and the Republic of Yemen. The pilot focuses on IDA countries, but includes one blend country (Albania) and one IBRD-only country (Philippines). It involves both CASs and two Interim Strategy Notes. The pilot includes a collaborative process in strategy preparation and implementation; identification of a small number of priority sectors for potential collaboration and joint team sector strategy workshops; and joint contributions to the results framework. On completion of the pilot, a review will identify lessons, recommend how conclusions might be mainstreamed, and assess how IFC might gradually implement a more formal country strategy process that could be linked to both the joint CAS and to the IFC’s annual Lots strategy process.

16. ***Priority Categories.*** Until now, Joint Bank/IFC/MIGA CASs have been categorized as A, B, or C according to the relative priority of private sector development and the level of IFC/MIGA activity in the country. Category A CASs are for countries where the strategic priority for private sector development activities is identified as high; Bank and IFC/MIGA staff collaborate on preparation of the CAS, which includes a separate private sector strategy annex. Category B CASs are for countries where there is substantial scope for collaboration and synergy in private sector development activities; IFC and MIGA activities are reflected in the text of the CASs. Category C CASs are for countries where the scope for Bank and IFC collaboration is modest, and IFC/MIGA involvement in preparation of the CAS is limited. With the increasing integration of Bank and IFC/MIGA activities around a joint program focusing on development results, this categorization is no longer appropriate and will be discontinued.

b. Trust Funds

17. Since the Board’s endorsement of the Management Framework for World Bank-Administered Trust Funds⁸ on October 30, 2007, Management has sought to bring trust funds (TFs) into the mainstream of Bank business—and specifically to enhance the alignment of the TF portfolio with the Bank’s overall strategic stance at the corporate, VPU, and country level.

⁷ MIGA’s participation in joint CASs is inherently limited by its business model as a political risk insurer without the capacity to design or develop projects. MIGA coordinates its activities with Bank and IFC at the operational level, particularly in large and complex projects; but participation on the strategic level rarely goes beyond the identification of general strategic priorities. Thus MIGA’s broader or more systematic contribution to joint strategies is not being recommended at this stage.

⁸ *A Management Framework for World Bank Administered Trust Funds* (R-2007-0198, IDA R-2007-0247),

At the country level, when trust-funded contributions to the country program are significant, the CAS products should systematically reflect the TFs. To facilitate this stronger alignment—and thus enhance development impact—in July 2008, OPCS and CFP issued guidance to staff on the elements of a phased integration of TFs in CAS products. The CAS should cover all categories of TFs (Bank-executed, recipient-executed, and financial intermediation), to the extent possible, emphasizing the nature of support provided through different types of TFs (e.g., financing/cofinancing development programs, funding implementation of global partnerships and programs, and funding key elements of the Bank’s own work program and activities related to Bank-financed projects). It should include the following:

- A discussion of the role of TFs in delivering the Bank’s program of activities, and of the contribution of these activities to the country’s development goals, all integrated into the presentation of the CAS program and expected results.
- Integration of TFs into the overall CAS Results Matrix, with a clear indication of the role of TF activities in the results chains linking Bank-supported interventions through CAS outcomes to country development goals.
- A brief description of the status of the TF portfolio, integrated into the broader portfolio performance discussions.
- Review of implementation issues, when relevant, including fiduciary, financial and other safeguards issues, the management framework of TFs in the country, and specific institutional/country constraints.
- A discussion of risks specific to the TF portfolio, integrated into the broad risk discussions.
- A discussion of the role of TFs in the Bank’s partnership with the country’s other development partners.

In addition, the CAS Completion Reports should, to the extent possible, include a very brief stocktaking of TF activities and outstanding implementation issues and integrate TF activities into the evaluation of the previous CAS program, the Bank’s performance in delivering the program, and lessons learned.

4. Coordination and Partner Collaboration

18. The March 2005 Paris Declaration on Aid Effectiveness committed the international development community to deepened harmonization of aid, particularly through collaborative (or joint) country assistance strategies among multiple donors. Country leadership where a government has the capacity to coordinate development financing without excessive transactions costs is ideal—and is indeed the case in Brazil, China, India, Mexico, Peru, and Turkey, for example. However, even in IDA-only countries—Bangladesh, Cambodia, Nigeria, and Uganda, for example—a collaborative approach to donor country strategies can be useful to (a) enhance the complementarity of assistance by development partners within the framework of the

country's policy priorities and development goals, and (b) reduce transaction costs for aid recipients.

19. *Elements of a Collaborative CAS.* Among the recent Bank CASs analyzed for this report, 15 were prepared collaboratively.⁹ The degree of collaboration among development partners on country assistance strategies runs across a spectrum from coordinated timing (Honduras), to joint evaluation of the country situation (Kyrgyz Republic and Timor Leste), to a compact with operational principles (Bangladesh, Papua New Guinea, and Vietnam), to joint results frameworks (Bangladesh and Mozambique), to fully joint strategy documents (Ghana, Tanzania, and Uganda). Different joint elements can be distinguished:

- Joint review of the country situation, including a common understanding of the major challenges to achieve the MDGs.
- Joint assessment of the PRS or other economic development plan, usually based on the Bank-Fund Joint Staff Advisory Note (JSAN) and on Bank-Fund debt sustainability analysis (DSA).
- A compact for collaboration, which is a statement of principles and commitments to operate in a collaborative way: for instance, to strive for joint analytic work, for program-based approaches, or for strengthening and using country systems while moving away from parallel implementation arrangements.
- An aid effectiveness and/or harmonization action plan, which is the government's plan to implement the Paris Declaration, including benchmarks on all or some of the Paris indicators, agreed between the government and donors.
- Joint response of the development partners on how to deal with the development challenges of the country, what kind of support to give to the strategic pillars of PRS, and what modalities and instruments are preferred. In some cases (Ghana and Tanzania), this part has been elaborated into a detailed joint aid program.
- An arrangement for joint results monitoring, including a common results matrix and a common risk assessment and mitigation approach.
- Mapping of donors against sectors, or against the strategic pillars of the PRS or another development plan. Mapping can include both the role of the donor in a given sector (e.g., leading partner, active partner, or silent partner) and expected financing.
- Joint strategic consultations during the preparation of the country assistance strategy, which may lead to a more effective division of labor between donors.

The CASs of Ghana, Tanzania, Uganda, and to a lesser extent the CASs of Bangladesh and Kyrgyz Republic, contain most or all of the joint elements, and are joint program documents shared with the other participating development partners; all other collaborative CASs have one or a few of the joint elements.

⁹ To varying degrees, the CASs for Bangladesh, Central African Republic, Ghana, Honduras, Kyrgyz Republic, Mali, Mauritania, Mozambique, Papua New Guinea, Rwanda, Tajikistan, Tanzania, Timor-Leste, Uganda, and Vietnam were collaborative among donors.

20. ***Lessons Learned for Collaborative Country Strategy Work.*** Initial lessons include the importance of government interest and commitment to a joint strategy by development partners, and clearly articulated preferences for the nature and scope of collaboration; the need to ensure that a collaborative CAS does not overshadow or institute a process parallel to the country's PRS or other national process; the usefulness of partners' having clear and joint understanding on the objectives of the collaboration and what they want out of the process; and the requirement for a transparent division of labor that is led by aid recipient preferences and not by those of development partners. At a practical level, the experiences in Ghana and Tanzania have demonstrated that the transactions costs of developing and implementing fully joint country strategy documents are high: the process demands extensive preparation time, and leads to often lengthy country strategy documents that can emphasize more focused on development partner processes, and less on a country strategy well aligned with country priorities than would be desired. The Tanzania CAS, in particular, demonstrates the need for balance between a collaborative approach and length and focus of the document. Although the transactions costs for the Bank can be significantly higher, the Bank will continue to support efforts to develop collaborative assistance strategies, in particular when this exercise is led by the partner government. ¹⁰

21. ***Bank-Specific Document in the Context of Coordinated Aid.*** A joint vision on the country's development challenges, a joint assessment of the country's development strategy, a coordinated response, a common results framework, and a joint understanding of the risks involved are important parts of a Bank country strategy that is prepared collaboratively with other development partners. However, the Bank's CAS document should focus on the specific contribution of the Bank, while referring to the joint strategy, which could hence be presented in an annex or as a separate volume. In fully joint CASs, it is difficult to separate the Bank's own strategy (and the indicative results the Bank intends to contribute to) from that of other development partners, and to identify the contribution and value added of Bank activities to CAS outcomes. In addition, the role of corporate oversight and the role of the Board in finalizing the CAS are made difficult if any suggested change to the document triggers a complex process of multiple donor agreements. Indeed, many of the fully joint CASs reflect the difficulties of using a collective monitoring mechanism while ensuring a framework for accountability for results by each individual development agency, including the Bank. This suggests the advisability of a return to the original vision of PRSs or other national strategies as the main tool for aid coordination, with governments leading the discussion with and among donors.

22. ***Collaboration Going Forward.*** There are many benefits of a coordinated strategy of assistance, and the Bank intends to deepen its collaboration with development partners both at the institutional level, and – more importantly – at the country level. As part of CAS and country strategy work, Bank staff will prepare mapping exercises based on available information at the country level, which will be included in IDA CASs, whenever appropriate. These will include mapping of donors against sectors, or against the strategic pillars of the PRS or another development plan. Mapping can include both the role of the donor in a given sector (e.g., leading partner, active partner, or silent partner) and expected financing, to the extent that individual development partners make that information available to the Bank.

¹⁰ “Collaborative Country Assistance Strategies,” Harmonization and Alignment Brief No. 5, October 2006.

