IEG WORLD BANK | IFC | MIGA
Independent Evaluation Group

IEG ANNUAL REPORT 2011

# Results and Performance of the World Bank Group

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INDEPENDENT EVALUATION GROUP

# IEG Annual Report 2011: Results and Performance of the World Bank Group

## Volume I: Main Report

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## VOLUME III: MANAGEMENT ACTION RECORD

# Abbreviations

| | |
|---|---|
| AAA | Analytic and advisory activities |
| ADR | Alternative dispute resolution |
| CAS | Country Assistance Strategy |
| CASCR | Country Assistance Strategy Completion Report |
| CASCR-R | Country Assistance Strategy Completion Report Review |
| CGIAR | Consultative Group on International Agricultural Research |
| CPIA | Country Policy and Institutional Assessment |
| DEIS | Development Effectiveness Indicator System |
| DOTS | Development Outcome Tracking System (IFC) |
| DPL | Development Policy Loan |
| EITI | Extractive Industries Transparency Initiative |
| ERR | Economic rate of return |
| E&S | Environmental and social |
| FCS | Fragile and conflict-affected states |
| FDI | Foreign direct investment |
| FY | Fiscal year |
| GDP | Gross domestic product |
| GEF | Global Environment Facility |
| GTFP | Global Trade Finance Program |
| HNP | Health, nutrition, and population |
| IBRD | International Bank for Reconstruction and Development |
| ICR-R | Implementation Completion Report Review |
| ICT | Information and communication technologies |
| IDA | International Development Association |
| IEG | Independent Evaluation Group |
| IFC | International Finance Corporation |
| IFI | International financial institution |
| KPI | Key performance indicator |
| LIL | Learning and Innovation Loan |
| MAR | Management Action Record |
| MDG | Millennium Development Goal |
| MIGA | Multilateral Investment Guarantee Agency |
| OECD | Organization for Economic Cooperation and Development |
| PCR | Project Completion Report |
| PER | Project Evaluation Report |
| PFM | Public Financial Management |
| PPAR | Project Performance Assessment Report |
| PPP | Public-private partnership |
| PRI | Political risk insurance |
| PSD | Private sector development |
| PSR | Public sector reform |
| RAEDO | Risk-adjusted expected development outcome |
| RAP | Results and Performance Report |
| SME | Small and medium enterprise |
| SSN | Social safety net |
| SWAp | Sectorwide approach |
| WBG | World Bank Group |
| XPSR | Expanded Project Supervision Report |

# Acknowledgments

This report was prepared by a team led by Asita De Silva (Overall Task Leader) comprising Konstantin Atanesyan (Coordinator, World Bank), Stephen Pirozzi (Coordinator, International Finance Corporation), Stefan Apfalter (Coordinator, Multilateral Investment Guarantee Agency), Geeta Batra (Coordinator, management actions), Marianne Ellen Anderson, Unurjargal Demberel, Jouni Eerikainen, Gita Gopal, Hiroyuki Hatashima, Silke Heuser, Houqi Hong, William Hurlbut, Richard Kraus, Andres Liebenthal, Albert Martinez, Bidjan Nashat, Nestor Ntungwanayo, Ron Parker, Carla Pazce, Chau Pham, Aurora Medina Siy, Vikki Taaka, Yoshine Uchimura, Melvin Vaz, Victoria Viray-Mendoza, Andrew Warner, and Steven Webb. The report draws on project, country, sector, and thematic evaluations prepared by all staff of the Independent Evaluation Group (IEG). Comments on drafts of the report were received from numerous IEG staff including Martha Ainsworth, Amitava Banerjee, Belen Barbeito, Mary Breeding, Ken Chomitz, Navin Girishankar, Daniela Gressani, Monika Huppi, Kelly Andrews Johnson, Ali Khadr, Anjali Kumar, Nalini Kumar, Beata Lenard, Midori Makino, Cherian Samuel, Mark Sundberg, Pia Schneider, Helena Tang, Ethel Tarazona, Christine Wallich, Stephan Wegner, and Izlem Yenice. The evaluation was prepared under the direction of Vinod Thomas, Marvin Taylor-Dormond, and Stoyan Tenev.

Peer reviewers for the report were Shanta Devarajan (Chief Economist, Africa Region, World Bank), Alan Gelb (senior fellow, Center for Global Development), Homi Kharas (Senior Fellow, Brookings Institution), and Professor Theodore Moran (Marcus Wallenberg Chair in International Business and Finance, School of Foreign Service, Georgetown University).

The report was reviewed by an external advisory panel comprising Dr. Mwangi Kimenyi (Senior Fellow and Director of the Africa Growth Institute, Brookings Institution), Dr. Eduardo Lizano (President, Academy of Central America and former President of the Central Bank of Costa Rica), Mr. Lu Mai (Secretary General, China Development Research Foundation), Professor Paul Mosley (Professor of Economics, University of Sheffield), and Ms. Rachel Turner (Director, International Finance Division, Department for International Development, United Kingdom).

# Foreword

The work of the World Bank Group (WBG) in helping reduce poverty supports four core goals at both global and country levels: expanding economic opportunities, enhancing human development, mitigating socioeconomic and environmental risks, and improving governance and public sector effectiveness. In the first half of the 2000s, developing countries made advances in these areas, leading to a significant reduction in poverty. Historically high economic growth rates as well as improvements in key aspects of human development made the difference. A series of global economic crises as well as natural disasters contributed to setbacks, while global climate change continued to threaten progress. These global shifters need to be confronted by development strategies.

In 2008–10, 85 percent of WBG operations broadly aimed to help expand economic opportunities. Evaluations of past interventions show relatively high WBG effectiveness in these efforts. However, policy environments need further improvement, and sustainability of public infrastructure needs to be ensured. Uneven results in education and health highlight a range of difficulties in improving human development outcomes among the poor. Evaluations found shortfalls in achieving key public sector reform objectives, including civil service reform and reducing corruption. The WBG's response to recent disasters and global economic crises has been striking, but a greater emphasis is needed by everyone on preparedness.

Improving governance and public sector effectiveness is key to further reducing poverty. Also, the quality of public sector management affects the WBG's development effectiveness in countries as Bank Group-supported country program and project outcomes are lower in countries with poorer quality public sector management. This suggests a need to sharpen the approach and prioritize engagement in this area.

Outcome ratings of Bank-supported projects evaluated in 2008–10 were similar to those evaluated in 2005–07, although there was a drop in both project outcome and bank performance ratings in the Middle East and North Africa Region. In contrast, there was an improvement in development outcomes of projects supported by the International Finance Corporation (IFC) in this region, yet the current political turmoil may influence the future evolution of these good results. Among projects supported by the Multilateral Investment Guarantee Agency (MIGA) that were evaluated, the highest proportion of successful outcome ratings was in the financial sector, where its guarantees played a useful, albeit small, role in supporting recovery.

