

# THE LENDING PROGRAM AND POVERTY -TARGETED INVESTMENTS

-1997 Final Report- <sup>1</sup>

September, 1998

## I. Introduction

1.00 This report describes the performance of the Poverty Targeted Investments (hereafter PTI) lending program during the 1995-1997 period. The description will focus on the relative number and size of PTI loans and their distribution --by region, country groups and sector. We also describe the effect of changes in the classification criteria. Following the description of PTI lending program performance, the report highlights the PTI projects approved during 1997, which the Regional Departments selected as “good practices”. We conclude with a summary of main findings and recommendations for improving future performance and relevance of the PTI lending program.

## II. PTI Classification Criteria

2.00 Criteria for PTI classification were first defined in 1995 and then revised in April 1997, when the country-automatic classification was dropped and more flexibility introduced in the interpretation of the geographic classification.<sup>2</sup> The current criteria used to determine PTI status are:

2.01 (a) *Sector Automatic Classification*: Projects automatically classify as PTI when they support programs in the following sectors: Pre-School, Primary Education, Early Childhood Development, Social Programs for At-Risk Children and Adolescents, Primary Health Care,

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<sup>1</sup> This report was prepared by Ruthanne Deutsch of the Poverty and Inequality Advisory Unit, based on inputs from Marcia Arieira (RE1/SOC), César Patricio Bouillon, Céline Charvériat, and Norma García (SDS/POV), under the guidance of Nora Lustig (Chief, SDS/POV). We are grateful for comments received from Nelson Avila (DPP/POL), Gregorio Arévalo (RE3/SO3), Neville Beharie (RE3), Mayra Buvinic (SDS/SOC), Xavier Comas (PRE), Arianna Legovini (SDS/POV), Javier Leon (DPP), Bertus Meins (RE2), William Savedoff (OCE) and Carlos Eduardo Vélez (SDS/POV).

<sup>2</sup> For detailed information on the rules for PTI classification and the changes in them, please see documents: GN-1763-27 and 1964-3. The country-automatic classification was applied to projects in countries where over 50% of the population is below the poverty line, namely: Bolivia, Guatemala, Guyana, Haiti, Honduras, Nicaragua and Peru and was valid except for economy-wide policy operations, debt-restructuring, institutional development, energy and TCs. An overview of the changes in the PTI Classification Criteria is provided in Annex 1 at the end of this document. A comparison with The World Bank’s PTI Classification Criteria is provided in Annex 2.

Nutrition, Urban Development of Marginalized Areas, Small-holder Agricultural Production, Microenterprises, Social Investment Funds and Emergency Employment Operations.<sup>3</sup>

2.02 (b) **Geographic Classification:** Projects can classify as PTI when project benefits are targeted to poor regions, cities, neighborhoods, or areas identified as poor within each country. Proxy income measures such as unsatisfied basic needs, below country-average social indicators, or other household characteristics that are strongly correlated with poverty may be used to classify such areas. There is no pre-defined cut-off point for the application of this criterion. Project teams must justify on a case by case basis how the targeting mechanism used, given the specific characteristics of the operation, serves to target resources to the poor.

2.03 (c) **Headcount Classification:** Projects can classify as PTI when more than 50% of the potential beneficiaries of the operation are likely to be poor according to the selected PTI poverty line for each country.

### III. PTI Lending in 1997<sup>4</sup>

#### Overall Performance

3.00 In order to more accurately capture the true performance of the PTI lending program, the descriptive statistics in this report present information on PTI performance relative to the universe of investment and fast-disbursing sector loans. In Table 1, one can observe that the number of PTI loans has remained constant between 1996 and 1997, at 26, while as a proportion of the total loans eligible to be classified as PTI there has been a slight increase, from 44.1% to 45.6%. PTI volume-share has also increased relative to 1996, rising from 31.2% to 37.4%. The drop in PTI performance between 1995 and 1996, in large part due to the large sector loans to Argentina and Mexico as explained in Document GN-1964-3, thus appears to have been stabilized, and even reversed.<sup>5</sup> Under the counterfactual scenario of maintenance of the old country automatic criterion, two additional projects would have classified as PTI and performance would have been further improved.

3.01 Small projects, PPFs, technical cooperation, private sector, and regional loans, are not currently monitored under the PTI system even if they meet one of the three criteria. Nonetheless, the previous review of the PTI lending program (Document GN-1964-3) presented

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<sup>3</sup> Early childhood development and social programs for at-risk children and adolescents were added to sector automatic classification after the distribution of the original memorandum.

<sup>4</sup> Numbers presented in this report originate from a database on PTI lending SDS has been maintaining since 1996, covering approved projects since 1995. Sources of data for this database include the OPS/PRUS database, IDB Stairs and Project Reports. In order to make the comparison consistent over time, the tables in the appendix present the information for 1997 using both the before-changes criteria as well as the new ones described in the previous section.

<sup>5</sup> Interestingly, PTI performance follows the same trends as that of the average “WID rating of projects – declining between 1995 and 1996 and then increasing slightly between 1996 and 1997. Also, as a rule, PTI projects have higher WID ratings than non-PTI projects. More information on WID ratings can be found in the forthcoming “Report to the Board of Executive Directors on the Implementation of the WID Action Plan, 1995-1996”, currently under preparation by SDS/WID.

numbers on PTI performance relative to the *total* lending program of the Bank.<sup>6</sup> Given trends in the evolution of the Bank portfolio, such a presentation produces a dampening effect on relative PTI performance. As demonstrated in Table 1, the proportion of loans that is actually “PTI-eligible” has been declining over time. This is due to an increase in the number and volume of technical cooperation, regional, and private sector loans. Specifically, the percentage of PTI-eligible projects dropped from 79.1% to 71.3% between 1995 and 1997. Even more striking is the shrinkage of the pool of resources lent to investments that can – at present – be classified as PTI, falling from 96.2% of total lending volume in 1995 to 77.1% of total lending volume in 1997. Thus, *ceteris paribus*, PTI performance relative to the total lending program would have to decline over time, given that the proportion of projects which is eligible to classify as PTI has been shrinking.