23. Although collaboration among donors, particularly when it is led by country governments, clearly enhances the effectiveness of aid and reduces transaction costs for governments receiving aid from multiple sources, a key lesson of these early experiences is that joint multiagency documents are not fundamental to making aid more effective. It is the underlying cooperation among donors under strong government ownership that reduces government transaction costs, not necessarily joint documents. The Bank and each development partner can have its own distinct country assistance strategy document, indicating in these documents how its own assistance responds to country priorities, and how it complements that of other development partners. Drawing on an analysis of collaborative CASs and the findings of this Retrospective, OPCS is preparing a Good Practice Note to enhance the benefits of collaboration among development partners in IDA countries, while providing clearer guidance to staff on the need to ensure a strategic focus and a clear depiction of the Bank’s own contribution to client countries.

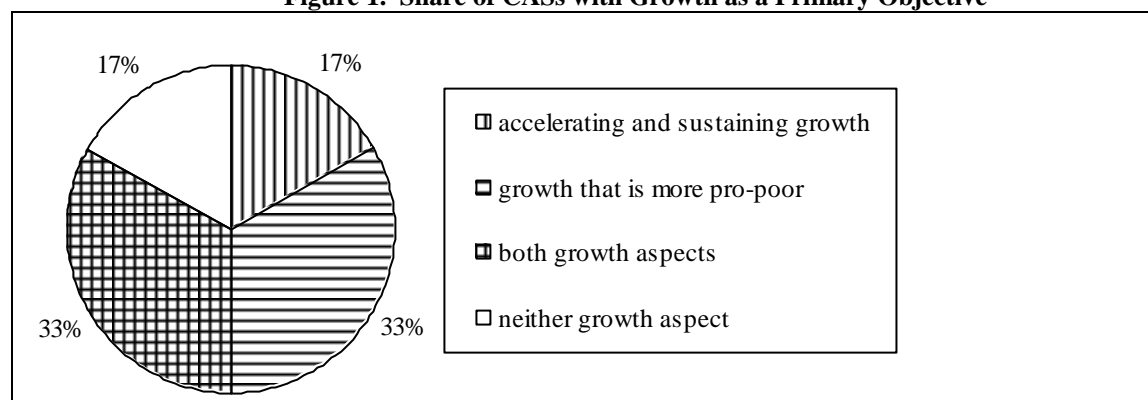
B. Diagnosis: Critical Elements in Defining the Bank’s Strategy

24. The CAS’s principal objective is to identify areas where the Bank can best help a country achieve sustainable development and reduce poverty. Its diagnosis of the country’s development prospects should confirm and complement the government’s own strategic vision, providing a foundation for Bank support. This section focuses on the critical elements that build an intellectual base for the Bank’s strategy.

1. Economic Growth and Macroeconomic Policies

25. Given the Bank’s mandate to support sustainable economic growth and poverty reduction, a growth diagnostic is fundamental to every CAS—and is also consistent with the objectives of most governments’ strategies. In virtually all recent CASs (87 percent of IBRD countries and 81 percent of IDA countries), economic growth is explicitly set out as a key objective or pillar in the CAS results framework (see Figure 3).

Figure 1. Share of CASs with Growth as a Primary Objective



26. **Growth Diagnostics.** The assessment of the country’s growth process and development challenges varies in quality. While all CASs include an overview of the country’s recent economic performance and generally describe the key drivers of growth, this diagnosis is incomplete or partial in more than half of the CASs. In particular, while all CASs review recent GDP growth, only half (including those for Argentina, Bulgaria, Brazil, Chile, and Tanzania)

discuss the evolution of GDP per capita. While many CASs take a relatively short-term perspective, a longer-term perspective can provide a more compelling assessment of the sustainability of the country's growth process. The Ukraine CAS, for example, includes a useful analysis of the longer-term process of economic transformation and portrays the longer-term development challenges that the country may be facing in terms of such issues as demography, migrations, and spatial development. Many CASs fail to analyze determinants of growth: 47 percent do not include any discussion of private investment rates or trends, and 58 percent do not review other important economic variables such as domestic or national savings rates. While about two-thirds of CASs highlight the criticality of international competitiveness for growth, only a minority (14 out of 36, including those for the Kyrgyz Republic, Honduras, and Mauritania) discuss the evolution of key competitiveness indicators such as the real effective exchange rate and export market shares.

27. **Analytic Underpinnings.** Drawing on available analytic work—a Country Economic Memorandum, Development Policy Review, Public expenditure Review and Poverty Assessment, for example—the CAS assesses growth performance and policies and analyzes the country's development situation, answering such as the following:

- In countries that have experienced economic decline or slow or volatile growth, what are the main constraints to more rapid and sustained growth? In countries that have demonstrated a satisfactory growth performance over recent years, is the country's growth process sustainable? What will be the main drivers of growth in the short to long run?
- Is the country's pattern of growth contributing to sustained poverty reduction? How could the country's growth strategy be more pro-poor?
- Is the country's poverty and growth strategy (PRSP) cognizant of, and appropriately responding to, existing or emerging development challenges?¹¹
- Are macroeconomic policies and trends sustainable and conducive to growth and poverty reduction? What are the existing or emerging macroeconomic challenges and risks for the period of the CAS?

28. **Prioritized Analysis.** The analysis of development challenges, especially in some of the CASs prepared jointly with other partners, provides a sector-by-sector review of key constraints and issues (agriculture, infrastructure, governance, health, education, telecoms). While this kind of review is informative, CASs that include a prioritized analysis tend to better reflect trade-offs and to more effectively lay out short- to medium-term priorities and policy implications. (Box 7 provides good practice examples.) This analysis sets out a clear strategic framework for the CAS period (and beyond), with a compelling but succinct discussion of priorities in terms of macroeconomic and structural policies. This diagnosis is typically anchored in a discussion of long-term development challenges, such as urban-rural migration, demographic trends, environmental sustainability issues, and the use of natural resources. The discussion of sector-

¹¹ In countries where a JSAN is available, the CAS needs to summarize the most important messages and refer to the JSAN for a more detailed discussion.

specific issues and policies should happen only when the CAS has established that these sectors or subsectors are of utmost importance for sustainable growth and poverty reduction or that the Bank will intervene in these areas. The CAS should highlight differences of view with the government on the growth strategy.

Box 5. Good Practice in Assessing Growth and Development Challenges

The *China* CAS explains that the country's growth strategy needs to shift from a growth driven by the industrial sector and capital accumulation, to a more balanced pattern of growth, with more focus on the service sector and productivity gains. The CAS reflects the need to revisit taxation and pricing policies to ensure a more sustainable use of energy, and summarizes key measures to promote urban employment, market efficiency, and innovation.

The *Timor-Leste* CAS clearly and concisely lays out the tremendous challenges stemming from high demographic pressures, unsustainable use of resources, and low agricultural productivity. It reviews the evolution of GDP per capita and indicates that aid, which has been fueling the country's economic recovery, exceeds the country's absorptive capacity. The strategy then sets out short-term priorities for promoting growth and employment in the non-oil economy, calling for a proactive fiscal policy. In a second step, the CAS develops some strategic orientations for a longer-term, sustainable solution to unemployment and low productivity in rural areas.

The *Russia* CAS finds that the main drivers of past broad-based economic recovery and expansion are no longer sustainable, and that inequalities may be on the rise across regions. The strategy then summarizes the Government's priorities for promoting regional development centered on regional urban centers and cross-regional migrations.

The *Colombia CPS*, prepared in early 2008 – prior to the onset of the financial crisis – highlights that the rapid growth of 2007 was expected to subside to more sustainable growth rates of around 5 percent of GDP during the remainder of the CPS period, as domestic demand had been growing faster than GDP, inflation had accelerated and the current account deficit had widened. The main external risk to the economy identified in the CPS was a slowdown in the global economy, particularly if key trading partners like the United States were affected by this slowdown.

Similarly, the *Senegal* CAS explains in some details how fiscal policy could be made more effective to promote growth, and lists short- and long-term policy priorities for private sector-led development in areas where the country has a comparative advantage.

29. **Macroeconomic Assessment.** The assessment of the country's macroeconomic framework aims at indicating whether (a) recent macroeconomic trends and policies are sustainable, and (b) macroeconomic policies are consistent with and supportive of the government's strategic priorities for growth and poverty reduction during the CAS period. The analysis also includes a discussion of country-specific risks that may affect CAS outcomes and country development goals. The quality, depth, and coverage of macroeconomic assessments have varied widely in recent CASs. Over half include some analysis of the government's past fiscal policy and raise medium-term fiscal sustainability issues in countries where risks are perceived as high. Only a few CASs address contingent liabilities issues (9 out of 36) and fiscal

risks associated with the subnational level of governments or the financial sector. About one-third of CASs point to potential or existing sources of balance of payments vulnerabilities for the short to medium term, highlighting recent developments and prospects for imports and exports growth.¹² In countries where financial sector vulnerabilities may jeopardize macroeconomic stability, such as Ukraine or Vietnam, CASs are generally cognizant of these risks. However, early lessons from the ongoing financial crisis suggest that macroeconomic and financial sector vulnerabilities were underestimated. Monetary, exchange rate, and trade policies are less frequently discussed, in just one-third to one-half of reviewed CASs. Virtually all CASs propose some discussion of debt and debt sustainability, sometimes accompanied by an annex.¹³ The emphasis is generally on external debt; domestic debt is mentioned, sometimes very briefly, in only 42 percent of CASs (including the discussion in Debt Sustainability Analyses), despite the fact that, in some countries, it is fairly high and may hamper private sector development and growth. Debt-related risks are typically characterized as low, moderate, or high, especially in IDA countries; in some CASs, however, the discussion of debt-related risks comes across as limited and isolated from the remainder of the CAS document. In particular, the impact of the Bank's proposed lending program on the country debt situation and debt service burden is rarely discussed

30. ***Macroeconomic Projections and Risks.*** Most CASs (60 percent) lay out the economic outlook for the medium term—typically the CAS period. However, nearly half have little or no discussion of the country's macroeconomic and growth outlook, or any discussion of the government's macroeconomic policies for the CAS period. Roughly half of the CASs include economic forecasts for the CAS period in the main text. In projecting the country's macroeconomic outlook, staff draw on Bank and government forecasts, together with IMF data in 61 percent of cases.¹⁴ The economic outlook is frequently based on the assumption (which is sometimes implicit) that the Government will implement prudent macroeconomic policies and continue structural reforms. Indeed, about half of the CASs indicate that macroeconomic discipline, even though frequently qualified as fragile, has been maintained or restored in the country. Only a handful of recent CASs indicate that the government is pursuing unsustainable policies. Notwithstanding most governments' commitment to macroeconomic stability, the macroeconomic framework is very frequently described as a source of risk to CAS outcomes and country goals. These risks include, in particular, unsustainable fiscal deficit and debt levels, financial sector vulnerabilities, government's contingent liabilities, and vulnerability to terms of trade or other trade shocks. This Retrospective finds that CASs often fail to fully incorporate the Bank's own macroeconomic analysis.