Various factors within the control of the WBG influence the development outcomes of its interventions. At the Bank, while supervision of completed operations was satisfactory, there was a decline in project quality at entry. In IFC, where a transformation in its business model is taking place, improved outcomes in the Middle East and North Africa Region are aligned to improvement in work quality, and overall work quality in investments remain strong, but there is insufficient focus on efficiency in Advisory Services. In MIGA, performance on strategic relevance was high, yet evaluations show recurring issues with the quality of underwriting.

All three WBG institutions have taken steps to strengthen results monitoring and reporting. Challenges to be addressed include ensuring that aggregate indicators are not overly influenced by larger countries and projects, that aggregate indicators reflect the diverse needs of WBG clients, that costs associated with the achievement of results are adequately reflected, and that high-quality data gathering and reporting are ensured. Finally, WBG management's adoption of recommendations derived from evaluations has increased over time, and both management and the Independent Evaluation Group have agreed on measures to improve this process.

Vinod Thomas
Director-General, Evaluation

# Summary

In seeking to help reduce poverty, the work of the World Bank Group (WBG) supports four core goals at the global and country levels: expanding economic opportunities, enhancing human development, mitigating socioeconomic and environmental risks, and improving governance and public sector effectiveness. In the first half of the 2000s, developing countries made advances in these areas, leading to a significant reduction in poverty. Historically high economic growth rates as well as improvements in key aspects of human development were realized. A series of global economic crises as well as natural disasters contributed to setbacks, and global climate change continued to threaten all progress. These global shifters need to be factored in and confronted by development strategies.

In 2008–10, 85 percent of WBG operations broadly aimed to help expand economic opportunities. Evaluations by the Independent Evaluation Group (IEG) of past interventions show relatively high WBG effectiveness in these areas. However, policy environments need further improvement, and sustainability of public infrastructure needs to be ensured. Quite uneven results in education and health highlight a range of difficulties in improving human development outcomes among the poor. Evaluations found shortfalls in achieving key public sector reform objectives, including civil service reform and reducing corruption. The WBG's response to recent disasters and global economic crisis has been striking, but a greater emphasis on preparedness is needed.

Improving governance and public sector effectiveness is key to reducing poverty further. The quality of public sector management also affects the WBG's development effectiveness in countries. WBG-supported country program and project outcomes are lower in countries with poorer quality public sector management, suggesting a need to augment the approach and prioritize engagement in this area.

Outcome ratings of Bank-supported projects evaluated in 2008–10 – one strand of evidence triangulated with other findings—were similar to those evaluated in 2005–07, although there was a drop in both project outcome and Bank performance ratings in the Middle East and North Africa Region. In contrast, there was an improvement in project development outcomes in projects supported by the International Finance Corporation (IFC) in this region, yet the current political turmoil may influence the future evolution of these good results. Among evaluated Multilateral Investment Guarantee Agency (MIGA)-supported projects, the highest proportion of successful outcome ratings was in the financial sector, where its guarantees played a useful, albeit small, role in supporting recovery.

Various factors within the control of the WBG influence the development outcomes of its interventions. In the Bank, supervision of completed operations evaluated in FY08–10 was satisfactory, although there was a decline in project quality at entry, or at the time of approval. In IFC, where a transformation in its business model is taking place, improved outcomes in the Middle East and North Africa Region are aligned to improvement in work quality. In MIGA performance on strategic relevance was high; yet evaluations show a consistent issue with the quality of underwriting.

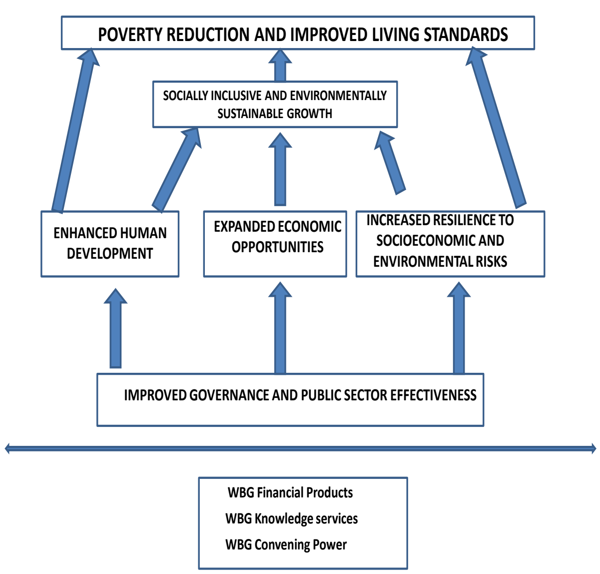
All three WBG institutions have taken steps to strengthen results monitoring and reporting. Challenges to be addressed include ensuring that aggregate indicators are not overly influenced by larger countries and projects, that aggregate indicators reflect the diverse needs of WBG clients, that costs associated with the achievement of results are adequately reflected, and that high-quality data gathering and reporting are ensured. Finally, WBG management's adoption of recommendations derived from evaluations has increased over time, and both management and IEG have agreed on measures to improve this process.

## Background and Context

**The activities of the WBG support four core development goals.** At the 2010 Spring Meetings, the WBG articulated a set of priorities for the next decade in *New World, New World Bank Group: Post-Crisis Directions.* (World Bank 2010) Underlying those priorities are four consistent development goals: expanding economic opportunities, enhancing human development, reducing socioeconomic and environmental risks, and strengthening governance and public sector effectiveness. Achievement of these goals helps generate socially inclusive and environmentally sustainable growth, poverty reduction, and increased living standards. Although stated in different forms, these goals are reflected in WBG country strategies, in WBG corporate strategies, and in major analytical reports.

**This report draws on recent IEG evaluation evidence and integrates it at the WBG level, replacing three individual annual reports, to address three questions:** (i) What recent progress have developing countries made toward the core development goals? (ii) How effective has the WBG been in supporting progress toward these goals, including the mitigation of major global shifter effects? (iii) How well have WBG institutions managed factors that are within their control? To answer these questions, the report draws on evidence from IEG project, country, sector, and thematic evaluations completed in fiscal years (FY) 2008–11, supplemented by material from the WBG and external sources. There is no specific period of coverage of the report in terms of approval of WBG activities. Evaluations completed in FY08–11 covered WBG activities that were approved at various points from the mid-1990s to the late 2000s.

**The World Bank Group's Poverty Reduction Framework**




*Source:* IEG.

