

**COUNTRY ASSISTANCE STRATEGIES:
RETROSPECTIVE AND FUTURE DIRECTIONS**

**OPERATIONS POLICY AND COUNTRY SERVICES
WORLD BANK**

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ABBREVIATIONS AND ACRONYMS

AFR	Africa Region
AAA	Analytic and advisory activities
BP	Bank Procedures (Operational Manual statement)
CAE	Country Assistance Evaluation
CAS	Country Assistance Strategy
CASCR	CAS Completion Report
CASPR	CAS Progress Report
CEM	Country Economic Memorandum
CFP	Concessional Finance and Global Partnership
CODE	Committee on Development Effectiveness
COGAM	Committee on Governance and Executive Directors' Administrative Matters
CPS	Country Partnership Strategy
CRN	Country Reengagement Note
CSO	Civil society organization
DAC	Development Assistance Committee
DEC	Development Economics
DPR	Development Policy Review
DSA	Debt Sustainability Analysis
EAP	East Asia and the Pacific Region
ECA	Europe and Central Asia Region
ESW	Economic and sector work
EU	European Union
FY	Fiscal year
GAC	Governance and anticorruption
GPG	Global public goods
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IEG	Independent Evaluation Group
IFC	International Finance Corporation
IMF	International Monetary Fund
ISN	Interim Strategy Note
JSAN	Joint Staff Advisory Note
LCR	Latin America and the Caribbean Region
LIC	Low-income country
LICUS	Low-income country under stress
MDB	Multilateral development bank
MDGs	Millennium Development Goals
MIC	Middle-income country
MIGA	Multilateral Investment Guarantee Agency
MNA	Middle East and North Africa Region
M&E	Monitoring and evaluation
NGO	Nongovernmental organization
OC	Operations Committee
OED	Operations Evaluation Department
OP	Operational Policy (Operational Manual statement)
OPCS	Operations Policy and Country Services
PARIS21	Partnership in Statistics for Development in the 21st Century

PRSC	Poverty Reduction Support Credit
PRSP	Poverty Reduction Strategy Paper
PSD	Private sector development
RBCAS	Results-Based Country Assistance Strategy
ROC	Regional Operations Committee
RRS	Results Reporting System
SAR	South Asia Region
StatCap	Statistical Capacity Building Program
TA	Technical assistance
TF	Trust fund
TSS	Transitional Support Strategy
UN	United Nations

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EXECUTIVE SUMMARY

1. Country strategies are at the core of the Bank's country-based model. They are articulated in Country Assistance Strategies, which provide Management and the Board with an indicative business plan for the delivery of Bank services over a particular period of time (most frequently four years), to support the achievement of specific development results by the country's authorities. CASs are indicative: they do not commit the Bank to a particular set of activities or level of funding, nor the country authorities to a particular level of demand. Activities, particularly lending services, are approved individually by Management and ultimately by the Board.
2. **CAS Cycle.** CASs are expected to include the overall context for the analytic and financial services the Bank intends to provide over the CAS period. The context and services are updated and adjusted at midpoint in the CAS Progress Report (CASPR). The CAS cycle is completed with a self-assessment in the form of a CAS Completion Report, which informs the preparation of the following CAS.
3. **Purpose of this Paper.** This is the fourth retrospective report on Country Assistance Strategies. It takes stock of current practice in CAS products, analyzes its evolution over the past few years, and summarizes future developments in CAS products: (a) **enhanced focus and guidance on CAS Completion Reports and CAS Progress Reports, to strengthen the results focus of CASs;** (b) **the development and launch of a pilot for enhanced CAS collaboration between the Bank and IFC;** and (c) **a proposal for a pilot that would entail conditional Board approval of individual operations presented as attachment to CASs discussed by the Board.** The paper benefits from discussions with several members of the Executive Board and their staff, including at the Committee on Development Effectiveness (CODE) on July 22, 2009.
4. **Evolution of Country Strategies.** The Bank's shareholders and Management have long recognized the importance of placing individual Bank activities in an overall strategic context—for a sector, a Region, or a country. Assistance strategies for countries were first introduced in 1990, when IDA Deputies advised that CASs should be prepared for IDA countries and discussed with the Board. CASs evolved from 10- to 15- page papers appended to loan documents to stand-alone documents with a full Board discussion. CASs were extended in 1992 to all active Bank borrowers; in 1994, they became free-standing documents.
5. **Results-Based CASs.** While originally CASs focused mostly on Bank products and activities, they are now organized around country development results. Results-based CASs were piloted between 2003 and 2005 and mainstreamed since 2005. The operational guidance of 1995, revised in 2005 (BP 2.11, *Country Assistance Strategies*, along with supporting *Guidelines to Staff for CAS Products*), enhanced the role of the CAS as an indicative management tool, introduced the Interim Strategy Note (ISN) for countries where the extent and nature of the Bank's engagement is uncertain; updated the disclosure policy for CASs, CASPRs, and ISNs; and introduced CAS Completion Reports as a key element of results-based CASs.