31. ***Macroeconomic Scenarios.*** Few CASs propose more than one macroeconomic scenario for the near future. ISNs include a considerably lighter treatment of macroeconomic issues, for reasons having to do with limited data availability and often higher levels of uncertainty about

¹² One-third of CASs do not mention or comment on the country's current account balance. Data are provided in the standard KEI tables but not reflected nor discussed in the CAS.

¹³ Eleven CASs make no mention of any formal debt sustainability analysis and one CAS points to divergence of views with the IMF.

¹⁴ While there is almost no mention of any divergence between the Bank and the Fund as regards macroeconomic projections, a few CASs consider explicitly that government projections, as laid out in the authorities' strategic documents, are overoptimistic or particularly ambitious—as in Sri Lanka, Pakistan, and Madagascar.

the macroeconomic outlook (see Box 8). Given the uncertainties in the economic outlook arising from the global financial crisis, there is scope for teams to include more than one macroeconomic scenario, and articulate in the CAS or ISN how different scenarios would influence Bank programming.

Box 6. Macroeconomic Assessment in ISNs

Recent economic performance and economic outlook. All 22 ISNs describe recent economic developments and macroeconomic policies, usually accompanied by a standard table of key economic and exposure indicators with macroeconomic projections updated at least through the end of the period covered by the ISN. The depth of analysis of economic trends falls short of an assessment of macroeconomic policies in many cases; and only half of the ISNs focus on the medium-term economic outlook, likely because most ISNs have a time span of 18-24 months.

Debt sustainability analysis. The external debt outlook is usually discussed, based on any available Debt Sustainability Analysis (DSA). The ISNs for five countries that have benefited from debt relief under HIPC/MDRI also focus on management of debt relief resources (e.g., Cameroon and Nicaragua).

Macroeconomic data deficiencies. Several of the ISNs are missing recent macroeconomic data because of poor data quality and availability (Liberia, Iraq, Uzbekistan, and Zimbabwe). These data difficulties affect the quality of analytic work.

Analytic underpinnings. Half of the ISNs draw directly from the findings of a recent CEM or other core diagnostic report that provides an integrated analytic platform for the strategy (Iraq, Afghanistan and, Rwanda). The Nepal ISN's medium-term macroeconomic outlook is based on a Bank macro-modeling framework. In contrast, there are some ISNs (CAR, Liberia, Somalia, and Uzbekistan) with no reference to completed ESW. For Panama, given the gap in engagement, the ISN focuses on research, analytic work, and technical assistance.

IMF coordination in ISNs. The ISNs are often prepared in close coordination with the IMF, especially in the countries that have an active IMF arrangement such as ongoing PRGF programs (Afghanistan, CAR, Cameroon, Republic of Congo, Haiti, Nepal, Nicaragua, and Rwanda). Perhaps because of data deficiencies, the IMF plays a more dominant role on macroeconomic issues in some of the countries with ISNs than in those with full CASs.

32. **Economic Data and Projections.** CASs should more systematically include and comment on economic projections for the CAS period in the main text rather than in an annex—with explicit assumptions regarding underlying macroeconomic policies. Country teams would be required to include the standard set of macroeconomic indicators, which would usefully include some basic indicators that many recent CASs do not present, such as indicators of GDP per capita growth, real exchange rate, and private investment ratios. However, country teams should have the flexibility to highlight and discuss in more depth the most relevant indicators for the country. In parallel, the standard annex on Key Economic Indicators, which is rarely referred to in the main document, could be dropped. In line with existing guidance, risks to the economic outlook would need to be clearly laid out, including, if applicable, the risk that the government may not pursue adequate macroeconomic policies during the CAS period.

2. Poverty and Gender Analysis and Diagnosis

33. One of the basic planks of the CAS is a succinct description and diagnosis of poverty, covering poverty incidence, trends, causes and correlates, and non-income dimensions such as access to services and gender equity, with links to the MDGs.¹⁵ The discussion should be based on a poverty assessment or other available analyses, using recent data wherever possible. Where information is outdated or scant, the CAS should acknowledge information gaps and identify pending work by the Bank or others intended to address them. Significant progress has been made over the past decade in mainstreaming poverty analysis in the Bank, and over two-thirds of the CASs cover poverty in some depth—both in the diagnostic section and, importantly, in the CAS program.

- IDA CASs were generally able to draw on PRSs, which include an analysis of poverty and its correlates. This, along with stepped-up Bank attention to poverty issues in IDA countries, is likely to have contributed to the comprehensiveness of the poverty discussions in IDA CASs, particularly in the South Asia and Africa Regions. AFR CASs tend to show a greater focus on poverty than those of other Regions, covering, at least to some degree, the non-income aspects of poverty, gender disparities, MDGs, and the impact of country conditions, including conflict. The Ghana CAS poverty description, for example, supplemented outdated poverty data from 1999 with more recent figures from the Core Welfare Indicators Questionnaire to derive poverty headcounts and trends. It also discussed regional disparities, detailed the particular constraints affecting poor rural producers, and paid attention to the link between unequal land rights and female poverty and exclusion.
- IBRD CASs are less consistent in their poverty coverage—perhaps because IBRD clients prefer to focus on other themes and priorities, such as economic growth, regional/ethnic/gender inequality, competitiveness, or environmental management. Nevertheless middle-income countries are still home to 70 percent of the world's poor, and hence coverage of poverty issues in CASs and CPSs remains relevant.

34. **Links with Growth.** As part of the poverty diagnosis, a CAS should analyze the links between poverty reduction and the level and pattern of growth in the country, analyzing how, and to what extent, the poor participate and are included in the growth process. Recent CASs most frequently depict the poor as consumers of public goods and government services, and often miss the opportunity to regard them as productive actors contributing to and benefiting from growth. Interestingly, AFR CASs seemed more inclined than others to view poor people as actors who move out of poverty through income-increasing activities, and to discuss short- and long-run paths out of poverty. Compared to the average, ECA CASs were likelier to treat the poor as consumers of public services and focus on redistributive policies, particularly in the sectors in which the poor currently derive their incomes. The ISNs and the IBRD CASs were significantly stronger on average than IDA CASs in considering the distributional aspects of growth. A common shortcoming in the treatment of poverty was the absence of a discussion of poverty trends and of how the poor earn their incomes. Interestingly, access to recent or complete data was not necessarily the limiting factor for good poverty discussions. The Afghanistan ISN and Bhutan CAS, for example, both highlighted data constraints (for

¹⁵ See Operational Policies 1.0 and 4.2.

Afghanistan, linked to conflict, and for Bhutan, the lack of post-2003 data), but made the most of available data to present good poverty descriptions (see Box 9).

35. The Bank's CAS draws on and discusses the findings of gender assessments - these assessments may be in the form of a Bank report - such as a specialized stand-alone country gender assessment - or part of other economic and sector work such as a poverty assessment, a development policy review, or a country economic memorandum. Alternatively, the CAS may draw on assessments that have been carried out by the country or an organization other than the Bank, if the Bank finds the assessments to be satisfactory (see OP 4.20 Gender and Development). PREM analysis of CASs prepared between FY02 and FY08 indicates that the majority of Bank country assistance strategies (71 percent of FY02-08) continue to adequately address gender issues. Over FY07 and FY08, integration of gender issues in CASs remained unchanged, at 60 percent. On average, IDA CASs reflect greater attention to the issue, possibly due to both greater gender inequality in IDA-eligible countries and significant attention to gender issues in country PRSs. Bank programs outlined in CASs then reflect the actual country demand for Bank services, including on ways to address gender disparities.

Box 7. Good Practice in Addressing Data Gaps

Acknowledging that data limitations limited the accuracy of the poverty analysis, the Afghanistan ISN drew extensively on the 2003 National Risk and Vulnerability Assessment (NRVA) for information about rural poverty (a 2005 NRVA was being analyzed for data on the urban as well as rural population, and its limitations analyzed to provide a basis for designing a household survey program) as well as vulnerability, poverty correlates (regional, demographic, gender, disability, education level), and livelihood constraints (access to land, irrigation and markets). There was no discussion of poverty trends, but this lack probably derived from conflict-related unavailability. The ISN provided an "Afghanised" list of MDGs with modified targets and indicators for the year 2020 and additional targets for the security sector, relevant to the country's post-conflict reality. The ISN noted that the Bank, along with the IMF and several bilaterals, are collaborating with the Central Statistics Office to build capacity for further poverty analysis and monitoring.

3. Integration of Governance and Anticorruption in CASs

36. A discussion of governance and corruption conditions in the country is now a standard feature of all CASs.¹⁶ The discussion of governance and anticorruption (GAC) issues, which is usually grounded in AAA, generally covers the GAC conditions in the country, the causes of corruption, and government commitment and track record in GAC areas. In countries where Bank-financed operations face a relatively higher risk from corruption, the CAS presented a better discussion of the relationship between GAC and growth and poverty reduction (which in IDA countries generally refers back to the PRS) as well as a better discussion of the government's commitment and track record. Overall, the quality of this discussion has improved, particularly in the FY07-08 CASs, but there is scope for improvement in the following areas: (a) discussion of the extent to which governance and anticorruption weaknesses are constraining poverty reduction and growth; (b) presentation of an explicit connection between diagnosis and follow-up in the CASs; (c) a discussion of the state and effectiveness of accountability institutions outside of the executive branch of government; and (d) the assessment

¹⁶ This review used the same questionnaire of 16 closed-ended questions used to review CASs for GAC issues since FY99. It also used an expanded version in use since FY06.

of risks to Bank operations. Where mitigation measures were discussed, fiduciary controls and social accountability instruments were the main mitigation measures proposed.