**Substantial progress was made in reducing the rate of measured income poverty in the early 2000s, accompanied by strong economic growth and improvements in key health and education indicators.** The proportion of people living in extreme poverty in developing countries declined from 34 percent in 1999 to 25 percent in 2005 (the latest data available). This translates into 324 million people rising above the extreme poverty line of $1.25 a day. Although the food and financial crises interrupted this positive trend, the Millennium Development Goal (MDG) for reducing extreme poverty is still likely to be met by 2015. The reduction in poverty was accompanied by strong economic growth during the decade, facilitated by improved economic policies, high levels of private capital flows, and favorable commodity prices. Developing country growth slowed in 2009, but it has since rebounded. In addition to the reduction in income poverty, key health and education indicators have also substantially improved over the past decade.

**However, major challenges remain to reduce poverty further.** Even with the progress in lowering the rate of poverty, some 1.4 billion people were estimated to live in extreme poverty (on less than $1.25 a day) in 2005. It is estimated that 64 million more people may be living in extreme poverty by the end of 2010 because of the financial crisis. A range of impediments continue to hamper growth in many countries, including policy weaknesses, poor infrastructure, and inadequate access to finance. Growth has not always translated into greater economic opportunities and benefits for the poor. Progress on human development has been insufficient to meet some MDG targets, such as those for maternal and child mortality. Expansion of access to primary education and increased primary completion rates have not always improved learning, while the links between post-primary education and the labor market remain weak in many countries. Although some aspects of public sector management have improved, in key areas such as civil service reform and anticorruption, developing countries as a whole have not made significant progress. The succession of global crises and natural disasters has underscored the need for better crisis preparation and management. The risks are growing that climate change and environmental losses, if left unchecked, will derail development gains.

## Effectiveness of the WBG

### *Expanding Economic Opportunities*

**Recent evaluations indicate effective WBG support for expanding economic opportunities, where the large majority of WBG activities have been concentrated.** WBG interventions broadly aimed at enhancing economic opportunities include those to help maintain macroeconomic stability, improve the enabling environment for private sector activity, develop infrastructure, increase access to finance, and support investment in real sectors, such as agriculture and manufacturing. In FY08–10, 85 percent of all WBG operations aimed to help expand economic opportunities. Among 64 country programs reviewed in FY08–11, objectives relating to expanding economic opportunities were substantially achieved in 69 percent. Eighty percent of Bank-supported projects that aimed at expanding economic opportunities completed in FY08–10 had satisfactory project outcomes. Among the sample of IFC-supported projects evaluated in 2008–10, 73 percent had successful project development outcomes, compared with 63 percent in 2005–07. Of a sample of 17 MIGA guarantee projects evaluated in FY09–11, 70 percent had successful development outcomes.

**The WBG has helped improve economic policy frameworks, but challenges remain in advancing complex, politically sensitive reforms.** Evaluations consistently indicated that the effectiveness of Bank support for policy reforms depended on the government's ownership of the reform agenda. Although Poverty Reduction Support Credits were generally effective, they were more so with technically and politically easier reforms than with more complex ones. Privatization of major public entities continues to be among the most challenging reforms, as they often meet political resistance.

**Infrastructure development is the Bank's largest area of engagement, accounting for 30 percent of its financing in FY08–10.** The proportion of satisfactory outcome ratings has been relatively high, with 81 percent of projects exiting the active portfolio in FY08–10 having satisfactory outcomes. Examples of achievements under recently evaluated projects include development of an electricity market and transparent regulatory framework in the power sector in Romania; introduction of public-private partnerships for the operation of airports in the Arab Republic of Egypt that improved capacity and efficiency; and a reduction of road transport bottlenecks and improved road management in Gujarat, India. A relatively high proportion of IFC infrastructure projects contributed to broader private sector development by encouraging new entrants in untested regulatory environments, introducing competition in monopolistic sectors, or helping ensure responsible environmental practices. Evaluated MIGA-supported projects had positive demonstration effects, such as the first private power producer in a country or the first geothermal power producer in Africa. A key challenge remains—to ensure the financial sustainability of infrastructure, particularly pro-poor infrastructure, and this will be examined in a forthcoming IEG evaluation.

**Definition of Outcome Ratings of WBG Operations**

**Country Program Outcome:** This rating captures the extent to which the WBG's assistance strategy in a country achieved its relevant stated objectives efficiently.

**World Bank Project Outcome:** This rating captures the extent to which a project's major relevant objectives were achieved or are expected to be achieved, efficiently. The rating is contingent on an operation's stated objectives and on three criteria: the relevance of the objectives and design (relevance), the extent to which the objectives were achieved (efficacy), and the efficient use of project resources (efficiency).

**IFC Project Development Outcome:** For *investment projects*, this rating captures the project's contribution to a country's development based on a project's business performance, economic sustainability, environmental and social effects, and private sector development. For *advisory services projects*, this rating captures the extent to which a project's major relevant objectives were achieved or are expected to be achieved, efficiently. It synthesizes ratings of five dimensions: strategic relevance, outputs, outcomes, impacts, and efficiency, thus summarizing the achievement of the project's goals and objectives.

**MIGA Project Development Outcome:** This rating captures the project's contribution to a country's development based on a project's business performance, economic sustainability, environmental and social effects, and private sector development.

*Source:* IEG.

**The WBG made important contributions in information and communication technologies (ICT), but its effectiveness in some priority areas was limited.** The WBG has made effective contributions to ICT sector reforms and in promoting private investments for mobile telephony in difficult environments and in the poorest countries. Countries with WBG support for policy reform and investments increased competition and access faster than those without such support. However, efforts to increase access beyond what was commercially viable have been largely unsuccessful. Access for the poor has been more effectively supported through general interventions to improve the enabling environment or direct support for private investment. Three-quarters of Bank projects include ICT applications (or components), but the Bank's record in this area has been modest. Skills development is emerging as an important constraint to ICT diffusion and applications, but it has received little attention in WBG operations.

**Activities in the financial sector rose substantially in all three institutions in recent years.** Bank lending in the financial sector rose from $5 billion in FY05–07 to $14 billion in FY08–10. IFC commitments to financial markets more than doubled, from $8 billion to $17 billion, driven by a sharp increase in short-term trade finance. MIGA issued $3.4 billion in new financial sector guarantees, accounting for 70 percent of its total issuance in FY08–10. Outcome ratings of past Bank-financed projects in the financial sector were comparable with Bank-wide averages. The long-term contribution to financial sector development of the Bank's substantially higher lending remains to be seen. IFC financial sector projects were largely successful, although some projects in the Europe and Central Asia Region fared poorly during the crisis. Moreover, the development contribution of IFC's trade finance projects has not yet been systematically tracked. MIGA financial sector guarantees were effective in this region, where they supported foreign bank investment in subsidiaries.