3.02 To ensure consistency with previous reporting, Annex 1 also presents a comparable set of tables on PTI performance relative to the entire lending program (Tables A3 – A6). As will be discussed in more detail below, we recommend that the universe of loans which are monitored as PTI be expanded beginning 1999, so that an ever-more important share of the Bank’s lending program will no longer be excluded a priori from the PTI monitoring system. It should be noted that expansion of the universe of PTI eligibility for the purpose of tracking will have no effect on the operational implications of Paragraph 2.15 of Document AB-1704. PTI investment loans will continue to be the only operations eligible to receive an additional 10% points financing.

3.03 As a final word of caution, the interpretation of trends in PTI lending presented below should be made with care for two reasons. First, we are looking at numbers reflecting the PTI lending program which itself has been in existence scarcely over three years. Consequently seasonal factors may play a role in explaining variations.<sup>7</sup> Second, because the overall number of PTI projects is relatively small, one project less, or more, may appear as a deceptively “large” change when measured in percentages. Following is a summary description of PTI performance:

### Country Groups and PTI

3.04 As presented in Table 2, between 1996 and 1997 the relative number of projects classified as PTI decreased for groups A and B (from 41.7% to 32%), and increased for C- and D-group countries, (from 45.7% to 56.3%). In absolute numbers, however, these changes are not marked, with the possible exception of A-group countries where there was a slight increase in the number of PTI-eligible projects between 1996 and 1997 from 17 to 18, while at the same time PTI fell by 25%, from 8 PTI projects to 6.

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<sup>6</sup> In Document GN-1964-3 and the discussion that follows, PPFs and small projects are not included in the totals due to their large number and relatively small size which create undue administrative costs in monitoring PTI performance. Their exclusion, by definition, would lead to an undercounting of PTI lending given the explicit objective of small projects to reach low-income groups.

<sup>7</sup> This was the case with the big emergency, fast-distributing loans to Argentina and Mexico in 1995 as pointed out in last year’s report prepared by Carola Alvarez and Ruthanne Deutsch, Review of Poverty Classification of IDB Loans under the 8th Replenishment, IDB Document GN-1964-3.

## PTI and Regional Departments

3.05 PTI performance is not homogeneous across the three Regional Departments. (See Table 3) Only Region 3 approved more PTI projects in 1997 than it did in 1996. However, in both Regions 2 and 3 the proportion of PTI in terms of volume increased significantly between 1996 and 1997, from 33.8% to 58.4% and from 26.5% to 48.9% respectively. In Region 1 the volume-share of PTI lending declined from 31.7% to 27.0% and the total number of PTI projects fell from 9 to 7. Nonetheless, despite this decline in the past year, Region 1 continues to account for the greatest volume of PTI lending.

## PTI and Sectors

3.06 Continuing a pattern observed in previous years, the PTI lending program contains more social sector than non-social sector projects.<sup>8</sup> As shown in Table 4, under the new guidelines for PTI classification, PTI in non-social sectors accounted for 11.1% of the PTI eligible investments in those sectors in 1997, and accounted for only 13.7% of all PTI. This performance represents an improvement since 1996, suggesting that recommendations made in last year's report to increase the share of non-social sector projects in the PTI portfolio has been followed. Nonetheless, there is still room for improvement.

## Comparison of Old and New Criteria

3.07 The elimination of the country-automatic criterion and the introduction of more flexibility in the use of non-income data for the geographic criterion did not have a significant impact on the overall number of projects that classified for PTI status. Only one project in Guyana and one in Peru did not classify as PTI under the new guidelines, but would have classified under the old ones.<sup>9</sup> The elimination of the country-automatic classification criterion thus had the most important impact in Region 3, since both Peru and Guyana (the countries with projects affected by the changes) belong to that Region. As presented in Table 3, under the new guidelines, 41.2% of approved loans and 48.9% of volume lent in Region 3 went to PTI. Under the former guidelines, however, these percentages would have been even higher: 52.9% and 60.3% respectively. However, less easy to estimate is the extent to which greater flexibility in the application of the geographic criterion may also have allowed projects to classify as PTI that would not have under the previous criteria, which would have a reverse effect on the PTI lending program.

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<sup>8</sup> Note that the definition of social sectors corresponds to the traditional definition of social sectors as presented in the 1997 Annual Report.

<sup>9</sup> These projects are GY-0126 (Programa de Rehabilitación de Puentes en Guyana) and PE-0143 (Programa de Sanidad Agropecuaria en Peru). The Peru project report specifically states that the program is not targeted to low-income segments of the population. Still, it would have qualified as PTI under the former country-automatic criterion. Under the new guidelines, however, it does not. On the other hand, the Guyana program could have been classified as PTI had the project report provided evidence that over 50% of its beneficiaries are below the poverty line. This would have been relatively straightforward to demonstrate given that the project has national coverage and more than 50% of the population has income below the poverty line.

3.08 Another important result of the changes in classification criteria appears to be reinforcement of the already uneven sector distribution of the PTI program. (See Table 4). Document GN-1964-3<sup>10</sup> had already pointed out that PTI projects tend to concentrate in social sectors. However, because both projects that did not classify under the new rules were in non-social sectors (Transportation and Agriculture), this trend was exacerbated under the new criteria. For 1997, PTI as a percentage of total PTI-eligible investments in the non-social sectors accounted for 11.1%; under the old criteria, this figure would have been 15.2%.

### Conclusion

3.09 PTI performance has not witnessed many significant changes during the last year. To the extent that there was change, performance has increased slightly relative to 1996. However, these global figures mask variation in the relative performance of regional departments and country groups. Overall, PTI performance has proved more or less constant since 1996, with slightly less than half of the PTI-eligible projects classifying as PTI. There has been more variability in the volume-share of the PTI portfolio, reflecting swings in the average size of PTI projects relative to the total number of projects eligible to be classified as PTI.

3.10 Given the relatively recent implementation of PTI monitoring; the introduction of changes to the classification criteria in 1997; and the small number of projects which classify as PTI in any one year, it would be overstating the case to speak of any significant trends in PTI performance. Rather, the results presented above provide a description of the state of the PTI portfolio in its initial three years of execution. There is still room for progress, further learning, and greater understanding not only on the application of PTI criteria, but on the relationship of PTI status to actual poverty reduction impact.