37. ***Strengthening GAC Diagnosis in CASs.*** Experience with the Country Governance and Corruption Assessments pilot and the PREM-led assistance in diagnosis as part of strategy preparation, which has been extended to the country teams for Mali, Mongolia, South Sudan, and Zambia, has shown the value of upstream GAC diagnosis ahead of CAS preparation. Mainstreaming this approach will require ensuring a balance between costs and preparation time on one hand, and alignment with the timing of CAS preparation.

38. ***Bank Programming Related to GAC Issues.*** All CAS programs in the review period included support to country efforts for GAC through analytical support, capacity building, and/or lending support. Such support was predominantly extended to the executive branch to increase the supply of measures to build state capacity in public financial management and to address governance constraints to the private sector. The demand side for governance was supported in about half the CAS programs by (a) promoting local participation and community empowerment; (b) promoting civil society organization participation and capacity building (in about a third of the CASs); and (c) building capacity of oversight agencies (primarily the judiciary). This suggests that there was a considerable imbalance between supporting the supply and demand sides of good governance.

39. ***GAC Diagnosis and Programming in ISNs.*** Governance and corruption were important areas of focus in nearly all ISNs, even if the word corruption itself was not always explicitly mentioned. Similarly, fiduciary risks were covered explicitly in most strategies. Most strategies included a comprehensive diagnosis of the governance situation in the country, often grounded on Bank AAA. The majority of strategies supporting governance reforms focused on the Bank's traditional areas of core competence—public expenditure, public financial management, and procurement—although several sought to increase the demand side of governance through working with and building the capacity of civil society (Zimbabwe), or to deepen the accountability work of normal operations through engagement with community-based groups (Nepal).

40. ***Country Team Pilots on GAC.*** The GAC Implementation Plan for FY08 articulates concrete steps to implement the GAC strategy and proposes that country teams undertake a country-level process aimed at strengthening World Bank Group engagement on governance and anticorruption—a “CGAC process” (Country Governance and Anticorruption implementation plan process). Twenty-seven country teams are pursuing innovative ways of engaging partners and clients on governance, typically as part of CAS preparation. The CGAC processes will likely look quite different in different country settings: country circumstances will drive the particular combination of additional diagnostic work, often with an emphasis on political economic analysis; outreach and consultations; and workshops, dialogue, and other engagement activities. The lessons of these 27 CGAC processes will be used to mainstream more effective approaches to strengthening governance and anticorruption into CAS design and implementation—they are expected to help the Bank learn better how to ensure systematic treatment of GAC impediments to development effectiveness and, as appropriate, support GAC reform in client countries to increase the development effectiveness of countries' public expenditures as well as Bank-supported programs. Lessons from early experience of (CGAC) processes suggest that upstream, focused diagnostic work on those governance issues that

impede the achievement of country goals can be a useful tool to inform CAS diagnostic, especially when the diagnostic is shared by the government and is linked to CAS programming.

41. ***Use of Country Systems.*** As noted above much of the GAC analysis has relied on the Bank's work on procurement and public financial management. The GAC Strategy paid particular attention to the strengthening of country fiduciary systems. In 2005 the Board approved a pilot for the use of country safeguard systems, and in 2008 approved a parallel pilot program for international procurement. (Financial management already uses country systems as the default.) For the procurement pilot, the situation is being assessed in some 16 countries, and beyond this the Bank is supporting many countries to carry out diagnoses of the state of national procurement systems. This increased focus on the assessment of country procurement systems and the gaps that may exist in such systems prior to their being relied upon can be an important input to the CAS. In many such countries, the Bank would aim to provide support to the necessary capacity building efforts during the CAS period, so that the Bank can move to rely upon the country's system for the procurement financed under its loans and credits. Similarly, the Safeguards assessment carried out in the context of proposals to use country safeguard systems identified needed gap filling in such systems. The focus of any such discussion in the CAS, which would be indicated in the case of proposed pilot countries, would be on these necessary capacity building efforts.

4. Global Public Goods: Country-Level Activities with Global Benefits

42. Increased globalization over the last decade, along with rapid economic growth in middle-income countries, has heightened the sense of economic, social, and ecological interdependence while intensifying concerns over a growing list of global problems. The WBG contributes to the global public goods (GPG) agenda by participating in global programs, developing appropriate financing modalities, and engaging in constructive advocacy based on analytic work.¹⁷ In addition, the Bank Group works with member countries to address regional and global issues in a manner consistent with their development needs.

43. ***Country Actions and Global Public Goods.*** While the analysis of GPGs raises no new issues, it does raise tensions with the country-based model: when the Bank wishes to support activities related to GPGs, at what level should the problem be addressed? Local or regional governments are expected to organize schools and collect the trash, and national governments are expected to defend the country's borders and manage its currency. For GPGs there is no workable market or governmental mechanism that is appropriate for the problems; there is no mechanism by which global citizens can make binding collective decisions to slow global warming, cure overfishing, or efficiently combat AIDS. National governments have the actual power and legal authority to establish laws and institutions within their territories; this includes the right to internalize externalities within their boundaries and provide for national public goods. Under the governing mechanisms of individual countries, they can take steps to raise taxes or enact legislation that gives their citizens incentives to clean their air and water.

¹⁷ Global public goods are goods whose impacts are indivisibly spread around the entire globe (Nordhaus, 2005). As public goods, they have the two key properties of non-rivalry and non-excludability. One of the distinguishing features of most global public goods is that they are generally "stock externalities"—that is, their impact depends upon a stock of a capital-like variable that accumulates over time. For example, the impacts might be functions of pollution concentrations or knowledge, which are augmented by flows of emissions or learning, and which depreciate according to some process such as precipitation or obsolescence.

44. ***The CAS and Public Goods.*** These are the kinds of actions that the Bank can (and already does) support through programs laid out in CASs. Many actions that the WBG supports in a country have dual benefits: for example, sustainable forest management both benefits local communities and avoids the greenhouse gas emissions associated with deforestation, and strengthening of national health systems both improves the domestic delivery of health services and helps control the spread of communicable diseases. The WBG supports activities with global implications in many of its clients—for example, environmental management in Mexico and Brazil, recovery of sodic lands in India, or support for programs fighting human influenza in over 50 countries. In addition, much of the Bank’s work on knowledge has a GPG character, and countries may not always recognize or appropriate the benefits of this work. Country strategies do not always highlight the relevance for global concerns of WBG support for national actions. However, there is scope to do more in ensuring the coherence between country-level interventions and global/regional objectives, as recognized in the 2008 Development Committee paper *Global Public Goods: A Framework for the Role of the World Bank*.

45. Some CASs do explore cross-country externalities that have regional consequences, such as those dealing with riparian water rights, transit arrangements for landlocked countries, and regional infrastructure). A few regional assistance strategies were prepared,¹⁸ with specific national level activities reflected in CASs for the countries involved. Nevertheless, there is scope for the Bank to explore further the extent to which its engagement at the country level can contribute more fully to enhancing global and regional externalities.

C. Results

46. All CASs are now expected to be results-based. The shift to results-based CASs (RBCASs) in June 2005 was motivated by concern, laid out in the third CAS retrospective report, that typically neither the CAS program matrix nor the CAS text clearly differentiated between longer-term development goals and those that the Bank program intended to affect during the CAS period. As a result, CASs suffered from a lack of prioritization and often failed to describe the data sources available to verify results indicators. Most CASs included too large a set of performance targets and indicators that could only be loosely related to Bank activities (such as GDP growth, agricultural output, or employment), but imposed heavy information requirements. In nearly all cases, baselines and targets were lacking, undermining the possibility of ex post assessment of whether intended results were achieved. Moreover, performance as measured against the indicators set out in the previous CAS was generally not carefully evaluated in preparation for the next CAS. The third retrospective concluded that the results component was the weakest part of CASs and proposed the pilot phase of the RB CAS.

47. ***Three Components of a Results-Based CAS.*** The results-based approach to the CAS was intended to foster a more well-defined and realistic formulation of the country outcomes to which Bank activities are expected to contribute directly during the CAS period; a better framework for monitoring progress during CAS implementation so as to improve results on the ground and provide evidence after CAS implementation to demonstrate results; and better

¹⁸ Regional Integration Strategy for Sub-Saharan Africa (2008), CAS for the Eastern Caribbean Sub-Region (2004), Regional Integration Assistance Strategy for West Africa (2001), and Regional Integration Assistance Strategy for Central Africa (2001).

incorporation of lessons from the past through a formal assessment of the last CAS. Thus each CAS needs to include the following:

- A **results matrix** that lays out the logical links between the country's goals and the Bank's program, specifies what the Bank program is expected to achieve, and forms the backbone of the storyline set out in the text of the CAS document.
- **Monitoring arrangements** that take into account limitations in the country's statistical and monitoring capacity and indicate how these deficiencies will be addressed. In country settings where capacity remains a challenge (including most IDA countries), statistical and monitoring and evaluation capacity building should feature prominently in the CAS.
- A **Completion Report**, a self-evaluation of the preceding strategy.

This section reviews practice related to results matrices and statistical capacity building; completion reporting is discussed in Chapter V.