**The results of WBG interventions in the real sectors were mixed.** A recent IEG evaluation found that Bank agriculture and IFC agribusiness project outcome ratings (evaluated in 1998–08) were at or above portfolio averages, but the results (of agriculture-focused projects, rather than broader agriculture and rural development projects) were notably poorer in Sub-Saharan Africa's agriculture-dependent economies (IEG 2011e). Not only was the environment for agricultural development less favorable in Sub-Saharan Africa—with poor road and market infrastructure, underdeveloped financial sectors, and higher weather-related and disease risks—but country capacity and governance were weaker as well. Financial and environmental sustainability, however, has been an issue worldwide in agricultural interventions. According to IEG's evaluation, IFC's agribusiness investments in Africa had limited success due to "difficult business environments, a shortage of indigenous entrepreneurs, the small size of potential investments, and lack of access to markets" (IEG 2011e, p. xii). A sample of evaluated projects reveal that WBG engagement in extractive industries projects helped enhance environmental and social practices, but efforts to establish linkages with the rest of the economy were relatively ineffective.

### *Enhancing Human Development*

**Human development is both an end itself as well as an input into the other core goals.** Seven of the MDGs are directly related to human development. In this report, human development includes activities in education; health, nutrition, and population (HNP); and targeted basic infrastructure services, such as household water supply and rural electrification. Consumption of the latter often improves individual well-being, contributes to improved health and education outcomes, and increases capacity to participate in economic activities.

**Bank-supported project outcome ratings have declined substantially in education and recovered in health.** Among Bank-financed projects that exited in FY08–10, 56 percent of education projects were rated satisfactory, a substantial decline since the mid-2000s from levels that were once higher than in other sectors. The proportion of satisfactory ratings for exiting health projects was 68 percent in the same period. The performance of projects supporting targeted basic infrastructure has remained high, at 86 percent satisfactory for the most recent period.

**Outcome ratings in education and health reflect both weaknesses in project design and implementation and the increasing complexity of objectives and activities.** Project design and implementation weaknesses include overly complex designs relative to local capacities, lack of necessary buy-in from a broad range of stakeholders, inadequate political economy analysis and consideration of vested interests, lack of sequenced approaches, weak results frameworks, and insufficient monitoring and evaluation to enable relevant midterm corrections. Results in the health and education sectors have also become more difficult to achieve as interventions have moved beyond addressing basic access issues to more complex quality objectives and systemic reforms.

**In education, access and equity objectives were more likely to be achieved than quality improvements, a concern being addressed by the Bank's new education strategy.** IEG's 2011 education portfolio note (IEG 2011m) found that among evaluated education projects approved in 2001–09, more than four-fifths of those with objectives to increase access to education or increase enrollments substantially achieved them, as did nearly two-thirds of projects with equity objectives. However, education quality objectives were substantially achieved in fewer than half of projects that had them and achieved efficiency objectives in only 38 percent.

**Key objectives related to learning and labor force outcomes have been difficult to achieve.** Improving the quality of education has not always led to better learning or labor force results. Experience points to the importance of the local context in understanding what interventions are likely to work and, in the case of labor force objectives, to the need for better understanding of the links between education and the labor market. The share of projects addressing post-primary education has grown and about a third of education projects include more than three subsectors. Rapid expansion of secondary education has been more complex than primary education, with subject specialties requiring efficient matching of classes and teachers; teacher shortages; and the need for simultaneous reform of curriculum, textbooks, and examinations.

**IFC's experience illustrates continuing challenges in supporting the private education sector.** IFC started systematic engagement in the education sector in 2001. In 2008–10, IFC made 17 investments in education for a total of $233 million, four times what it invested in the sector in 2005–07. Its engagement was primarily in tertiary and professional education. Of nine projects that were evaluated in 2005–10, four were successful. Factors associated with poor project outcomes included the high-risk, startup nature of the ventures and weaknesses in IFC work quality, such as overestimation of revenues and sponsor capacity and inadequate risk mitigation measures. Learning by IFC is taking place and is reflected in improved project outcomes over time—a pattern similar to IFC's experience in the health and agribusiness sectors.

**IEG's 2009 evaluation of a decade of WBG support for HNP highlighted the need to increase efforts to reach the poor** (IEG 2009b). Bank-funded programs have seen strong results in controlling a number of communicable diseases that disproportionately affect the poor— malaria, leprosy, and tuberculosis. However, evidence that health results from Bank-supported projects were reaching the poor was lacking, and the treatment of health in poverty assessments in the recent past has declined. Lending and staffing for nutrition and population—both critically important for the poorest people—had declined dramatically. The review raised questions on the social impact of IFC's health interventions, and efforts to broaden those impacts are increasing.

**The Bank's support for strengthening health systems can benefit from evaluative findings on health reform and sectorwide approaches (SWAps).** Lessons from Bank support for health reform over the past decade—primarily in middle-income countries—point to the importance of ex ante assessments of the political economy of reform and a proactive plan to address political risks; careful prior analytic work; sequencing of reforms to improve political feasibility, reduce complexity, and ensure adequate capacity to implement them; and strong monitoring and evaluation, both to demonstrate results and to enhance decision making. Evaluation of pilot reforms and rapid dissemination of results have helped overcome political resistance to change.

**Bank support for SWAps in health has contributed to greater government leadership, capacity, coordination, and harmonization, but not necessarily to better results.** SWAps support the Bank's objective of improving the organization, functioning, and sustainability of health systems. Country capacity had been strengthened in sector planning, budgeting, and fiduciary systems, but weaknesses persisted in the design and use of country monitoring and evaluation systems. IEG's review of health SWAps could not point to links between the approach and improved outcomes from national health strategies. The national programs that the SWAps supported were highly ambitious and complex, often exceeding the implementation capacity of governments. This underscored the need for national health programs to be realistic and prioritized.

**Outcome ratings for IFC-supported health projects have improved.** Since 2005, all 10 evaluated IFC investments in the health sector—mostly hospitals—had successful outcome ratings. Evaluations indicate that the projects helped establish public-private partnerships and raise management and clinical standards. Concerns raised in IEG's 2009 health evaluation were the limited diversification of the health portfolio beyond hospitals and the scope for increasing the social impact of IFC's health interventions.