3.11 Towards that end, it was recommended last year that future reports to the Board on the status of the PTI lending program include highlights of good practices of targeting within PTI projects. The objective was to provide a forum for reporting to Management and the Board on those Bank projects which go “beyond the letter of the law” to reach the poor and make an extra effort to improve the potential for poverty reduction impact. The following section of this report summarizes the projects selected by the Regional Departments to be highlighted as good practices.

## **IV. 1997: Good Practices in Poverty-Targeting**

4.00 Among the recommendations in document GN-1964-3 is an emphasis on the need for better targeting of beneficiaries so that investments reach the greatest number of the poor in the most effective way. The development of good practices in project targeting has been gradually taking shape in the last three years. By designing better targeting procedures, project teams expect to more effectively match proposed investments with their potential beneficiaries. Good practices in targeting, as highlighted here, have to do with an additional effort to go beyond the letter of the law in the identification of project beneficiaries. Effective and efficient targeting mechanisms attempt to better link the project’s specific purposes with its intended group of beneficiaries.

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<sup>10</sup> Op. Cit.

4.01 To guide this process, it is necessary to clearly identify the project's objectives concerning poverty and the poor. For instance (i) is the project's objective to deal with emergency situations, i.e. with specific crises and adverse shocks (be they economic or climatic) that may have a temporary impact on the poor? Or (ii) are project objectives more long-term such as providing the poor with access to social services or to economic opportunities that will eventually contribute to improvements in their living conditions? Furthermore, considering that resources are always limited, how can specific projects target priority sub-groups of beneficiaries within the poor thus maximizing access to the services to be provided or the investments to be made by the groups who need them the most?

4.02 Following recommendations made in Document GN-1964-3, projects which demonstrated good practices in the design of poverty targeting mechanisms were nominated by each of the 3 Regional Operational Departments. These projects, listed below, all represent cases where the design of the operation made extra efforts to better target the poor that go beyond the PTI Classification Criteria. These design elements include a variety of instruments, such as the careful definition of beneficiary eligibility and selection criteria, use of poverty maps, application of qualitative methodologies, and more rigorous analysis of survey data to determine appropriate types of project interventions.

4.03 At this point, the concept of Good Practices includes only innovative attempts at the *project design stage* to resort to more effective mechanisms to identify beneficiaries. Because most of these projects were approved only last year, it is not yet possible to measure how effectively they have identified beneficiaries or the real impact of these interventions on poverty or on the poor beneficiaries they intend to reach.

4.04 For Regional Operational Department 1, examples of good practices in PTI design include: AR-0161 (Atención a Grupos Vulnerables), AR-0169, (Programa de Apoyo a la Productividad y Empleabilidad de Jóvenes en Argentina), BO-0130 (Atención Integral al Menor de 6 Años), BR-0242 (Mejoramiento de Barrios en el Estado del Rio de Janeiro) and PR-0028 (Reformas a la Atención Primaria en Salud).

4.05 Examples of good practices in Regional Operational Department 2 include: DR-0078 (Modernización y Reestructuración del Sector de Salud), ES-0108 (Programa de Apoyo a Tecnologías Educativas), ES-0109 (Programa de Desarrollo Local), GU-0022 (Programa de Vivienda) and ME-0052 (Programa de Educación a Distancia).

4.06 For Regional Operational Department 3, examples of good practices include EC-0138 (Apoyo al Sector Habitacional) and JA-0041 (Social Investment Fund); EC-0182 and PE-0188, which consisted of two emergency loans - to Ecuador and Peru - to prevent or mitigate anticipated damage by the El Niño phenomenon in both countries; EC-0157 (Programa de Atención Integral a los Menores de 6 Años); PE-0126 (Programa de Modernización y Administración de Justicia) and VE-0059 (Programa de Apoyo a la Sociedad Civil).

4.07 A variety of resources and methods are available for projects to target beneficiaries. The decision on which of them to use will be a function of the reliability of available data in the country, the project objectives and institutional considerations like the level of decentralization in

project execution. Some attention must also be paid to the costs and benefits resulting from the application of targeting schemes. Potential benefits deriving from the application of sophisticated targeting mechanisms could easily be offset by the financial costs of designing them and the institutional difficulties local teams might face during implementation. The projects cited above as good practices all represent efforts to creatively resolve this tension and do the most with the available resources and under the time constraints of IDB project preparation to reach the poor. In the discussion that follows we provide further detail on how some of the good practice projects listed above have targeted benefits and resources to the poor.

4.08 Some projects rely on geographic targeting and thus narrow the project focus in stages, from the regional or state to a more local level. Here, geographic targeting is used to identify priority areas of intervention. Subsequently, geographic targeting is often combined with self-targeting and community participation and involvement in project preparation as the final basis for targeting. Examples of this approach are: the Local Development Program in El Salvador (ES-0109), the Program of Attention to Vulnerable Groups in Argentina (AR-0161), the Programs of Integral Attention to Children under 6 in Ecuador (EC-0157) and the Rio de Janeiro Neighborhoods Improvement Program-Baixada Viva- in Brazil (BR-0242).

4.09 Other programs rely on the application of formulas for budget allocation or for the provision of direct subsidies. Formulas are designed so that the poorest groups benefit proportionately more from the project's investments or are required to contribute proportionately less to its maintenance than less poor beneficiaries. Such is the case of the Paraguayan Primary Health Care Reform Program (PR-0028) which introduces a progressive formula for budget resources allocation to regions and municipalities. This formula is based on demographic, health and income indicators obtained through a household survey on the use of health services and the users' perceptions about the quality of these services. Along a similar line, the Programa de Vivienda in Guatemala (GU-0022) utilizes two different mechanisms for beneficiary targeting. A self-targeting mechanism for families under an income threshold provides a social window made of subsidized loans for home improvements on informally built houses for poor families with a very low-income. For poor families who are slightly better-off, the project finances a commercial window of a direct initial cash subsidy for home acquisition through mortgage loans with the private sector.

4.10 The Ecuador Housing Sector Program (EC-0138) uses the poverty line as a basic targeting mechanism and couples it with built-in mechanisms like ceilings for loans and for the applicants' family income. These mechanisms are combined in scores to assess applicants, making it more likely that families benefiting from the investments will be those earning the least. The Jamaican Social Investment Fund (JA-0041) uses a geographical targeting mechanism based on the Jamaica Poverty Map to ensure that program resources will reach the regions and groups currently underserved by existing social programs. In addition, built-in mechanisms for project execution and a menu of sub-programs eligible for financing encourage the participation of beneficiary groups at all stages of project execution.