1. CAS Results Matrices

48. The CAS results matrix is the key tool for laying out intended CAS outcomes. It includes the relevant development goals for the country, the CAS objectives (the country outcomes that the Bank expects to influence during the CAS period), a set of milestones for monitoring progress, and the related Bank interventions (see Annex E for a results matrix template). The matrix is meant to communicate the key relationships in the underlying results framework to readers of the CAS document, indicate what specific outcomes the Bank is seeking to influence at the government's request, and provide a monitoring tool for Management during implementation. All CASs now include results matrices.

49. **Quality of Results Frameworks.** An analysis of consecutive CASs for the same country in a small sample of countries shows improving results orientation and focus (see Box 11). However, the quality of results frameworks varies widely. Stronger results matrices include clear logical links between Bank activities and country-level results, and explicit baselines and targets for results; weaker results matrices often reflect excessive ambition in the contribution of Bank activities to particular outcomes, making attribution of CAS outcomes to Bank activities difficult to establish and weakening accountability for Bank performance. These shortcomings of some CAS results frameworks reflect confusion at the conceptual level between higher-level *country goals* (such as the rates of poverty incidence or school enrollment), which are influenced by a variety of factors, and lower-level *CAS outcomes* (design and implementation of a safety net targeting mechanism through analytic work and a development policy operation, or the construction of 50 schools through an investment project), which the Bank can more directly influence through its activities (see Annex E for a results matrix template).

50. **Developing Results Frameworks.** There are practical challenges in establishing specific, measurable results frameworks for a four-year Bank program of development services that is necessarily indicative—that is, there will be changes in the activities the Bank will be requested to provide. Indeed, most of the results from Bank activities during CAS implementation derive from the portfolio under implementation. Nevertheless, as the CAS is implemented, and as each specific activity is defined and launched—whether it is financing for a particular investment project or development policy operation, or knowledge services through analytic support or

technical assistance—a specific results frameworks needs to be laid out and reflected in the CASPR and the CASCR. This places increased importance not only on CASs, but also on ex-post reporting to Management and the Board through CAS Progress Reports (which assess and update results frameworks) and through CAS Completion Report

Box 8. Findings from Consecutive CASs

Is there evidence that a results-based approach is being translated into more effective strategies with measurable results in terms of poverty reduction and enhanced growth? More effective strategies would include greater selectivity in program design, better defined benchmarks and greater statistical capacity for monitoring outcomes, and strengthened donor coordination. There is anecdotal evidence of the evolution of these characteristics in consecutive CASs for Albania, Honduras, Malawi, and Senegal.

Selectivity. The early cohort CASs state that greater selectivity is being exercised, but subsequent CAEs (and CAS Completion Reports) then recommend more selectivity and more realistic results. Later CASs attempt to incorporate greater selectivity in different ways and with varying degrees of success:

- Reducing the number of CAS pillars, but typically through relabeling or regrouping key objectives.
- Explicitly stating sectors that will be excluded from CAS support; but lending programs tend to continue to span almost as many sectors as the previous CAS.
- Recognizing that the portfolio continues to be broad in scope but proposing to concentrate new lending and AAA in a narrower range of policy reforms and sector investments. The number of proposed operations is reduced in the subsequent CAS.

Better benchmarks and improved monitoring. More recent CASs for the same country exhibit greater discussion of results-orientation, more quantitative benchmarks, and greater availability of baseline data. There is also more emphasis on strengthening country statistical systems rather than setting up separate project-specific monitoring systems. More recent CASs also show better integration of AAA into the results focus and the use of AAA to ensure adequate monitoring.

More focus on partnership. While donor coordination is a goal in both earlier and later CASs, recent CASs tend to report the development of a more structured approach to aid coordination, likely under the impetus of the Paris Declaration, including, for example, reports on agreements in sectors where the Bank would play leading, central, or junior roles.

51. **Logical Links in Results Matrices.** The review of 43 CASs carried out for this report focused on the clarity and persuasiveness of linkages between the Bank’s interventions, expected CAS outcomes, and country development goals—the results chains. Most CASs were found to have results designs of acceptable quality. A few recent CASs demonstrated strong results chains: three had particularly strong results frameworks in which most country development goals were logically linked to CAS outcomes, which in turn had clear links to Bank activities.¹⁹ The FY07 and FY08 CASs had somewhat stronger results matrices than those delivered in FY06. This improvement has been sustained in FY09, with a good practice results framework in a CAS prepared for the Philippines. Nevertheless, most of the best results matrices belong to IDA CASs—Honduras, Lesotho, Malawi, Nicaragua, Senegal, and Yemen (see Figure 4). CAS outcomes in IBRD CASs still tend to be too ambitious or too optimistic and still tend to overstate the Bank’s contributions to country development. Only one of the 16 IBRD CASs reviewed was

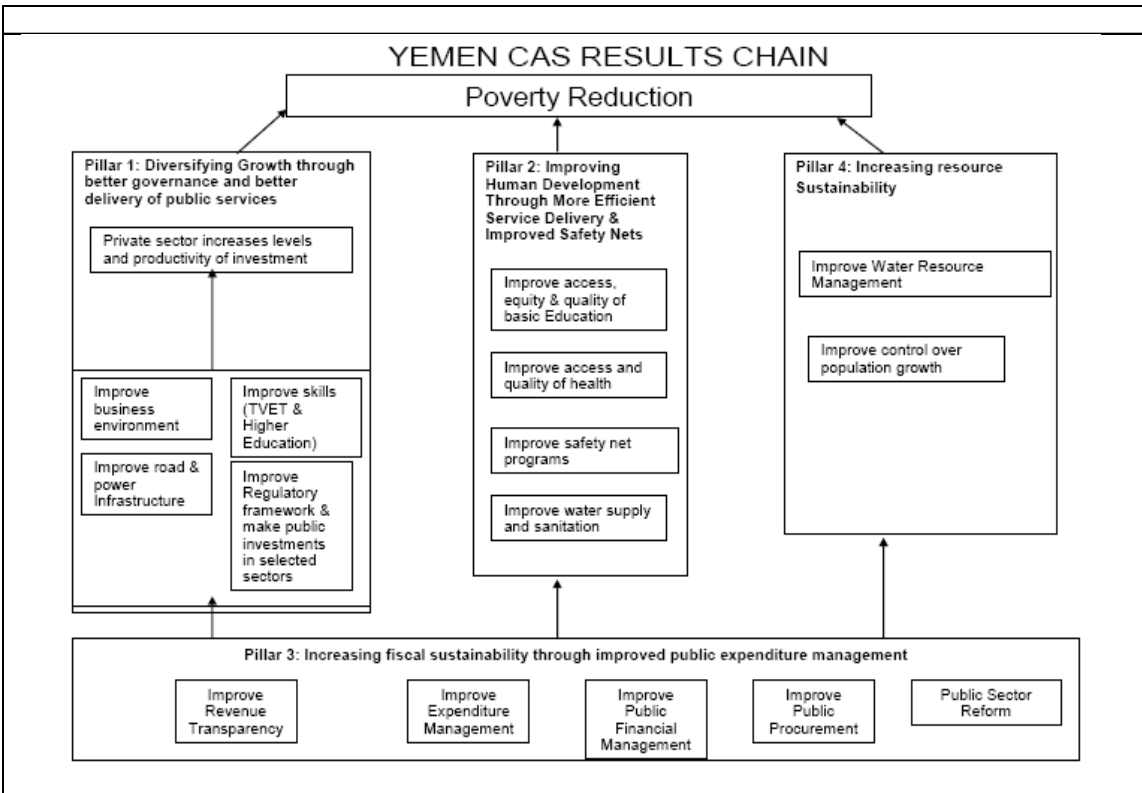
¹⁹ The Chile CAS did not include a standard results matrix but instead country development goals, project-level indicators, and AAA targets for evaluation.

deemed to be strong on the realism of the CAS outcomes—the CAS for the Russian Federation, where a limited program was matched by moderate expected impact.

52. ***Measurability of Results in IDA and IBRD CASs.*** The results matrix relies on adequate indicators for measuring progress toward results. Measurable indicators, with baselines and targets, are needed for the three levels of results presented in the CAS results matrix—country development goals, CAS outcomes, and milestones. Recent CASs were reviewed for the measurability and precision of results and the existence of baselines and targets. In general, recent CASs tended to suffer from the challenge of identifying relevant and available indicators that can be tracked over time, with the average CAS falling exactly between moderately weak and moderately strong: between half and three-quarters of CAS outcomes, and half of country goals and milestones, were specific and monitorable. IDA CASs were distinctly stronger on indicators than IBRD CASs. There was a similarly weak pattern in the area of setting targets and baselines: between half and three-quarters of CAS outcome indicators had baselines and targets, while only half of country goals and milestones had them).

53. ***Selectivity in Results Matrices.*** In an RBCAS, rather than counting the number of sectors or themes where the Bank plans activities, a better gauge of selectivity is the sharpness of focus of the results matrix. The number of CAS results, and in particular, CAS outcomes, is a good first indicator of selectivity. On average, each CAS during FY06-08 Q2 set out 25 outcomes, but the number varied from a low of 5 outcomes to a high of 72. The average CAS identified 12 country development objectives, and more than 50 milestones to keep track of progress on results. Using this metric, which is admittedly not ideal, selectivity in CASs results matrices has been steadily improving, with the number of goals for country programs narrowing and falling from an average of 32 for all countries in FY06 to 21 in FY07 and 20 in the first half of FY08. Because in IBRD countries Bank services tend to focus on fewer sector and activities, IBRD CASs fare better on selectivity, with fewer than 10 country development goals on average, under 20 CAS outcomes (for FY07-08), and about 40 milestones.