6. ***Interim Strategy Notes.*** ISNs replaced Transitional Support Strategies and Country Reengagement Notes. They allow country teams to prepare interim country strategies for countries where the Bank is not ready to prepare a full CAS. This may be the case when (a) there is uncertainty about the nature and level of the Bank's engagement in the country; (b) the country has no medium-term development or poverty reduction strategy to frame the Bank's support; or (c) the Bank has insufficient country knowledge, for instance, because of a long period of limited or no engagement with the country. ISNs have been used for countries where the Bank is reengaging, for countries that are going through an unusually uncertain period, and for countries emerging from conflict. They have also been used when the Bank is seeking to align the CAS period with that of key government strategy documents—such as a Poverty Reduction Strategy Paper (PRSP) or other national development strategy—or with the country's political cycle. ISNs are expected to be transitional documents, and most country teams are expected to revert to full CASs. After a peak in use of ISNs in FY07, when 12 out of 38 CAS products (CASs, CAS PRs and ISNs) were ISNs, the number of ISNs has declined to 9 out of 49 in FY08 and 8 out of 39 in FY09.

7. ***Flexibility.*** Over time, CASs have become more flexible and indicative, to allow Bank teams to customize Bank services to the country's own needs and priorities as well as changing circumstances. The increased focus of CASs on results at the country level has contributed to strengthening the alignment of the Bank's services to country needs and conditions. However, not all services the Bank is requested to deliver in support of country priorities over a CAS period can be envisaged at the time of CAS preparation. Over the CAS period, as new data emerge and economic, political, and social conditions change, so do country priorities and demand for Bank services. Spikes in food and fuel prices in early 2009 and the global financial crisis since late 2009 underscored the need for the Bank to retain flexibility so as to respond quickly to changing country conditions.

8. ***CAS Progress Report.*** CAS Progress Reports are **mid-term stocktaking reports required for each ongoing CAS.** Most operations being prepared for approval during the first and possibly second years of the CAS are likely to be well known at the time of CAS preparation. As the four-year strategy is adjusted during the course of implementation, the midpoint assessment of implementation at the CASPR offers an opportunity to reflect changes in country demand and priorities, and resulting adjustments in the strategy and results framework. When CASPRs reflect significant changes in the overall context and country priorities that require a major change in Bank support, teams should consider whether to draft a new CAS.

9. ***Alignment, Selectivity and Results.*** The content of CASs has changed considerably over time, and CASs have become more selective and focused. As the Bank sought to better serve its clients by adopting a country-focused approach to providing development solutions, CASs became more aligned with country priorities and development objectives. As a result, the content and format of country strategies has also become more varied across countries and customized to country needs, ranging from Bank activities to address the needs of countries emerging from conflict, to the specialized needs of middle-income countries that are highly integrated into the global economy. There remain tensions between strategic objectives of the Bank of a sectoral nature, such as support for infrastructure, gender and climate change, and the

need to align with the country's own vision and priorities, which may or may not prioritize the Bank's strategic objectives. The alignment of the CAS with country's own development strategy and goals and customization of Bank services to each country's needs and demand is achieved through two key features of country strategies:

- (a) The first is the requirement that every CAS be based on the country's own development strategy. This strategy is commonly articulated in the form of a PRSP in IDA countries, or laid out in development plan or government program. Nevertheless, tensions remain between alignment with country demand and priorities, and the desire to reflect the Bank's sectoral and corporate priorities. To ensure alignment of Trust-funded activities with the country's own strategy and development goals, Bank CASs are now required to include activities funded through trust funds, and specific results of those trust funds are required to be included in CAS results frameworks. The availability of additional funding for development activities through trust funds offers opportunities to launch activities that are not yet mainstreamed in Bank operations. However in the past, some trust fund activities have not been reflected in CASs or screened against country demand. Because trust funds are generally earmarked for particular themes or activities, the activities they fund could be supply-driven. Following implementation of the 2007 trust fund strategy (*A Management Framework for World Bank-Administered Trust Funds*), guidance was issued to staff in 2008 through the issuance of a note (*Integration of Trust Funds in Country Assistance Strategy Products*) requiring all CASs and ISNs to fully reflect trust fund-financed activities.
- (b) The second feature of CASs that facilitates the alignment to each country's needs and demand is that all CASs are now required to be results-based: that is they must include an explicit results matrix, linking Bank activities to country development outcomes through a set of milestones for monitoring progress in CAS implementation and explicit CAS objectives—the results the Bank expects to influence during the CAS period.

10. ***Challenges in Developing CAS Results Matrices.*** While all CASs now include results matrices, their quality varies. 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. This makes attribution of Bank activities to CAS outcomes difficult to establish in a credible manner, and therefore weakens accountability for Bank performance. These shortcomings in some CAS results frameworks also 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. This excessive ambition in CAS outcomes is most often found in the CASs for IBRD countries, where the Bank's role in providing financing or knowledge services is small relative to all other sources. But it is also found in CASs that are aligned with national strategies that are themselves vague or

unrealistically ambitious; CASs prepared jointly with other donors, where it is difficult to distinguish between the contribution made by the Bank, by other development partners, and even at times by exogenous factors; and CASs in which Bank activities focus mostly on analytic and advisory activities—which can inform, but are not designed to determine development results— or on institutional strengthening (as for legal and judicial systems, or budget and financial management systems), for which the metrics are not yet well developed.

11. ***Strengthening Ex-post Reporting and Results Frameworks for Individual Activities.*** Experience from implementation of the results-based CAS framework reveals that 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 actual 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—be it 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 CASPRs—when results frameworks are expected to be assessed and updated—and through self-assessments in CASCRs.

12. ***CAS Completion Report.*** The CAS Completion Report (CASCR), a self-evaluation of the country assistance program, was designed to focus on the achievement of CAS outcomes and on Bank performance in achieving them, serving as both a learning and accountability tool for the country team. CASCRs are intended to derive practical lessons from the implementation of a previous CAS that can be incorporated into new program design. Over 55 CASCRs have been prepared since they were introduced in 2005, but only 11 of them have been prepared on results-based CASs (RBCASs)—six on RBCAS pilots (Armenia, Brazil, Mozambique, Sri Lanka, Ukraine and Zambia) and five on post-pilot countries (Guatemala, Nigeria, Philippines, Romania, and Yemen). IEG rated one as *satisfactory*, seven as *moderately satisfactory*, and three as *moderately unsatisfactory*. Because the first CASCRs were prepared on CASs that were not results-based, comparisons of CASCR ratings over time cannot yet be made. Although CASCRs offer an opportunity for self-assessment and are a key element of the results based CAS architecture, there is considerable scope to enhance their value as a learning and accountability tool. To this end, in FY10 new guidance will be issued to staff to enhance the timing of preparation, structure and content of these reports.

13. ***Coordination of Assistance in IDA Countries.*** In many IDA countries CASs have become a vehicle through which development partners coordinate their development assistance. Following the 2005 Paris Declaration on Aid Effectiveness, to enhance the alignment and coherence of development assistance and reduce transactions costs for Bank clients, CASs have been prepared in a collaborative manner, and have reflected more harmonized development assistance. There is no unique model for collaboration, and collaborative CASs reveal varying degrees and modalities of collaboration. Some CASs are fully joint, with joint upstream analysis and diagnostic work, joint activities, and joint results. These strategies have proven difficult to implement jointly, and in their results frameworks the value added of each development partner