4.11 Some projects elected to use a combination of targeting mechanisms as judged more adequate for each of their different components or subprograms. Such is the case of the Programa de Apoyo a la Productividad y Empleabilidad de Jovenes en Argentina (AR-0169). This project uses self-targeting for its training component, while another component-scholarships to increase

school retention - combines targeting at the national level with mechanisms for assigning quotas of scholarships to provinces according to a formula combining poverty and school performance indicators. As a final step, it uses the system of beneficiary identification (forms from the Sistema de Identificación de Familias Beneficiarias - SISFAM) for targeting and identifying the poorest and neediest students through a special attached form called SISFAM-BECAS.

4.12 In addition to the good practice projects nominated by the Regional Departments, it is also of particular interest to highlight PTI projects outside of the social sectors that made extra efforts to improve poverty targeting. Given the relative under-representation of the non-social sectors in the PTI lending program, it is important to learn from the good practices that do exist. Three examples merit consideration in this report: HA-0075 (Haiti Secondary and Tertiary Road Rehabilitation Program), NI-0014 (Nicaragua Food and Agricultural Revitalization Program), and PR-0094 (Paraguay Global Microenterprises Credit Program).

4.13 The Haitian Secondary and Tertiary Road Rehabilitation Program provides a good example of a non-social sector PTI in a sector that is not eligible for PTI classification under the sector-automatic rules. Even though at the time of its approval the country-automatic classification criterion was still applicable and projects in Haiti automatically qualified, the project includes extra efforts to reach the poor. The project's investment component addresses the needs for economic integration, transportation of goods and development of economic activities (like tourism) of isolated rural areas, benefiting approximately 750 thousand rural residents in a country where 80% of the rural population is below the poverty level. Additional features that enhance the project's PTI design are the program's emphasis on labor-intensive maintenance works (which would provide temporary jobs and income for part of the population in the affected areas) and the participation of local stakeholders in the definition of tertiary road projects.

4.14 The 1997 Nicaragua Food and Agricultural Revitalization Program's goal is to support rural development activities aiming at increasing rural income and employment. It combines geographic targeting of rural municipalities in the Central and Pacific regions of Nicaragua where over 75% of the rural population is below the poverty line with mechanisms for resource allocation based on poverty and development potential indicators.

4.15 Finally, the Paraguay loan for a Global Microenterprise Credit Program has as its main component a line of credit for microentrepreneurs to purchase fixed assets and fund working capital through participating IFIs. It targets low-income microentrepreneurs through a series of mechanisms like ceilings in credit line and eligibility criteria related to the size of the microenterprise (both in terms of number of employees, volume of sales and value of assets) that widens the access of low-income beneficiaries to productive credit. The program also addresses the need to resolve the obstacles that hinder the access of women entrepreneurs to credit.

4.16 As will be discussed in more detail below, this year's nomination of good practice cases to be highlighted in this report was done in a decentralized and relatively ad-hoc fashion. The Poverty and Inequality Advisory Unit, in collaboration with the Office of the Executive Vice President, is currently preparing guidelines for the selection of good practices in poverty reduction projects. Starting next year, these selection criteria will be used to pick good practice projects that will be highlighted in future documents prepared by the Unit and serve as inputs to other official documents of the Bank. We also intend to highlight good practices of poverty targeted

components within operations for which the entire project may not necessarily qualify as PTI. For example, the Venezuela Sector Program in Support of Fiscal and Public Sector Reforms approved in October, 1998 had a component to protect public spending on targeted social programs accounting for 15% of the overall loan amount. One essential element of the selection criteria for future good practice projects will be the presence (or not) of a sound monitoring and evaluation component. Such a component can yield future information regarding the effectiveness of targeting mechanisms and the project's actual impact on the poor, thus allowing the Bank to track over time the performance of projects identified as good practices in poverty targeting during the design phase.<sup>11</sup>

## **V. Main Findings and Recommendations**

### Improving the Performance and Relevance of the PTI Portfolio: Recommendations

5.00 As presented in Table 1, relative to the universe of PTI-eligible loans, there was a slight improvement in PTI performance in 1997. However, the year of 1997 saw the number of PTI operations hold constant and the volume of resources dedicated to the PTI lending program decline slightly. Although three years are not enough to identify long-term trends, Table 1 shows that the relative stability in the absolute number of PTI projects approved is not followed by a similarly stable volume in PTI approvals. There is a noticeable decline in the volume of approved PTI between 1995 and 1997, from slightly over 3 billion dollars that year to 1.7 billion dollars in 1997.

5.01 How can the observed patterns in performance in the PTI lending program be explained? In this concluding section we offer some possible reasons. This assessment of PTI performance observed in the past year yields a series of recommendations for actions to be taken that can improve the future performance, and relevance, of the PTI lending program.

5.02 From the numbers in Table 1, it seems clear that the absolute number of PTI approved in the last three years has been at best stationary, between the 26 and 29 mark. The relative size of this program, however, will always be a function of the overall size of the lending program. The fact that the absolute number of PTI seems to be stationary should be a reason for concern. Ideally, as the lending program grows and changes, so should the PTI program. And what the three last years seem to indicate thus far is that the PTI program is not evolving at the same pace as the overall lending program (although it is keeping pace with the universe of PTI-eligible loans).

5.03 As discussed above and highlighted in Table 1 and Table A3, the entire universe of Bank lending instruments is not, at present, eligible to be classified as PTI. PTI classification is not currently applicable for technical cooperations, regional and private sector loans. In fact, the proportion of loans which is actually eligible to be classified as PTI has been declining over time, due to an increase in the number and volume of technical cooperation, regional, and private sector loans.