Figure 2. Diagrammatic Summary of a Results Matrix: Yemen CAS



54. **Improving CAS Program Outcomes.** It is difficult to assess the success of Bank program outcomes over time, since results-based CASs were launched only in 2005 and mainstreamed a year later. Comparisons of ratings in CASCRs (and IEG assessments of CASCR) over time, before and after the introduction of RBCASs, cannot be meaningful. While more than 55 Completion Reports have been prepared, only 11 were based on RB CASs: six on RBCAS pilots (Armenia, Brazil, Mozambique, Sri Lanka, Ukraine, and Zambia) and five on subsequent RBCASs (Guatemala, Nigeria, Philippines, Romania, and Yemen). IEG rated one (Armenia) satisfactory, seven (Brazil, Guatemala, Mozambique, Nigeria, Philippines, Ukraine, Yemen,) “moderately satisfactory”, and three (Romania, Sri Lanka and Zambia) “moderately unsatisfactory”.

55. **Divergence Between Project and Program Outcomes.** IEG’s Annual Review of Development Effectiveness (2008) and QAG’s Annual Report on Portfolio Performance (2007) both noted that performance in projects was better than country performance. The ARDE noted poorer performance in Bank operations in smaller countries, and African countries, and better performance in middle-income countries than in lower-income countries. The ARDE did not seek to explain the reasons for this finding. The ARPP explained the divergence between project and program outcomes through three factors.

- **Omissions.** Major gaps in country (or sectoral) programs may lead to an unsatisfactory rating, whereas projects may not be affected by the omitted elements and may do well.

- **Design.** In many CASs, the causal chain from projects to sectors to country program was poorly specified so that successful projects could not be expected to result in successful country programs.
- **Coverage** of country assessments is broader, including analytic work, country dialogue, and donor coordination.

To these reasons, the following could be added:

- **Selection.** Project managers may select countries, sectors, and projects that will yield the most favorable portfolio. Country directors do not have this luxury but must answer for all sectors and countries, whether risky or well-performing.
- **Uncertainty.** CASs cover a relatively long period and reflect the demand for Bank services at the time they are drafted. When a CAS is prepared, there is often considerable uncertainty about the specific results the Bank will seek to support, results that are only made more specific when a particular activity is designed and launched.
- **Realism.** CASs often set unrealistically ambitious targets, especially in the area of policy improvement. Projects, by contrast, may establish more realistic targets based on construction objectives (miles of roads rehabilitated, number of wells).
- **Risk.** Exogenous factors are more likely to upset the complex sets of aims in CASs but are less likely to overturn simpler aims in projects.

56. **Project/Program Convergence.** With the RB CAS outcomes improving, can we anticipate an eventual convergence between program outcomes and project outcomes? This is not certain. From the factors generating divergences, four will continue even if the CASs continue to improve: selection, risk, coverage and omissions. Improved design, however, could affect convergence in two ways: if good projects lead to good country outcomes, and with more realism in CASs, country outcomes may converge upwards to project outcomes. On the other hand, if the objective of better CAS program outcomes begins to exert pressure to design more projects in difficult countries and sectors, then there may be some convergence as the project ratings decline towards program ratings.

57. **Program Aspects that Raise Special Challenges.** Experience with a broad set of clients indicates that RB CASs are especially difficult to design for country programs with any of the following characteristics:

- **Uncertainty during the CAS period.** Design of a four-year program and, in particular, identifying and committing to CAS outcomes is difficult if there is significant uncertainty about country developments, government demand for specific activities, or the results chains linking Bank activities to country objectives. The Bank aims to select activities that are broadly owned by country stakeholders, and robust to many economic and political developments, and for which knowledge is sufficient to be able to think through a results framework. In situations of uncertainty, some CASs—example those for Ukraine, Romania, and Bulgaria have used the approach of providing a specific and detailed program only for the first few years of the CAS, with a broad overview for outer years. By necessity, the results

matrix also can only cover the agreed activities, leaving the task of updating and extending CAS outcomes to the midpoint Progress Report. It is important to note that uncertainty about the Bank's program in the outer years of the CAS typically affects the results matrix modestly, since results in the near term will be delivered mostly through the ongoing portfolio and recently completed activities, rather than the new Bank program.

- ***Emphasis on AAA.*** Determining the impact of nonlending instruments is difficult. In most CASs, the aggregation of lending and nonlending activities aimed at the same objective eases the task of devising a results chain linking AAA to country goals. In some CASs—particularly for middle-income clients—knowledge services constitute the major part of the support program. The Chile CAS, for example, presents an AAA program that is large relative to the agreed lending program and may grow if the Government takes up the option of fee-based services under a framework agreement. Similarly, the Russia CAS emphasizes AAA particularly, increased use of conventional and reimbursable fee-for-service TA. The result matrix in the Russia CAS could not generate strong links from the limited set of Bank activities to country goals, but it selected realistic and modest CAS outcomes that were logically linked to activities. The Chile CAS, by comparison, set up a separate approach to evaluating the value of AAA but did not present a standard results matrix.
- ***World Bank as a small player.*** In many IBRD countries for which CASs have been prepared in recent years (Algeria, Chile, China, Mexico, Philippines, Russia) as well as some IDA countries such as Pakistan and Vietnam, the World Bank Group is a small player in development finance (and in the client's public finances). Nevertheless, the Bank Group continues to play an important development role in these countries. Through a combination of AAA and knowledge embedded in its limited lending, the Bank has supported innovations that, when replicated on a broader scale, have provided benefits that far exceed the direct benefits of the individual projects. In the China CAS, for instance, spillover benefits have included key policy or institutional reforms, upgraded technologies, and stronger human resource capacity in local governments. Also, when the client's financing needs are small or can be met economically from alternative sources, an innovative approach to knowledge services can be used, as in the Chile CAS. The design of an appropriately limited results matrix, though, has not become common practice.
- ***Collaborative CASs with other donors.*** When results are defined as joint, it is especially difficult to unravel Bank program's contribution to country outcomes. The result matrices of most of the collaborative CASs during FY06-08 showed other development partners contributing to the same CAS outcomes as the Bank. However it may be difficult at times to distinguish the value added of Bank activities from that of other donors'.
- ***Joint CASs with IFC and MIGA.*** The differing approaches to defining and reporting on results for IFC, MIGA, and the Bank pose significant challenges to the construction of joint results matrices. The Bank has been striving for some years to make sure that the conceptual approach in CAS results matrices matches that in Bank projects. If, rather than including IFC and MIGA activities for information in the

CAS, the joint CAS results matrix is to be used for accountability for IFC and MIGA as well as the Bank, then it will be important to explore how to make use of IFC and MIGA's own results approach in a consistent way in CAS results. The inclusion of results from IFC activities in CASs is a key element of the pilot launched this FY to enhance collaboration across the Bank Group.

58. ***Enhancing Results Focus Across All Clients.*** There is scope to enhance the results focus of CASs, and the quality of results frameworks in particular.

- The appropriate response to uncertainty is flexibility and midpoint updating and modification. While Progress Reports have provided an instrument for such updating, few have taken full advantage of the opportunity to revise the results matrix of the original CAS.
- A small Bank program has small impact at the country level. In these cases, it is most important that the causal reasoning linking Bank activities to CAS outcomes is robust, even if the links to national development goals are less well defined.
- Despite the challenge of joint accountability with many donors; the Bank can often specify the impact of its program in distinction from the joint program, in particular if the effort to specify results is an integral part of strategy formulation.
- Results of nonlending instruments such as analytic work and other knowledge products are difficult to specify. The Bank carries out analysis for a variety of reasons, including to share global knowledge and inform—but not determine—policy choices by country governments, to inform activities of the Bank and other donors, and to learn from the analysis to create knowledge that can be shared with other clients (see related discussion on knowledge as a global public good). A framework to reflect all these objectives needs more thorough reflection.

2. Statistical and Monitoring and Evaluation Capacity

59. An RBCAS relies on adequate indicators for measuring progress toward results. The Bank should avoid taxing limited country capacity by establishing parallel monitoring and evaluation (M&E) requirements; instead, monitoring arrangements should rely on the government's own systems as much as possible. In addition, the CAS should support efforts at the country level to harmonize M&E approaches and requirements among different partners.

60. ***Strengthening Statistical Capacity.*** The IDA15 Results Measurement System now requires that all Country Assistance or Partnership Strategies should include a review of national statistical systems and an identification of what is needed to strengthen capacity both to generate and to use statistical information. Weak and ineffective national statistical systems and inadequate analysis seriously constrain decision making and results monitoring in many countries. The need to monitor PRS implementation in IDA countries has heightened the need for reliable data collection and careful analysis. Since IDA CASs are aligned with the country's PRS, monitoring of the CAS depends on the quality of the results framework, of the available data, and of the monitoring arrangements for the PRS. If the PRS does not address issues of statistical capacity and remedies, then the CAS should discuss how to close gaps in data and information. To enhance the treatment of statistical capacity issues in CASs, a guidance

note was issued in June 2009. The note focuses on how to approach the assessment of national statistical capacity and how to address its shortages in a CAS or CPS program. This guidance note is also applicable to Interim Strategy Notes (ISN).

61. ***Efforts to Strengthen Statistical Capacity.*** There have been important initiatives in the past 10 years or so to address the problems of weak statistical capacity: for example, Partnership in Statistics for the 21st Century (PARIS21), an international consortium for statistical advocacy; and the Marrakech Action Plan for Statistics (MAPS), which has made significant headway in promoting the statistical capacity agenda at the country and international levels. With financing from the multidonor Trust Fund for Statistical Capacity Building (TFSCB), most PRSP countries have prepared national action plans for strengthening statistical capabilities. The Third International Roundtable on Managing for Development Results in Hanoi in January 2007 gave added impetus to developing a mechanism to scale up investments to support statistical capacity development in low-income client countries. Roundtable participants recognized that having nationally developed and owned strategies for statistics for a large number of IDA countries was a significant step forward, but also agreed on the need for action to translate these plans into increased capacity and better availability and use of statistics. Thus, discussions continued to identify how investments in better statistics can most effectively be scaled up, and work is under way to increase the levels of investment in statistical capacity and results management using a more coordinated system wide approach.