**Targeted basic infrastructure projects have had relatively high success rates, although targeted efforts in the telecommunications sector were not effective.** The WBG supports a range of targeted interventions that aim to raise access to basic infrastructure among the poor, including through social funds, work with municipal governments, and community-driven development initiatives. IEG evaluations show that success in these interventions has been achieved on construction of infrastructure but not in capacity enhancement. The projects helped increase access to new or improved community infrastructure, such as household water supply and sanitation services, rural roads, and electrification. Active women's participation can enhance the effectiveness of some basic infrastructure interventions. However, evaluations have pointed to the risks to financial sustainability of some interventions. In the telecommunications sector, general interventions aimed at the enabling environment along with support for private investment were more effective than targeted government efforts to broaden access.

### *Increasing Resilience to Socioeconomic and Environmental Risks*

**Attention to vulnerability increased with the recent spate of crises, reflecting a response to emerging global shifters.** Risks to development against which the WBG seeks to help countries build resilience include environmental degradation, natural disasters, climate change, and economic and financial crises. The WBG also seeks to help countries build efficient social safety nets (SSNs) that protect those affected by shocks as well as meet the basic needs of the poorest. A broader recognition by the WBG of the need to be prepared for the impact of large-scale shocks is reflected by the explicit definition of this theme as one of its recently stated post-crisis directions priorities.

**The WBG has been a leader in calling global attention to environmental sustainability.** All three WBG institutions deploy instruments that seek to help ensure the environmental sustainability of development. The Bank supports the establishment of appropriate policy and institutional frameworks for sustainable development, and all three institutions aim to ensure that all projects comply with basic environmental and social standards. The WBG has a recognized and effective global leadership role. A relatively high proportion of both Bank-supported pollution management and biodiversity projects had successful project outcomes, even in the face of seriously adverse trends in biodiversity protection. Efforts to help countries strengthen environmental policies and institutions, however, have not been as effective. Across IFC, investments have encouraged clients to integrate environmental standards.

**Over the past decade, the Bank moved from a project-focused approach that emphasized delivery of social assistance benefits toward a broader approach to help countries build SSN systems.** Attention over the past decade has mainly focused on safety nets to help the chronically poor. When the crisis hit, many countries were ill prepared to scale up their safety nets. The recent crises increased attention to safety nets that address shocks (as opposed to those that address chronic poverty and vulnerability). Impact evaluations have highlighted the short-term effectiveness of well-implemented SSNs in protecting the poor and vulnerable. Evaluations also indicate that effective Bank support for safety net programs has depended on the Bank's sustained engagement and in-depth knowledge of the political economy in the countries in which it worked (IEG 2011h).

**The global financial crisis affected the volume of activities of each WBG institution in different ways.** In FY09–10, Bank commitments rose sharply, reaching a record high annual average of $53 billion. During the same period, MIGA's annual volume of guarantees issued remained at the average level of previous years (about $1.5 billion), but its outstanding portfolio reached an all-time high of $7.7 billion in FY10 because of a lower rate of cancellations. After the onset of the crisis, IFC's commitment volume declined in FY09 but recovered in FY10, reaching a record high of $11 billion; this increase was driven by substantial growth in its short-term trade finance program. The financial instruments of all three institutions were concentrated in the Latin America and the Caribbean and Europe and Central Asia Regions in FY08–10—the two regions most affected by the crisis. These two regions accounted for 17 percent of developing country population, and they accounted for 43 percent of Bank lending, 46 percent of IFC investments, and 76 percent of MIGA issuance.

**Case studies show that WBG crisis mitigation actions have been effective in the short term, although the longer-term effectiveness of the substantial new investments remains to be seen.** The Bank's financial capacity, accumulated knowledge, and ongoing dialogue with countries facilitated its substantial response. Additional financing to existing projects was an important means of accelerating resource transfer. Case studies indicate that Bank financing helped governments signal to markets that they had the financial capacity to intervene if needed, introduce a fiscal stimulus, or maintain social and infrastructure development programs. The longer-term effectiveness of these measures remains to be seen, however. IFC's response was important and creative, including through creation of a new Asset Management Company. However, its response was slowed by the need to raise funds and build internal capacity. MIGA's response supported capital infusions into the banking sector in Europe and Central Asia.

**Attention to disaster prevention and preparedness under the new WBG strategy has improved, but given the substantial challenges, this area still needs strengthening.** Evaluations indicate that the Bank has made relevant and substantial contributions to reconstruction efforts after natural disasters. However, in half the countries where the Bank financed disaster reconstruction, disaster prevention and preparedness was not part of the country strategy. More effective disaster response projects took differing vulnerabilities into account so as to not increase social inequities. Notwithstanding the need to react quickly, long-term objectives need to be integral to emergency responses. Following the Asian tsunami, IFC grant funding helped existing clients contribute to recovery efforts. However, some commercially driven initiatives can be undermined by abundant grant aid flows through international and nongovernmental organizations in post-disaster situations.

**The WBG has recognized and is supporting mitigation of the serious risk to development posed by climate change.** The WBG has been a leader in emphasizing the need for global and country action, but given the growing threats, actions by countries and the WBG have a long way to go. In FY03–08 the WBG increased investment in renewable energy (mainly hydropower) and energy efficiency from $200 million to $2 billion and mobilized more than $5 billion in concessional funds for greenhouse gas reduction. Available evidence indicates that some energy efficiency projects offer high economic returns while reducing greenhouse gas emissions. In Ethiopia, for instance, a $5 million investment in efficient compact fluorescent light bulbs prevented the need to spend more than $100 million to lease and fuel polluting diesel generators. In China, IFC's energy efficiency finance program supported nearly 100 energy efficiency projects, such as heat and gas recovery power generation that reduced greenhouse gas emissions. The Global Environment Facility has supported more than 1,600 protected areas worldwide, covering 360 million hectares, much of it through the Bank. The WBG-supported carbon finance initiative, however, has not yet significantly catalyzed wind or hydropower investments.

### *Improving Governance and Public Sector Effectiveness*

**WBG activities to support improved governance and public sector effectiveness increased sharply in FY08–10.** The Bank aims to support better public sector management by helping countries improve the effectiveness and efficiency of civil service, public financial management (PFM), governance (particularly to reduce corruption), and access to judicial services. Bank financial support for public sector reform (PSR) is often embedded as part of other operations rather than as freestanding PSR operations; an accurate assessment of Bank support for PSR is therefore difficult. Approximate classifications indicate that total Bank PSR lending has increased since 2005. IFC seeks to promote good corporate governance practices among its clients, which can contribute to reducing corruption.