5.04 The increase in the relative share of resources going to private sector, technical cooperation, and regional loans suggests that current PTI monitoring system is failing to capture a

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11 This recommendation is consistent with those made in documents RE-212-2 and RE-231.

growing segment of the Bank's lending program. Given the observed diversification of the types of instruments in the Bank's lending program, ***we recommend that the universe of loans tracked as PTI be expanded to include technical cooperation, private sector, and regional loans.*** Rather than reduce the denominator to exclude an ever-more important share of the Bank's lending program, we propose expanding the universe of PTI eligibility for the purposes of monitoring. In fact, there have already been cases throughout the year where technical cooperation, regional or private sector loans would have passed one or more of the PTI criteria.<sup>12</sup> Furthermore, it is appropriate to encourage borrowers and project teams to focus on poverty reduction issues and poverty targeting within "non-traditional" instruments, given the increasing importance that they are having within the Bank's lending program. It is important to emphasize that expansion of Management's monitoring efforts will have negligible administrative costs and minimal reporting requirements.<sup>13</sup> There will be no requirement for non-traditional operations to classify as PTI and it is not expected that additional work be done in order to classify. Furthermore, PTI classification will not affect the financing matrix for loans other than the traditional investment loans. In order to facilitate future monitoring and allow time for adequate dissemination to staff, we recommend that this change be adopted as of January 1, 1999 so that the necessary information can be entered into the mainframe system by project teams during the loan processing phase.

#### Overconcentration of PTI in Social Sectors: Explanation and Recommendations

5.05 Document GN-1964-3 had already shown findings for 1995 and 1996 that are confirmed in the numbers for 1997; PTI tend to concentrate in social sectors, mostly in projects prepared by the Social Programs Divisions, followed by some in the Environment and Natural Resources Management Divisions, particularly in the areas of Agriculture and Sanitation. In order to increase PTI lending both in absolute number of projects and in volume, more effort should be made to incorporate poverty reduction concerns in non-social sectors operations. This effort should focus less on the number of low-income beneficiaries in the geographic areas covered by projects but, rather, on how the project will contribute to poverty reduction and sustainable development goals.

5.06 In the last three years, Regional Departments have continuously demonstrated their interest in designing better-targeted projects. These efforts, however, still tend to concentrate in social programs, as mentioned above. The Bank should make a concerted effort to expand poverty concerns to non-social areas, while also focusing on how well projects are reaching the poor instead of concentrating on how many operations were poverty-targeted. For this, project evaluation processes and mechanisms covering the project reach and its poverty impact should be set up within projects from the beginning.<sup>14</sup>

5.07 In conjunction with the Regional Departments, the Unit will work on developing showcases or templates for poverty targeted components within larger operations that themselves may not qualify as PTI but are good examples of high value-added initiatives benefiting low-

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12 For example, consider the case of the Private Sector loan to Bolivia (BO-0172) to be approved end-1998 in support of privatization of the Aqueduct and Sanitation Systems in La Paz and El Alto. It will increase water and sanitation connections in 40,000 households in the poorest zone of El Alto and would qualify with no addition effort under the geographical targeting criteria.

13 Project teams will be asked only to include a discussion of whether or not the operation meets PTI criteria as part of the executive summary and also to enter this data into the PRUS.

<sup>14</sup> More recommendations in this area can be found in document RE-231.

income groups. Efforts in this regard will focus on the non-social sectors, and include initiatives such as the design of microcredit programs for low-income groups as part of privatization programs or the development of rural feeder roads within the context of a larger infrastructure project. In future reports to the Board on PTI performance, these initiatives will be highlighted as part of the discussion of good practices in order to award recognition and provide visibility to project teams that make efforts to reach the poor even within operations that are not primarily defined as poverty targeted.

5.08 As important for improving the poverty emphasis in the non-social sectors, if not more so, is increased attention to poverty issues in the definition of country strategy and during country programming. SDS/POV will be increasing its participation in the preparation of country papers and in country pre-programming activities and programming missions as called for by the Regional Operational Departments.

#### Future Procedures for PTI Outreach and Defining and Monitoring Good Practices

5.09 In addition to the suggested changes recommended above (expanding the universe of PTI-eligible loans, ~~incorporating the notion of PTI components in non-PTI loans~~, and increasing the poverty emphasis in country papers and programming) there are process improvements which can be made in the areas of outreach and technical support and definition of good practices. These changes in process can serve to enhance future performance of the PTI lending program and are outlined in more detail below.

5.10 In the area of *outreach and technical support*, SDS/POV, established in September of 1997, provides the natural forum for leadership in this area. Since its formation, the Poverty and Inequality Advisory Unit has disseminated the PTI guidelines throughout the Bank via the Intra-Net (in partnership with the Office of the Executive Vice President). The Unit has also named one contact person for each Regional Operational Department to provide guidance in the application of PTI criteria. While support provided to date has been on a demand-driven basis, the Unit is currently preparing a presentation on PTI performance and good practices in poverty-reduction lending which will be made in the first quarter of 1999 to the various operational divisions. Also to be distributed during these presentations is a list of poverty information available for each country that project teams can work with to improve the poverty focus of their operations and improve PTI performance. This information will include the household surveys available in the MECOVI data bank of household surveys –accessible to users within the Bank--, as well as information readily available in each country, such as poverty maps, demographic and health surveys, etc. As part of its work program for 1999, SDS/POV plans to prepare a series of short guidelines with tips for improving the poverty focus of different types of operations, with an emphasis on non-social sector operations. These guidelines, in addition to improving the likely poverty reduction impact of the overall portfolio, are also apt to improve the PTI performance of the non-social sectors. The Unit also hopes to increase its technical support provided to country paper preparation, pre-programming, and programming exercises.

5.11 Finally, there is room for the improvement and greater transparency in the procedures used for *defining and monitoring good practices in PTI lending*. SDS/POV is initiating a process of discussion and dialogue within the Bank as to the appropriate criteria to use for the selection of good practices projects in the area of poverty targeting. These criteria will be widely circulated

throughout the Bank at the technical level, via the Poverty Network that is chaired by SDS/POV. Subsequent to including revisions from these discussions, they will be submitted for approval via the appropriate channels. The very discussion and debate about these selection criteria will be an educational process for staff in learning about methodologies for better reaching the poor. And, in subsequent reports on the status of the PTI lending program, the selection of good practice projects will be based upon transparent, commonly agreed upon, selection criteria to which all the stakeholders have agreed. This shared ownership of the concept of what constitutes a good practice in the area of poverty targeting will facilitate monitoring over time. Our intention is to follow-up on good practice projects during and after execution, so as to have a better sense of whether good practice in design actually works at achieving the desired results during implementation.