62. ***Statistical Capacity and Support for Statistical Systems in CASs.*** The first RBCASs varied widely in their attention to weaknesses of statistical capacity and remedial actions to address them. In fact, many did not mention whether statistical capacity was sufficient to monitor development progress, particularly CAS outcomes. CAS teams tended to overload the results matrix with numerous indicators, without due attention to methodological validity, the feasibility of data collection, or existence of a baseline. However, recent CASs show some improvements, especially as country teams become more aware of the importance of measurability and of the resources available to address statistical capacity issues. CAS teams have made steady progress in taking up the instruments and resources available to assist client countries in preparing action plans for improving statistics. By 2007, most PRSP countries had managed to produce a national strategy for development of statistics (NSDS); however, they were slow in turning the NSDS into specific program activities, thanks to uneven access to the funds to finance investments in statistical development. Developing countries can obtain support to strengthen statistical capacity from a variety of sources, but this issue often does not rank high in government priorities and programs. Indeed, the countries that benefited from the Statistical Capacity (STATCAP) Program were quite heterogeneous in terms of income level and status of statistical development. DEC is developing a new facility to scale up investment in statistical systems to respond to such challenges.

63. ***Results-oriented Framework of PRSs.*** When country authorities focus on results, it eases implementation of a Bank results-based strategy but, more importantly, strengthens policymaking and project implementation across the board. Box 11 discusses factors that strengthen a country's results orientation.

Box 9. Strengthening Results Orientation of PRSs

Looking at three factors—quality of development information, stakeholder access to information, and a country-level M&E system—56 percent of the 62 countries included in the review Results-Based National Development Strategies: Assessment and Challenges Ahead have taken significant action to
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strengthen the results orientation of government policy-making. Another 5 percent have met the threshold established by the Paris Declaration for a results-oriented framework. More and more external attention is being directed to this area, building on country gains to strengthen national development strategies. As more countries develop country-level M&E systems to monitor progress in their national development strategies, the Bank will have access to improved country data that can inform its own monitoring.

- **Quality of development information.** Improving the quality of development information has proved especially difficult. It requires substantial institutional capacity and resources. Countries making progress in this area have typically followed a national statistical action plan to strengthen a lead statistical institution, have worked steadily to build this and the other institutional capacities needed for better development data, and have planned more systematic and comprehensive surveys and analysis. The implementation of such plans has been pushed forward by demand for better data by government leaders and civil society. These efforts are being supported through PARIS21 and the TFSCB, but have been consistently underfunded and sometimes only marginally integrated into national development strategies.
- **Access to information.** Countries that have disseminated information widely are translating national development strategies or their summaries into local languages and engaging in activities that make information accessible to poor and vulnerable groups. They use the internet to offer a broad array of information, including information on the national development strategy and the budget, and they also engage in public discussions and seminars for people without access to the Internet or other media. Providing better information to civil society about the national development strategy, the budget and other areas of development can stimulate civil society to demand more and better data, reinforcing the efforts of government bodies that are working to improve M&E.
- **Country level M&E system.** An effective and sustainable M&E system needs to meet a demand from policymakers for monitoring. This in turn requires that policymakers have incentives to improve policies through better evidence and stronger analysis. Institutional structures and decision-making processes can be designed to provide some of the necessary incentives. Countrywide monitoring of data, including data on development outcomes and intermediate targets toward these outcomes even at the sector level, helps introduce performance orientation into the budget and strengthen the link between development policies and budget implementation, in turn helping to establish a country-level M&E system

D. Programming

64. Building on the country-owned development strategy as informed by the Bank's diagnosis, the CAS sets out a selective program of lending and nonlending activities, set within an indicative IDA and IBRD financial envelope and other World Bank Group resources (such as trust funds), and taking into account the Bank's track record and lessons learned. It should lay out the Bank's response to changing country circumstances and policy performance during program implementation. A key improvement in programming has been the move to more formal self-evaluation of the previous CAS, through a Completion Report validated by IEG, so that better lessons can be learned and applied during CAS preparation.

1. Programming for Different Client Segments

65. The Bank customizes its program of lending and nonlending activities to meet the needs and priorities of its clients. Because the Bank's clients are increasingly diverse, and require customized development services, the Bank's programming in CASs is considerably different for each client segment.

66. ***Programming in IDA CASs.*** The programming in an IDA CAS focuses on a broad agenda in support of the country's PRS, frequently with the key objectives of increasing the rate of growth, promoting equity, reducing poverty in rural or urban areas, accelerating private sector development, and improving human capital. An IDA program often devotes one-third or more of the country's IDA allocation to annual programmatic development policy operations, often through PRSCs, in close coordination with other donors and the IMF. The PRSC typically supports public sector management reforms, as well as mutually agreed government actions in other sectors key to achieving development outcomes. Investment operations, including in the form of SWAPs, are common in IDA countries with somewhat higher capacity, and projects tend to focus on social sector development; however, there is a growing emphasis on infrastructure, including through regional projects.

67. ***Programming for Fragile and Conflict-Affected States.*** The diversity of fragile and conflict-affected states (FCSs)—ranging from situations of prolonged crisis or impasse to deteriorating governance situations through post-conflict and reengagement transitions to gradual improvement—means there is no “typical” Bank program in a fragile or conflict-affected country; but there are common choices. FCS strategies pay special attention to balancing visible pro-poor results with the “invisible” (and difficult to measure) but critical work of institutional strengthening and capacity development. Selectivity is especially critical in FCS CASs, given the likelihood of serious capacity constraints. When conditions allow, development policy lending can help strengthen fragile government institutions and catalyze alignment with other donors. Service delivery and public sector governance are critical themes in most FCS strategies, but the specific emphasis is often on “zero-generation” actions/reforms and basic services that foster an improved relationship between the state and its citizens. Nonlending activities often play an important role, as do newer instruments and innovative approaches, including those financed by specialized programmatic trust funds (including the Bank's Post-Conflict Fund, the LICUS Implementation Fund, and the new State and Peace-building Fund, as well as specialized multi-donor trust funds). Alignment and harmonization are challenging in transitional settings where countries may not yet have a PRSP; in FCSs, the Bank aligns to agreed joint mechanisms such as Transitional Results Frameworks and international “compacts” involving the essential linkages with security, political, and other development actors.

68. ***Programming in IBRD CASs.*** WBG support programs vary widely among CASs for MICs, reflecting differences in countries' development challenges and demand for WBG services.

- Some MICs (e.g., Peru, Colombia, and Indonesia) continue to seek financial support for addressing traditional development challenges. In these countries the WBG program tends to cover a broad range of government priorities: maintaining fiscal stability; strengthening public sector management (often in subnational entities); addressing issues of social exclusion and income inequality with a focus on regional disparities or minorities; improving the delivery of social and infrastructure services; fostering private sector development and improving the country's competitive position; closing infrastructure gaps, often with a focus on attracting private sector investment; and managing the environmental impact of economic development. These countries often have an agenda of unfinished structural and institutional reforms that are crucial for sustainable progress on these priorities. The WBG

program is often anchored by relatively large and broad-based DPLs in support of the reform agenda, underpinned by the AAA program.

- Other MICs, which are nearly ready to join the group of advanced market economies, tend to call on the WBG for services primarily in areas where they perceive a gap in knowledge or capacity. WBG programs for these countries tend to be less comprehensive and more flexible, covering a wide range of areas—for example, urban transport management, integrated public financial management, and development of carbon finance and ecological services markets in Chile; and the establishment of domestic development institutions, the framework for the country’s donor role, and compliance with climate change and biodiversity conventions in Russia. Although there is little demand for DPOs in these countries, investment lending, nonlending financial services, and free-standing technical assistance and analytic services are important instruments. IFC tends to account for a major part of WBG support for the objective of sustaining rapid growth.

69. **Flexibility.** One important aspect of CAS programming involves how the Bank will respond to changing country circumstances, the impact of the external environment on the country’s priorities and outlook, and policy performance during CAS implementation. Until recent years, this response was formulated as lending scenarios in the CAS, tightly regulated by triggers (see Box 12). However, triggers tended to introduce rigidities in the program constraining the Bank’s ability to adjust the program; they rarely reflected key watershed events with significant impact on development outcomes. In addition, many Bank clients perceived triggers as imposing conditions on Bank support—which undermined ownership. Thus triggers are no longer used.

Box 10. CAS Scenarios and Lending Envelopes

To allow Bank programming to respond to changing circumstances during CAS implementation, CASs during the 1990s began to lay out different scenarios. By the early 2000s, CASs specified the overall lending envelope under the most likely (“base”) case and possible alternative scenarios (“low” case and “high” case) for Bank Group assistance. For each scenario, lending envelopes were defined for IBRD and IDA, as applicable, and a detailed program of lending and nonlending activities was set out as well as associated timetables for delivery of the activities and a ceiling for fast-disbursing lending. As discussed in the second CAS Retrospective, during FY98-01, about 60 percent of CASs included three lending scenarios.

For CAS scenarios to contribute to improved program implementation, specific triggers were defined for remaining in or moving between cases. These triggers generally covered three areas of policy relevant to setting lending envelopes: economic management (because of the influence of macroeconomic developments on creditworthiness for IBRD borrowers and on Country Policy and Institutional Assessment^a scores for IDA borrowers); policy environment (to judge whether new lending was likely to be effective); and portfolio performance (because additional lending to a country with a poor disbursement record would be less likely to achieve development objectives). The content of triggers was expected to be actions or outcomes under the control of the government, so that access to base-case financing or to the additional resources of the high case would not be driven by exogenous factors. More than two-thirds of the CASs during FY98-01 included triggers that were linked to identified country priorities and to major areas of Bank activity.

The guiding principle for designing scenarios was to establish strong links between the level and scope of Bank support and the country’s performance in areas that were considered to be critical to the successful implementation of the CAS program, to the effectiveness of development support, and to

prudent risk management. The lending level for the high case was expected to generally be no more than 30 percent above the base case, particularly for IDA countries, because of the finding that within the typical three-year time horizon of a CAS, actual performance ratings rarely moved enough to correspond to more than a 30 percent increase in the country's IDA allocation.