**There is a discrepancy between country and project-level outcome ratings on public sector reform.** Of Bank PSR projects that exited in FY08–10, 83 percent had satisfactory projects outcomes. However, at the country level, 47 percent of country programs that were completed and reviewed in FY08–11 achieved PSR objectives. The discrepancy between project and country outcome ratings needs further analysis. A preliminary hypothesis is that lending projects may focus on the relatively easier "low hanging fruit," such as public financial management—which is less politically sensitive and within the control of a single ministry—whereas a country assessment might highlight the lack of progress in other critical areas such as civil service reforms or anticorruption. Moreover, even if individual projects did well in their focus areas, other parts of the governance agenda in the country strategy might have not been addressed because of lack of continued demand by the government.

**Incremental approaches in public sector reform have been more effective than complex and comprehensive ones.** There is no clear correlation between Bank PSR lending and improvements in public sector management, as measured by Country Policy and Institutional Assessment (CPIA) scores for public sector themes, with scores declining about as often as rising in countries having PSR lending in 2007–09. Although one cannot infer causation here, because many factors affect the CPIA besides the Bank lending program, the lack of correlation marks a change from the 1999–2006 period, when there was a positive correlation. Evaluations of individual projects and country programs have found that where Bank PSR interventions did not do well, they were often too complex in relation to local capacity. In contrast, there have been relatively good outcomes among programs with more incremental, phased objectives. Consistent Bank engagement in PSR issues over time, through dialogue, analytical and advisory activities (AAA), and follow-up interventions has helped countries deepen and consolidate reforms.

**Evaluations indicate continued difficulties in achieving civil service reform objectives.** Among recent country program evaluations, five of the six ratings for the civil service reform subpillar were unsatisfactory. Evaluations point to several factors behind the limited degree of success. Civil service reforms are politically sensitive and high-level commitment to fully implementing them often wavers. In addition, civil service reforms are often outside the control of the Ministry of Finance, and effective implementation requires a broad consensus that is usually not present. Progress also depends on the broader labor market, as in some countries, civil servants voluntarily left and created space for reform when new jobs were created in the private sector.

**The past pattern of effective support for improvements in public financial management has continued.** In recent years, Bank support to improve PFM and tax administration has significantly increased, in part because of more in-depth treatment of PFM in the Bank's AAA. In seven of nine recent country program evaluations, outcomes of activities related to PFM were satisfactory. In several country programs, while the overall PSR goals were not met, good progress was found in specific areas of PFM. One factor behind this relative success was that these reforms were usually under the direct control of the Ministry of Finance, limiting the need for broader consensus building. A few examples indicate effective IFC contributions to municipal revenue management capacity, although the evaluated sample is small.

**Among recent country program evaluations, the achievement of anticorruption objectives was unsatisfactory in 7 of 10 countries.** The relatively limited data suggest that ways have yet to be found to make interventions to reduce corruption effective. A recent IEG evaluation found that the WBG-supported Extractive Industries Transparency Initiative contributed to improved transparency of payments and revenues, but there is as yet no clear evidence of the hoped for tangible benefits such as improved revenue management and reduced corruption (IEG 2011g). IFC has had success in helping introduce corporate governance codes in Middle East and North Africa countries. Eight of nine IFC advisory operations in corporate governance had successful outcome ratings. Evaluations showed effective IFC support in helping seven Middle East and North Africa countries develop and adopt corporate governance codes, although the impact of these measures has not been established.

**The Bank has been gradually building a portfolio of lending operations and AAA activities aimed at improving justice systems and institutions.** In-depth project evaluations indicate some successes in improving access to quality justice services. In Ecuador and Guatemala, for example, Bank-supported projects helped rationalize management, improve human resources allocation, and expand access to justice for marginalized groups. However, other cases have been less successful. Among six recent country program evaluations that assessed justice sector interventions, outcome ratings in the justice area were unsatisfactory in four. Evaluations pointed to successes in delivering physical outputs, such as constructing court facilities, but also to a lack of clear progress in improving the functioning of the judiciary.

## Overview of Development Effectiveness by WBG Institution

### *World Bank Development Effectiveness*

**IEG reviews of 64 Country Assistance Strategy Completion Reports (CASCRs) in FY08–11 found that country program objectives were substantially achieved in 58 percent.** Objectives related to expanding economic opportunities were achieved in 69 percent of countries, human development objectives in 67 percent, mitigation of socioeconomic and environmental risk objectives in 60 percent, and governance and public sector management objectives in 47 percent.

**Outcome ratings of Bank-supported projects exiting in FY08–10 were similar to those exiting in FY05–07, but outcomes deteriorated in the Middle East and North Africa Region.** Among Bank-financed projects that exited the portfolio in FY08–10, 76 percent had satisfactory outcome ratings, compared with 79 percent in FY05–07, a difference that is not statistically significant. Sectors with the lowest proportion of satisfactory projects were education, energy and mining, and HNP. In the Middle East and North Africa Region, outcome ratings dropped from 82 percent satisfactory in FY05–07 to 54 percent in FY08–10. Lower ratings in the Region were associated with the quality of public sector management and institutions. In 2008, 7 of 10 (70 percent) countries in the Region had low CPIA governance and public sector management scores (below 3.2), compared with 42 percent across the Bank. Outcome ratings in the region were also lowered by unsuccessful operations in Iran that were undermined by factors such as international sanctions that complicated implementation of projects and lack of both Bank staff and government counterpart familiarity with each other's policies and procedures. In addition, several unsatisfactory projects in Algeria were undermined by a loss of government commitment to projects after the oil price increases after 2005.

**Country program and project outcome ratings are lower in countries with weaker public sector management.** CASCR Review outcome ratings were correlated with the quality of public sector management and institutions in the country. Only 21 percent (4 of 19) of programs in countries with low public sector management CPIA scores had satisfactory outcome ratings. Bank-supported project outcome ratings were also lower in countries with low public sector management quality. There was at least 11 percent difference in outcome ratings among projects in low CPIA countries and projects in medium or high CPIA countries that exited in FY05–07 and FY08–10.

**Although risks are higher, the Bank has played a key role in several fragile and conflict-affected states (FCS).** Bank-supported project outcome ratings in FCS do not show significantly worse ratings than in other countries. Evaluations indicate that despite high risks and success in only a narrow set of areas, the Bank has played key roles in several FCS. In the West Bank and Gaza, the IEG country evaluation found that Bank had an "important and irreplaceable" role and was widely credited with keeping the main state institutions afloat during the worst crises (IEG 2011k). In Timor-Leste the Bank worked closely with the donor community to help realize outcomes in the reconstruction period, often under challenging conditions (IEG 2011i). In Lebanon the Bank was a key development partner during a difficult period, helping keep longer-term development goals in sight. In Sierra Leone, the Bank effectively used both investment and policy loans to advance the decentralization agenda and build capacity for improved budgeting and public financial management.