# DATA APPENDIX

**Table 1**  
**Evolution of "PTI-Eligible" Portfolio, 1995-1997**

	Number of Loans				Amount in US\$ millions			
	1995	1996	1997	1997*	1995	1996	1997	1997*
1. Investment	41	49	53	53	4469.3	4602.8	4219.9	4219.9
2. Sector	12	10	4	4	2464.6	1808.4	422.8	422.8
3. PTI Eligible (1+2)	53	59	57	57	6933.9	6411.2	4642.7	4642.7
4. PTI Eligible as Percentage of Total loans	79.1	79.7	71.3	71.3	96.2	95.3	77.1	77.1
5. PTI's	29	26	26	28	3029.1	2000.1	1734.9	1821.3
6. PTI's as Percentage of PTI Eligible (5/3*100)	54.7	44.1	45.6	49.1	43.7	31.2	37.4	39.2

\*: Counterfactual scenario if country automatic criterion was still applicable.

Source: SDS/POV Database

**Table 2**  
**PTI's by Country Groups**

	Number of Loans											
	1995			1996			1997			1997*		
	PTI Eligible	PTI	Percentage of Country Group	PTI Eligible	PTI	Percentage of Country Group	PTI Eligible	PTI	Percentage of Country Group	PTI Eligible	PTI	Percentage of Country Group
A	15	7	46.7	17	8	47.1	18	6	33.3	18	6	33.3
B	9	4	44.4	7	2	28.6	7	2	28.6	7	3	42.9
A & B	24	11	45.8	24	10	41.7	25	8	32.0	25	9	36.0
C	7	1	14.3	12	1	8.3	11	3	27.3	11	3	27.3
D	22	17	77.3	23	15	65.2	21	15	71.4	21	16	76.2
C & D	29	18	62.1	35	16	45.7	32	18	56.3	32	19	59.4
Total	53	29	54.7	59	26	44.1	57	26	45.6	57	28	49.1
	Amount											
	1995			1996			1997			1997*		
	PTI Eligible	PTI	Percentage of Country Group	PTI Eligible	PTI	Percentage of Country Group	PTI Eligible	PTI	Percentage of Country Group	PTI Eligible	PTI	Percentage of Country Group
A	4679.0	1744.0	37.3	3928.8	1329.8	33.8	2712.4	881.0	32.5	2712.4	881.0	32.5
B	740.1	386.0	52.2	823.5	250.0	30.4	420.1	170.0	40.5	420.1	215.6	51.3
A & B	5419.1	2130.0	39.3	4752.3	1579.8	33.2	3132.5	1051.0	33.6	3132.5	1096.6	35.0
C	249.7	28.0	11.2	938.9	26.4	2.8	624.8	96.1	15.4	624.8	96.1	15.4
D	1265.2	871.2	68.9	719.9	393.9	54.7	885.4	587.8	66.4	885.4	628.8	71.0
C & D	1514.9	899.2	59.4	1658.8	420.3	25.3	1510.2	683.9	45.3	1510.2	724.9	48.0
Total	6934.0	3029.2	43.7	6411.1	2000.1	31.2	4642.7	1734.9	37.4	4642.7	1821.5	39.2

\*: PTI program if the country automatic criterion was still applicable  
Source: SDS/POV Database

**Table 3**  
**PTI's by Regions**  
**Number of Loans**

	Number of Loans											
	1995			1996			1997			1997*		
	PTI Eligible	PTI	Percentage of Region	PTI Eligible	PTI	Percentage of Region	PTI Eligible	PTI	Percentage of Region	PTI Eligible	PTI	Percentage of Region
Region 1	16	9	56.3	22	9	40.9	21	7	33.3	21	7	33.3
Region 2	21	14	66.7	21	12	57.1	19	12	63.2	19	12	63.2
Region 3	16	6	37.5	16	5	31.3	17	7	41.2	17	9	52.9
Total	53	29	54.7	59	26	44.1	57	26	45.6	57	28	49.1
	Amount (US\$ millions)											
	1995			1996			1997			1997*		
	PTI Eligible	PTI	Percentage of Region	PTI Eligible	PTI	Percentage of Region	PTI Eligible	PTI	Percentage of Region	PTI Eligible	PTI	Percentage of Region
Region 1	3318.2	1409.2	42.5	3201.4	1014.8	31.7	2878.6	777.0	27.0	2878.6	777.0	27.0
Region 2	2517.2	1175.9	46.7	1837.7	621.3	33.8	1007.5	588.1	58.4	1007.5	588.1	58.4
Region 3	1098.6	444.0	40.4	1372.0	364.0	26.5	756.6	369.8	48.9	756.6	456.4	60.3
Total	6934.0	3029.1	43.7	6411.1	2000.1	31.2	4642.7	1734.9	37.4	4642.7	1821.5	39.2

\*: PTI program if the country automatic criterion was still applicable  
Source: SDS/POV Database

**Table 4**  
**PTI's by Sector of Investment**

	1995		1996		1997		1997*	
	PTI as % of total PTI eligible Investment by Sector	Sector as a % of Total PTI's	PTI as % of total PTI eligible Investment by Sector	Sector as a % of Total PTI's	PTI as % of Total PTI eligible Investment by Sector	Sector as a % of Total PTI's	PTI as % of total PTI eligible Investment by Sector	Sector as a % of Total PTI's
Social	93.1	83.9	73.8	98.3	59.6	86.3	59.6	82.2
Education	100.0	3.5	41.7	5.0	72.2	37.4	72.2	35.6
Health	17.0	1.3	72.3	17.5	87.2	6.9	87.2	6.6
Non Social	11.6	16.1	0.9	1.7	11.1	13.7	15.2	17.8
Agriculture	25.9	4.2	2.6	0.7	25.6	2.3	54.8	4.7
Transportation	43.0	11.9	0.0	0.0	18.8	9.5	23.4	11.3
Total	43.7	100.0	31.2	100.0	37.4	100.0	39.2	100.0

\*: Refers to PTI program if country automatic was still applicable.