^a The Bank's annual Country Policy and Institutional Assessment (CPIA) gauges the quality of a country's policy and institutional framework in fostering sustainable, poverty-reducing growth and the effective use of development assistance. For IDA borrowers, these assessments are an input to the allocation of IDA resources.

2. Financing Sources

70. The CAS lays out an indicative program of financial and knowledge services for a particular country. However, country strategies do not commit the Bank to providing or the client to accepting a particular set of activities. Hence, the CAS financial envelope—whether it is from IBRD, IDA, or trust funds—is indicative.

a. IDA: The Performance-Based Allocation System

71. Since the 1970s, a Performance-Based Allocation (PBA) system has been used to help allocate IDA funds to partner countries, and IDA has been allocating the bulk of its resources in this way since IDA12. The PBA system balances country performance and needs in allocating aid resources, directing more resources to countries with good policy and institutional performance, which have a higher probability of generating better country- and project-level results. Selective deviations from the PBA system—capping allocations to some countries, making exceptional allocations to post-conflict countries, and topping up funds for regional projects—take into account exogenous factors affecting long-term development and help address country-specific and regional needs.

72. ***Evolution of IDA Allocations.*** IDA14 made explicit the centrality of the PBA system in determining IDA allocations. Since FY06, CASs for IDA borrowers no longer present high-case financial envelopes that exceed the actual allocation of IDA resources. In addition, since IDA allocations are determined each year, CASs for IDA borrowers began consistently to note that resource amounts shown for other than the first year of the CAS were indicative. A key change was IDA14's new debt-distress-based grants allocation system, which requires an annual assessment of grant eligibility and associated discounts/reallocations.²⁰ Another important change was created by the “netting out mechanism,” introduced under the Multilateral Debt Relief Initiative (MDRI) during IDA14,²¹ which requires that the annual debt service due from beneficiary countries be deducted from those countries' annual allocations and that compensatory resources received from IDA shareholders be reallocated across all IDA countries. Sources of uncertainty on IDA allocations are related to the country's future performance, its relative performance compared to other countries, and reactivation of countries and arrears clearance, which creates new and sometimes substantial claims on IDA resources. However the greatest source of uncertainty in IDA country envelopes comes from the three-year IDA replenishment cycle itself.

²⁰ See IDA (March 2005), *Additions to the Fourteenth Replenishment: Working Together to Achieve the Millennium Development Goals*.

²¹ See IDA (March 2006), *Additions to IDA Resources: Financing the Multilateral Debt Relief Initiative*.

73. **Reducing Volatility in IDA Allocations for IDA15.** In IDA15, two changes were made to offset the volatility of “norm” allocations. First, the measurement of the portfolio performance rating has been improved, decreasing the volatility of the “norm” allocations due to mechanical problems with the formula.²² Second, doubling the phase-out period for post-conflict allocations from three years under IDA14 to six years during IDA15 should offset much of the volatility seen in the larger sample that includes post-conflict and reengaging countries.

b. IBRD Financing Envelopes

74. The Bank’s ability to meet the demands of IBRD countries depends on its institutional and financial capacity to deliver knowledge and financial services to each particular country. CASs are meant to reflect this balance at the time the CAS is prepared. However, projected IBRD lending in CASs usually does not represent a ceiling on the services the Bank could provide, including lending. Nor is a country’s creditworthiness the sole criterion employed by the Bank in making lending decisions – expected development impact of IBRD financing is also key. Until FY09, when the financial and economic crisis translated into significantly higher levels of demand, the Bank’s financial capacity more than exceeded aggregate demand for its financing (see Box13).

Box 11. IBRD Lending Envelopes in CASs – Approach until mid-FY09

At the individual country level, lending envelopes for IBRD borrowers were established and managed by the financial complex, in close dialogue with the country teams. A number of factors were considered in determining these allocations, including (a) the likelihood of default to IBRD of the borrowing country; (b) IBRD’s existing and projected exposure to the borrower relative to other IBRD borrowing countries and to the country’s size; (c) historic borrowing trends; (d) country relations, including country demand; and (e) the broad risk-bearing capacity of IBRD as reflected in its available equity and the credit risks present in its portfolio. Individual countries that were performing well, where credit risk was evaluated as low to moderate, had highly flexible lending envelopes. Countries where credit risk was more elevated were governed by lending scenarios, where better performance allowed higher levels of lending.

This approach to managing credit risk had two important drawbacks. First, there was no agreed framework for establishing an individual country’s limit that could be applied consistently across all countries and that was well understood by country teams. Although it had a sound methodology for assessing the risk to IBRD that a particular country would default and for grouping countries into low, medium, and high-risk categories from which it judged the size and structure of lending envelopes and scenarios, it did not have a robust framework for translating this information into quantifiable country limits. Second, there was no robust link between the individual country limits it established and the overall size and risks in the portfolio relative to its risk-bearing capacity (i.e., its equity capital). Instead, it managed overall exposure as it materialized on IBRD’s balance sheet and in the Corporate Lending Projections, but there was no direct connection between the limits it established, the risks in the portfolio, and IBRD capital. As a result, there was no precise information on the available lending headroom at times of either capital scarcity or abundance, and lending limits were less dynamic than may have been possible had this information been available. A new Exposure Management Framework was developed to establish more transparent and consistent country lending envelopes and to link them more directly to portfolio risks and IBRD’s capital position.

Source: FINCR, Audit Committee Note on “Exposure Management Framework,” March 2, 2009.

²² IDA (October 2007), *op. cit.*

75. ***Evolving Model.*** In view of such considerations, the Bank started gradually moving away from the standard model. In 2004, the Bank allowed enhanced financial flexibility in CASs for countries with good international credit ratings (i.e., no more than two notches below investment grade), good policy and institutional performance, and only minor or moderate Bank concerns about credit and exposure issues. This change reflected the increased financial capacity of the Bank as well as the increased creditworthiness of many MICs. Nine CASs during FY06-08 were for countries that qualified for this enhanced financial flexibility. Three of them followed the standard model with scenarios and triggers (Bulgaria, Macedonia, and Romania); apparently because it was felt that creditworthiness could be affected by a failure to complete policy reforms that were to be supported by development policy lending. The other six CASs (Chile, China, Mauritius, Panama, Peru, and Russia) made use of enhanced financial flexibility. However, this approach still did not link IBRD's overall capital availability with country demand.

76. ***Introduction of a New Exposure Management Framework.*** The new framework for determining country exposure limits, introduced in FY09, continues to observe the fundamental principles of IBRD exposure and portfolio management that are central to maintaining IBRD's AAA rating. It also addresses such issues as the lack of a transparent and agreed framework for setting country limits, the lack of a direct and dynamic link between country limits and portfolio risks and available capital, and the lack of responsiveness to changes in these factors and country demand. Thus the new framework helps ensure that IBRD can estimate the likely headroom available for lending and thus use its capital more efficiently and effectively. The new framework relies on FINCR's existing credit risk management tools, which were reengineered and then integrated into a comprehensive framework for establishing country limits. Five principles underpin the new Exposure Management Framework:

- Establish country allocations that reflect the maximum exposure consistent with IBRD's available capital and that pass IBRD's capital adequacy stress test.
- Ensure a fair allocation of the potential maximum exposure across all IBRD-eligible countries.
- Adjust country allocations to differentiate for country credit risk.
- Reserve a capital cushion for potential changes in country and overall portfolio risks.
- Respond to existing and future country demand.

c. Trust Funds

77. Trust funds (TFs) provide additional sources of financing to serve World Bank clients. As discussed earlier in this report, as part of the paper *Management Framework for World Bank-*

Administered Trust Funds,²³ Bank Management has committed to further improve TF administration by more systematically incorporating TFs that support country programs into CAS products. This approach would recognize the contribution of TFs—a key aid delivery mechanism—to supporting the country’s medium-term development priorities, especially when such contributions form a significant underpinning for the Bank’s lending and nonlending work. This integration is expected to ensure that activities financed through TFs also meet the requirement of country ownership and consistency with the country’s own development priorities. The results of TF-funded activities are also now required to be integrated into CAS results matrices, as appropriate.

3. Prioritization and Selectivity

78. The CAS is intended to be a succinct document that identifies key areas in which Bank support can catalyze the most sustainable development and poverty reduction. This review examined whether each CAS included a clear strategic focus and prioritization, and whether the prioritization was based on an analysis of country-specific constraints, clearly reflecting an analysis of trade-offs. On average, CASs were broadly satisfactory in prioritizing areas for Bank support, an improvement over the findings of previous retrospectives. However, the underlying reasons for this prioritization and trade-offs considered in the CAS were not often made explicit.

Donor Mapping. In IDA countries, donor mapping is an important instrument to ground selectivity and start a process to arrive at a more effective distribution of aid funds and instruments over the strategic pillars of the government policy. CAS guidance asks for a simple donor table, showing the presence of donors across sectors, but several CASs have developed this into a more informative instrument. Some CASs use the nomenclature of the PRS to present the strategic pillars and sectors (Ghana, Mauritania), others provide more information on the donor role—leading, active, or withdrawing (Tanzania), or high, middle and low presence (Tajikistan). In a good practice approach, the Vietnam team carried out a systematic stakeholder survey, but the government retained strong control and ownership of the Bank’s program and led the division of labor between donors. The Mauritania country team developed a strategic positioning tool, based on an analysis of the financing needs in strategic sectors, comparing financing requirements (medium-term expenditure frameworks) to existing and intended donor financing in these sectors (donor mapping), and on weighing the comparative advantage of the Bank in each sector. The Mauritanian government expressed interest in applying this instrument to all donors, using it for a better division of labor. The Yemen country team conducted extensive consultations across civil society, and the Malawi team set a benchmark for the maximum number of operations (10).

²³ *A Management Framework for World Bank-Administered Trust Funds* (R2007-0198), October 9, 2007.