***IFC Development Effectiveness***

**Development outcomes of IFC-supported projects have substantially improved, including in the Middle East and North Africa Region.** In the 2008–10 cohort of evaluated projects supported by IFC, 73 percent had successful development outcome ratings, a 10 percentage point increase from the previous 3-year period (2005–07). Within regions, a high proportion of successful outcome ratings were found in Latin America and the Caribbean (79 percent) and Middle East and North Africa (80 percent). The improvement in the Middle East and North Africa, a region with historically low outcome ratings, is an important achievement, although the impact of the current political turmoil in the Region on IFC's clients and project outcomes remains to be seen. In IFC's Africa Region, the proportion of projects with successful outcome ratings was 74 percent in 2008–10. A higher number of repeat projects, improving business climates, and strengthening financial sectors underpin these outcome ratings.

**IFC sector outcome ratings have varied according to the riskiness of the sector as well as individual project risks.** Results were stronger in infrastructure and oil, gas, and mining and weaker on a project-by-project basis in agribusiness, manufacturing and services, and ICT. Within the ICT sector, information technology projects proved particularly risky, but on a portfolio basis they achieved their expected financial results. Poorly performing general manufacturing projects ranged from light manufacturing to larger plastics production suffering from lower-than-expected sales growth—an indication of weaknesses in underlying competitiveness.

**Among IFC's Advisory Services, the Access to Finance business line had the highest proportion of successful development effectiveness ratings.** Among IFC's Advisory Services evaluated in FY08–10, 64 percent had successful development effectiveness ratings. Among the business lines, Access to Finance had the highest proportion of successful projects (74 percent), followed by Investment Climate (64 percent) and Sustainable Business (62 percent). Fewer than half of Infra-

**World Bank Group Development Outcome Ratings**

| Objective | Number | % | Number | % |
|---|---|---|---|---|
| **Country Program Outcomes (percent satisfactory)** | | | | |
| **Overall outcome** | **FY05-07** | | **FY08-11** | |
| | | | 64 | 58 |
| Expanded economic opportunities | | | 64 | 69 |
| Enhanced human development | | | 64 | 67 |
| Mitigation of socioeconomic and environmental risks | | | 58 | 60 |
| Improved governance and public sector effectiveness | | | 58 | 47 |
| **World Bank Operational Outcomes (percent satisfactory)** | | | | |
| **All evaluated Bank operations** | **FY05-07** | | **FY08-10** | |
| | **817** | **79** | **517** | **76** |
| Expanded economic opportunities | 415 | 82 | 248 | 80 |
| Enhanced human development | 202 | 73 | 129 | 67 |
| Mitigation of socioeconomic and environmental risks[a] | 126 | 87 | 84 | 74 |
| Improved governance and public sector effectiveness | 74 | 69 | 56 | 77 |
| **IFC Investment Project Development Outcomes (percent successful)** | | | | |
| **All evaluated IFC projects [a]** | **CY05-07** | | **CY08-10** | |
| | **174** | **63** | **220** | **73** |
| Expanded economic opportunities | 165 | 63 | 210 | 72 |
| *Financial sector* | *67* | *72* | *97* | *69* |
| *Infrastructure* | *37* | *68* | *38* | *76* |
| *Real Sector [a]* | *61* | *51* | *75* | *75* |
| Enhanced human development | 9 | 67 | 10 | 80 |
| **MIGA Project Development Outcomes (percent satisfactory)** | | | | |
| **All evaluated MIGA projects** | | | **FY09-11** | |
| | | | **17** | **70** |
| Expanded economic opportunities | | | 17 | 70 |
| *Financial sector* | | | *5* | *80* |
| *Infrastructure* | | | *5* | *60* |
| *Real sector* | | | *7* | *71* |

*Source*: IEG.
*Note:* The ratings for each WBG institution are based on different methodologies and are not comparable with each other. Ratings are by number of projects. Entries in italics provide a different classification for IFC and MIGA, as most of their projects fall into just one category of growth.
a. Trend is statistically significant at p <= 0.05.

structure advisory projects were successful (42 percent). The strategic relevance of one-quarter of IFC advisory services projects was low. Examples of projects with low relevance included those in which circumstances had changed following the global financial crisis or those selected because of an existing client relationship rather than an assessment of actual needs.

### *MIGA Development Effectiveness*

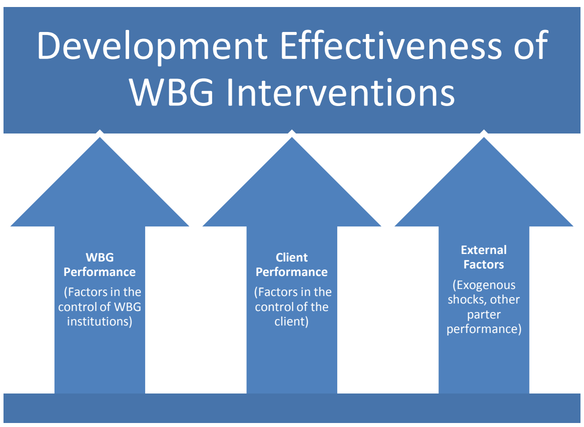
**Among MIGA-supported projects, successful development outcome ratings were linked with more experienced investors.** Among a sample of 17 ex post evaluations conducted in FY09–11 (that cannot be extrapolated to MIGA's portfolio as a whole), 70 percent had satisfactory development outcome ratings. Eighty-eight percent of projects were found to have contributed to broader private sector development goals. Development outcomes also reflected high business performance and economic sustainability. Successful projects were linked with more experienced investors. Almost all successful projects had sponsors and project managers with previous experience in the host country or another developing country.

**The highest proportion of successful MIGA outcome ratings was in the financial sector.** By sector, 80 percent of financial sector projects evaluated had successful development outcome ratings, higher than development outcome ratings of infrastructure projects (60 percent satisfactory) and those of real sector projects (71 percent). Projects that had unsuccessful development outcomes tended to have low business success as a consequence of flaws in the project design. Examples include a credit line to a financial institution that had excess liquidity; an unbalanced risk-sharing arrangement between the investor and the government; and a renewable energy project whose concession area was nearly depleted.

## Institutional Determinants of Effectiveness

**Various factors within the control of each institution influence the development outcomes of its interventions.** Outcomes of WBG interventions are seen at the project, country program, and thematic and global levels and are reflected by a combination of results indicators. These outcomes are a function of three factors: the WBG's management of factors within its own control, or *institutional performance*; the client's management of factors within its control (government, private sector company); and external factors, such as exogenous shocks or the performance of other partners. At its broadest level, *institutional performance* comprises which strategic objectives the organization pursues; its priorities and deployment of resources (lending, investments, guarantees, advisory activities); how it delivers its services and products; which organizational structures, management systems, and incentive frameworks it adopts; how it deploys its internal financial and human resources; and how it leverages its activities through coordination and partnerships across the WBG and with external parties.