is difficult to ascertain. Other collaborative CASs involve a joint process of analysis and diagnosis, but activities that are coordinated, not carried out jointly. The process, rather than a joint CAS document, proved valuable in designing effective collaborative CASs. Other lessons from early experience in collaboration include (a) the importance of government interest and ownership of a joint strategy developed by development partners; (b) the need to ensure that a collaborative CAS does not overshadow the country's poverty reduction strategy or other national processes; (c) the need to ensure that Bank CASs include a clear statement about the value added the Bank expects to bring to the process, in particular through clearly articulated CAS outcomes that are closely related to Bank activities; (d) a division of labor that is led by the preferences of the aid recipient, not by those of the development partners; and (e) an acceptance that the transaction costs for the Bank will be much higher than under a traditional approach to preparing such a country strategy. The mapping of development partner activities was found to be particularly useful both for the Bank and other development partners. These and other lessons of experience are being distilled into a Good Practice Note on Collaborative CASs, which will be issued in FY10.

14. ***Governance and Anticorruption in CASs.*** A discussion of governance and anticorruption (GAC) issues has become a standard feature of CASs. In countries where there are higher risks that corruption can compromise the achievement of development outcomes, recent CASs include a better discussion of the relationship between GAC and growth and poverty reduction—which in IDA countries often refers to the PRSP itself. Lessons from early experience of Country Governance and Anticorruption (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 diagnostics, especially when the diagnostic is shared by the government and is linked to CAS programming. However, an area that could improve is the assessment of risks to Bank operations: only half of the CASs reviewed discussed governance risks to Bank operations. Other areas for improvement include (a) discussion of the extent to which GAC weaknesses are constraining poverty reduction and economic growth; (b) presentation of explicit connections between diagnosis and recommendations in the CAS; and (c) greater linkage between CGACs and portfolio risk.

15. ***Bank-IFC Collaboration.*** There is scope for the World Bank Group to enhance its services by sharing information and drawing expertise from its different parts. While the majority of Bank CASs is prepared jointly with IFC, there are few good practice examples of Group-wide collaboration at the strategy level, largely in IBRD-eligible countries. There are many reasons for this, ranging from a different business model, differentiation of staffing and procedures to reduce the potential for conflicts of interest, to the perception by many staff that the CAS process—from preparation to internal review requirements—is lengthy and costly. Some joint Bank-IFC CASs include an annex on IFC activities, but do not include the results of IFC activities.

16. ***CAS preparation and implementation during the financial crisis.*** CASs are expected to reflect the Bank's response to developments that can be anticipated given information available at the time the CAS is drafted. However, few anticipated the financial crisis that developed in late 2008. Most Bank Group's Country Assistance Strategies in place over the past year had been designed at a time of global macroeconomic stability, economic growth, and increased access to

financial markets by IBRD-eligible countries. Many CASs – in particular IBRD CASs and CPSs outlined Bank programs emphasizing knowledge services and had lending programs that were at times ill-defined or highly uncertain. As pricing was adjusted in 2007 (and left unchanged in 2008), and the Bank launched implementation of its Middle-Income Strategy, demand for IBRD borrowing increased. Subsequently, the financial crisis resulted in a further, sharp increase in demand for IBRD.

17. The financial crisis that developed in late 2008 hit many Bank Group members hard, especially those that were more integrated in global financial markets. The drying up of credit, reduced remittances, and lower export demand affected financing needs and sharply reduced growth throughout the world. IBRD countries, more integrated in international financial markets and relying more on export demand than IDA-eligible countries, were directly and immediately affected by the financial crisis and global recession that followed it. IDA countries had been affected significantly by the food and fuel crisis, but with a few exceptions so far have been less affected by the financial crisis – reflecting their lesser degree of integration with financial markets. The financial crisis resulted in an unprecedented demand from governments of IBRD countries. With a few exceptions, IBRD countries had entered the crisis with stable macroeconomic outlooks. Demand resulted from governments' attempts to sustain reforms and core expenditure programs that would otherwise need to be cut. Some launched fiscal stimulus and safety net programs to sustain growth and protect vulnerable populations. In some ECA countries (Hungary, Latvia), the financial crisis exposed vulnerabilities and imbalances that preceded it, and the Bank was asked to join the IMF and other partners in addressing them.