Note: Social Sectors include Health and Education, Extended Social Sectors Include Environmental Protection, Reform and Modernization of the State, Social Investment, Sanitation, Science and Technology, and Urban Development and Housing. Non Social Sectors include Agriculture, Communication, Energy, Export, Fishery, Forestry, Industry, Microenterprises, Mining, Preinvestment, Tourism, Transportation and Other.

Source: SDS/POV Database

## ANNEX 1

### **Evolution of PTI classification criteria and the impact of criteria changes on PTI Lending 1995 1997: Changes in Criteria for PTI Classification**

Since 1995, three distinctive periods mark the application of criteria for the classification of projects as Poverty-Targeted Investments: (i) between the approval of the Eighth General Increase of Resources in 1994 and June 30, 1995, criteria for PTI classification remained the same ones used during the Seventh Replenishment Period (document AB-1378) which measured the expected impact of operations on low income groups; (ii) between June 30, 1995 and April 23, 1997, document GN-1763-27 defined the criteria for geographic targeting of poor beneficiaries and for determining that a significant majority of the beneficiaries of the operation, according to conditions prevailing in the country, are poor<sup>15</sup>; (iii) after April 23 and December 31<sup>st</sup>, 1997, with the changes to the previously applied criteria proposed in document GN-1964-3.

Table a.1 in the next page summarizes the content of the criteria applied through different periods and the nature of the changes. Table a. 2 shows the total number of projects approved in 1997 for the countries previously benefiting from the Country-Automatic Criterion. Tables a.3 through a.6 present the same information as tables 1 through 4, using as the denominator total loans rather than only PTI eligible loans, in order to facilitate comparison with the tables previously presented in last year's PTI report. (Document GN-1964-3)

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<sup>15</sup> The definition and application of these classification criteria became particularly important after 1995 since, in an effort to add new incentives to lending geared to poverty reduction and social equity, the 8<sup>th</sup> Replenishment Mandate specifically allows countries, if they so wish, to obtain an extra 10% in the share of the Bank's co-financing of PTI projects: up to 60% in A-group countries, 70% in B-group countries, 80% in C-group countries and 90% in D countries.

**Table a.1**

**CRITERIA FOR POVERTY TARGETING – 1995 TO 1997**

	Eighth Replenishment		
<b>Transitional Period Between July 1994 and June 1995</b>	<b>Document GN-1763-27 Between July 1995 and April 23, 1997</b>		<b>Document GN-1964-s From April 23, 1997 to present</b>
<p>Projects were analyzed in terms of their expected distributive impact, that is the anticipated benefits of given operations on low-income groups.</p> <p>Effort for operations to focus on expected benefits to minority groups like women, particularly low-income women, indigenous people, and areas like microenterprises which were expected to have a positive impact on low-income groups outside the formal labor market.</p>		<b>Applies to</b>	
	<b>a) Sector-Automatic</b> Paragraph 2.14 of the Eighth Replenishment Document specifically lists the sectors in which activities would most meet the needs of low-income groups.	Projects that support the following programs: Pre-School Primary Education Primary Health Care Nutrition Slum Upgrading Small Farmers Production Micro-Enterprises Social Investment Funds Emergency Employment Operations.	Early Childhood Development and Social Programs for At-Risk Children and Adolescents are added to Sector-Automatic.
	<b>b) Geographic</b> Interpreted by document GN-1763-27 as Country-Automatic, that is applying to all countries in the region whose poverty headcount ratio is above 50%.	Projects in Bolivia, Guatemala, Guyana, Haiti, Honduras, Nicaragua, and Peru, except for economy-wide policy operations, debt restructuring, institutional development and energy.	Country-Automatic dropped. Replaced by geographic targeting of poor beneficiaries within the area of influence of project. Flexibility added with the use of Proxy measures for poverty, like % of population with NBI or social and economic indicators in beneficiary areas/groups below country or regional average.
<b>Other</b>	Projects that do not qualify as automatic by either criteria above but which are able to demonstrate that over 50% of its beneficiaries are poor.	Same as above.	

**Table a.2**  
**PERFORMANCE OF PROJECTS IN COUNTRIES PREVIOUSLY BENEFITING**  
**FROM THE COUNTRY-AUTOMATIC CRITERION – 1997**

<b>Countries which previously qualified for Country-Automatic Project Classification (*)</b>	<b>Total # of Projects Approved in 1997</b>	<b>PTI Approved in 1997</b>
Bolivia	2	1
Guatemala	3	2
Guyana	1 (**)	0
Haiti	1	1
Honduras	2	2
Nicaragua	2	2
Peru	5 (***)	2
<b>Total</b>	<b>16</b>	<b>10</b>

(\*) The Country-Automatic Classification was applied to projects presented to the Board between July 1<sup>st</sup> 1995 and April 23<sup>rd</sup>, 1997.

(\*\*) GU-0126, Programa de Recuperación de Puentes, would have been classified as PTI under the previous country-automatic criterion.

(\*\*\*) PE-0143, Programa de Sanidad Agropecuaria, would have been classified as PTI under the previous country-automatic criterion.

**Table a.3**  
**Evolution of "PTI" Portfolio, 1995-1997**

	Number of Loans			Amount in US\$ millions		
	1995	1996	1997	1995	1996	1997
1. Investment	41	49	53	4469.3	4602.8	4219.9
2. Sector	12	10	4	2464.6	1808.4	422.8
3. PTI Eligible (1+2)	53	59	57	6933.9	6411.2	4642.7
4. Private Sector	5	6	8	145.7	199	327.5
5. Technical Cooperation	9	8	10	139.7	82	160.9
6. Regional Loans	0	1	5	0	37	890.5
7. Not PTI Eligible (4+5+6)	14	15	23	285.4	318	1378.9
8. Total Loans (3+7)	67	74	80	7219.3	6729.2	6021.6
9. PTI Eligible as Percentage of Total loans (3/8*100)	79.1	79.7	71.3	96.0	95.3	77.1
10. PTI's	29	26	26	3029.1	2000.1	1734.6
11. PTI's as percentage of total loans (10/8*100)	43.3	35.1	32.5	42.0	29.7	28.8
12. PTI's as percentage of PTI Eligible (10/3*100)	54.7	44.1	45.6	43.7	31.2	37.4