18. As the financial crisis ensued, the Bank sought to respond to the urgent needs of its members by adjusting the country strategy to the new circumstances. Bank Senior Management kept a close dialogue with the Executive Board, including frequent Board briefings and discussions. During those briefings, Management informed the Board that Bank assistance would need to depart from that outlined in CASs, sometimes significantly, and provided early information on operations under preparation. In most cases, operations under preparation – in particular DPLs – were accelerated or brought forward, and the size of the operation increased. As members called on the Bank to scale up its assistance, and uncertainty about the outlook remained high, some teams chose to delay CAS preparation – as it was difficult to prepare a mid-term indicative strategy under heightened uncertainty. It is expected that FY10 will reflect a catch up in CAS and other CAS product preparation

Conclusions and Next Steps

19. The Bank's current CAS architecture, introduced in 2005, is adaptable to a variety of country contexts and Bank engagements. This report does not propose to introduce major changes to it. Rather, it draws lessons from the experiences in CAS design and implementation over the past 4 years, and introduces enhancements to staff guidance on the form and content of CAS products.

20. ***CAS Product Guidance.*** **Guidance to staff on preparation of CAS products will be updated to reflect the findings of this report. Guidance was already issued to staff in FY09 required inclusion of trust-fund financed activities in CASs, and advised teams on how to assess country statistical capacity and shortcomings in a CAS and ISN program. In addition, and**

given the importance of ex-post reporting on CAS implementation, **enhanced guidelines on CASCRs will be issued—including guidance on rating the Bank’s performance in the preceding CAS. Revised guidance to staff will be issued and management attention will emphasize that CASCRs need to be prepared at least six months before Board discussion of a CAS. Guidance on CASPRs will be revised, to sharpen results focus and the analysis and discussion of portfolio performance. Drawing on the findings of this Retrospective, good practice notes on results frameworks for IBRD CASs and on collaborative CASs and country strategy work are under preparation, and will be issued in FY10. Finally, reflecting the increased integration of Bank and IFC/MIGA activities around a joint program focusing on development results, the current categorization on the level of importance of private sector development and degree of collaboration with IFC/MIGA is no longer appropriate and will be discontinued. Revised internal guidelines and good practice notes will be available on OPCS’s website.**

21. ***Review of CAS Annexes and Streamlining of Corporate Review.*** Along with the preparation of revised CAS guidance, Management plans to review—for usefulness, completeness, and cost-effectiveness—the number, content, and form of required annexes for CASs, CASPRs and ISNs. Since annex information is provided in CAS Board documents for the use of Executive Directors, this review will include a process of informal discussion with Executive Directors’ advisers and assistants (continuing a process that was very helpful in developing this CAS Retrospective). Management also intends to seek opportunities to streamline corporate review processes for CAS products.

22. ***Pilot: Enhanced Joint Bank-IFC CASs.*** To provide improved services to country clients through enhanced collaboration between the Bank and IFC, during FY09 OPCS, the IDA-IFC Secretariat and IFC’s Strategy Department developed and launched a joint CAS pilot. Six country teams are participating in the pilot: Albania, Burkina Faso, Nepal, Philippines, Sierra Leone, and the Republic of Yemen. The pilot focuses on IDA countries, but also includes one blend country (Albania) and one IBRD-only country (Philippines). CAS products include two ISNs, to ensure that the sample allows for lessons to be drawn on a variety of country segments and engagement models. 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 strategy process. The pilot includes three elements in addition to a collaborative process of strategy preparation: (a) identifying a small number of priority sectors for potential collaboration and organizing joint team sector strategy workshops; (b) having IFC participate in the results framework; and (c) encouraging collaborative implementation of the country strategy, including through the CASPR, with self-assessment and lessons drawn in the CASCR.

23. ***Pilot: Conditional Board Approval of Operations.*** In FY08-09, the Board Committee on Governance and Executive Directors’ Administrative Matters (COGAM) launched work aimed at promoting a more strategic role for the Board. COGAM findings and proposals were endorsed subsequently by the Board. As part of this process, Management was requested in April 2009 to develop a pilot that would entail conditional approval of individual operations. Documentation on the operations submitted for conditional approval would be sent to the Board alongside a CAS for discussion. There are clear linkages with Investment Lending Reform. OPCS had a series of

discussions with Regional Management and other corporate units on the contours of the pilot. A detailed proposal including appropriate documentation and timeline is being developed and will be discussed with COGAM in fall of 2009.