Source: SDS/POV Database

**Table a.4  
PTI's by Country Groups**

	Number of Loans											
	1995			1996			1997			1997**		
	Total Loans	PTI	Percentage of Country Group	Total Loans	PTI	Percentage of Country Group	Total Loans	PTI	Percentage of Country Group	Total Loans	PTI	Percentage of Country Group
A	20	7	35.0	23	8	34.8	25	6	24.0	25	6	24.0
B	9	4	44.4	11	2	18.2	13	2	15.4	13	3	23.1
A & B	29	11	37.9	34	10	29.4	38	8	21.1	38	9	23.7
C	10	1	10.0	12	1	8.3	13	3	23.1	13	3	23.1
D	28	17	60.7	27	15	55.6	24	15	62.5	24	16	66.7
C & D	38	18	47.4	39	16	41.0	37	18	48.6	37	19	51.4
Total	67	29	43.3	73 *	26	35.6	75 *	26	34.7	75	28	37.3

\*: Does not match the total in tables a.4 and a.6 because regional operations are not included here.

\*\* : PTI program if the country automatic criterion was still applicable.

Source: SDS/POV Database

**Table a.5**  
**PTI's by Regions and Total Loans**

	Number of Loans											
	1995			1996			1997			1997*		
	Total Loans	PTI	Percentage of Region	Total Loans	PTI	Percentage Of Region	Total Loans	PTI	Percentage of Region	Total Loans	PTI	Percentage of Region
Region 1	21	9	42.9	27	9	33.3	27	7	25.9	27	7	25.9
Region 2	25	14	56.0	24	12	50.0	25	12	48.0	25	12	48.0
Region 3	21	6	28.6	22	5	22.7	23	7	30.4	23	9	39.1
Regional	0	0	0.0	1	0	0.0	5	0	0.0	5	0	0.0
Total	67	29	43.3	74	26	35.1	80	26	32.5	80	28	35.0

  

	Amount (US\$ millions)											
	1995			1996			1997			1997*		
	Total Loans	PTI	Percentage of Region	PTI Eligible	PTI	Percentage Of Region	Total Loans	PTI	Percentage of Region	Total Loans	PTI	Percentage of Region
Region 1	3466.0	1409.2	40.7	3313.4	1014.8	30.6	3157.1	777.0	24.6	3157.1	777.0	24.6
Region 2	2613.3	1175.9	45.0	1862.4	621.3	33.4	1146.9	588.1	51.3	1146.9	588.1	51.3
Region 3	1140.0	444.0	38.9	1516.4	364.0	24.0	827.1	369.8	44.7	827.1	456.4	55.2
Regional	0.0	0.0	0.0	37.0	0.0	0.0	890.5	0.0	0.0	890.5	0.0	0.0
Total	7219.3	3029.1	42.0	6729.2	2000.1	29.7	6021.6	1734.9	28.8	6021.6	1821.5	30.2

\*: PTI program if the country automatic criterion was still applicable

Source: SDS/POV Database

**Table a.6**  
**PTI's by Sector of Investment**

	1995		1996		1997		1997*	
	PTI as % of Total Loans By Sector	Sector as a % of Total PTI's	PTI as % of Total Loans By Sector	Sector as a % of Total PTI's	PTI as % of Total Loans By Sector	Sector as a % of Total PTI's	PTI as % of Total Loans By Sector	Sector as a % of Total PTI's
All Social	93.1	83.9	72.9	98.3	57.0	86.3	57.0	82.2
Education	100.0	3.5	41.7	5.0	66.1	37.4	66.1	35.6
Health	17.0	1.3	72.3	17.5	87.2	6.9	87.2	6.6
All Non Social	10.9	16.1	0.8	1.7	7.0	13.7	9.5	17.8
Agriculture	25.4	4.2	2.6	0.7	25.5	2.3	54.5	4.7
Transportation	43.0	11.9	0.0	0.0	17.2	9.5	21.5	11.3
Total	42.0	100.0	29.7	100.0	28.8	100.0	30.3	100.0

Note: Social Sectors include Health and Education, Environmental Protection, Microenterprises, Social Investment, Sanitation, Urban Development and Housing. Non Social Sectors include Agriculture, Communication, Energy, Exports, Fishery, Forestry, Industry, Mining, Preinvestment, Tourism Reform and Modernization of the State, Transportation, Science and Technology, and Other.

\*: Refers to PTI program if country automatic was still applicable.

Source: SDS/POV Database

## ANNEX 2

### WORLD BANK PTI CLASSIFICATION CRITERIA

For purposes of comparison, presented below is an overview of the PTI Classification Criteria used at the World Bank. We also provide a summary review of the main similarities and differences between the criteria used by the World Bank and by the IDB.

#### **World Bank PTI (Program of Targeted Interventions) Classification Criteria**<sup>16</sup>

An investment project must meet at least one of the following criteria in order to be in the PTI:

- a) the project has specific mechanisms for targeting the poor (involves narrow targeting with specific mechanisms to reach the poor at the individual or household level e.g. a nutrition project for malnourished children)

and/or

- b) the proportion of poor among project beneficiaries is significantly larger than their proportion in the overall population (involves broad targeting at the level of expenditure category, sub-sector, or geographic region, e.g. a water supply project in the poorest region). Although benefits accrue to all, the poor are more likely to benefit relative to the nonpoor because they are more likely to lack access to the services being provided, and because the demand by the nonpoor for these services is likely to be satisfied already.

\*\* In addition, project components which meet either of these criteria must account for at least 25% of the total IDA/IBRD loan or credit amount.

#### **Some Similarities and Differences with IDB PTI Classification Criteria**

- C The World Bank does not have the sector-specific automatic criteria used at the IDB.
- C At the World Bank, in order to qualify as PTI, only 25% of the total loan or credit amount has to meet one of the classification criteria. The IDB criteria, as presently defined, apply to the entire loan or credit amount.
- C The World Bank always requires that the beneficiaries of the projects have a higher proportion of poor than does the population at large. In contrast, criteria at the IDB is not a relative concept.
- C The IDB offers an incentive to PTI projects -- an additional ten-percentage-points financing option. The World Bank does not offer a financial incentive to PTI projects.

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<sup>16</sup> IBRD Operational Directive 4.15, par. 52, reaffirmed in A. Choksi memo of 7/20/93.