**Determinants of WBG Development Effectiveness**




**WBG projects that have satisfactory institutional performance are more likely to have satisfactory development outcomes.** Although the correlation is significant for the Bank and IFC, the coefficient declines from the Bank to IFC to MIGA. This might partly be explained by the degree of control that each institution exercises over a project. The Bank works closely with a government to design and implement a project and thereby has a significant degree of influence over it. IFC, as a financier of a project, has a say in the project's structure and operation, but many factors remain in the hands of the private company. As a political risk insurer, MIGA typically enters a transaction toward financial closure, when many of the design decisions have already been concluded. As MIGA is neither a lender nor an equity holder, it does not supervise projects and has minimal leverage in influencing operations, other than through the contractual requirement to comply with environmental and social performance standards.

**Institutional Performance and Project Outcome Ratings**

| *Institutional performance rating* | *Development outcome rating (percent satisfactory/successful)* | | |
|---|---|---|---|
| | *World Bank FY08-10* | *IFC CY08-10* | *MIGA FY09-11* |
| Satisfactory | 93 (n = 4 00) | 82 (n = 170) | 77 (n = 13) |
| Unsatisfactory | 17 (n = 117) | 40 (n = 47) | 50 (n = 4) |

*Source:* IEG.
*Note:* The ratings for each WBG institution are based on different methodologies and are not comparable to each other.

### *Institutional Determinants in the World Bank*

**In FY08–10, Bank commitments increased to $133 billion, compared with $73 billion in FY05–07.** The increase was mainly in new commitments in the Europe and Central Asia and Latin America and the Caribbean Regions. The use of policy-based lending and additional financing increased substantially, including the use of lending with a Deferred Drawdown Option. The use of nonlending technical assistance also increased. Several new Bank instruments and initiatives are being introduced, including streamlined processing of operations and a new Program-for-Results lending instrument.

**Bank institutional performance ratings in projects evaluated declined in FY08–10.** Among projects that exited in FY08–10, Bank performance was rated satisfactory in 77 percent, compared with 82 percent in FY05-07. In good measure that was because, in the Middle East and North Africa, Bank performance was satisfactory in 47 percent of projects. IEG reviews of CASCRs in FY08–11 found Bank performance satisfactory in 73 percent of country programs. By sector, the water and transport sectors had the highest proportion of satisfactory Bank performance ratings.

**Quality at entry ratings among completed projects that exited the portfolio in FY08–10 were lower than those of previous periods.** Quality at entry was rated satisfactory in 68 percent of projects evaluated in FY08–10 (approved in various years from the mid-1990s to the late 2000s), a decline from the 78 percent satisfactory among projects exiting in FY05–07. Quality at entry was lowest among projects in the Middle East and North Africa Region (49 percent satisfactory), while ratings among project completed in Latin America and the Caribbean dropped from 85 percent satisfactory in FY05–07 to 64 percent in FY08–10. Across sectors and regions, factors accounting for lower quality at entry ratings included lack of clarity of objectives, poor results frameworks, inadequate monitoring and evaluation frameworks, poor assessment of the capacity of counterpart agencies, and unrealistic assessments of political economy issues.

**Supervision quality ratings in completed operations were relatively high.** The quality of supervision of Bank-supported projects was high, with Bank supervision performance rated satisfactory in 83 percent of FY08–10 projects. Good practices in supervision from evaluations include early identification of problems and timely adjustments to address design and implementation weaknesses; good coordination between the Bank, implementing agency, and key stakeholders; frequent and intensive missions by teams consisting of specialists from all relevant sectors; good continuity among Bank teams; and high-quality and timely Bank staff advice on procurement, disbursement, and financial management issues.

**Several recent country evaluations point to the need for real-time monitoring of country strategies and timely adjustments when needed.** In Algeria, for example, the Bank did not adequately address the declining relevance of its strategy as oil prices rose sharply and the government's priorities changed considerably. In Azerbaijan, the Country Partnership Strategy Progress Report missed the opportunity to adjust the WBG's strategy following signs of weak macroeconomic management, emerging project implementation problems, and difficulties in the policy dialogue. Implementation of the strategy as originally designed placed the Bank in a position of high lending levels, sharply deteriorating portfolio quality, and ineffective policy advice that led to disappointing outcomes.

**The Bank's recent experience in Albania illustrated that weaknesses in one aspect of Bank performance can undermine all its operations in a country.** During the last Country Assistance Strategy period in Albania (evaluated by IEG in FY10) lack of clarity and communication on how its safeguard policies are applied had broad detrimental impacts. In one project, the Bank's safeguard policy on resettlement conflicted with Albanian law and led to tension with the government. A series of ensuing negative consequences significantly slowed the pace and curtailed the scope of implementation of all Bank programs in the country. The fallout from the tension was still being felt at the end of the Country Assistance Strategy period, although the government had indicated its willingness to move on.

**The Bank has made good progress in harmonizing activities in low-income countries with other donors.** A recent evaluation found that the Bank has undertaken some joint strategies with other donors, but the high transaction costs entailed for all parties often exceed the benefits, whereas coordinated strategies have been a good alternative (IEG 2011l). There has been limited progress on selectivity due in part to government and donor demand for the Bank's broad presence. Bank strategies have been aligned with country priorities, and there has been good progress in building project implementation into country systems. Although the Bank has emphasized the use of country financial management systems, further progress in the use of country financial management and procurement systems has been constrained by inadequate capacity in the countries, weaknesses in public financial management systems, and the Bank's fiduciary obligations. The Bank's donor coordination activities were generally effective in reducing transaction costs to the government, improving the policy dialogue, and building government capacity.

### *Institutional Determinants in IFC*

**Following a drop immediately after the onset of the crisis, IFC commitments recovered in 2010.** The global financial crisis affected IFC's commitment volume in the short term. Commitments in FY09 declined to $8.6 billion from $10.4 billion in FY08, reflecting increased uncertainty and postponement of investment decisions during the crisis. Volume recovered to a record level of $11 billion in 2010, driven by short-term trade finance. The regional distribution of IFC commitments also shifted, with volume in IFC's Middle East and North Africa and Africa Regions increasing substantially. IFC commitments in International Development Association (IDA) and IDA-blend countries rose from 24 percent to 31 percent of its total net commitments.

**WBG Operations (percent of total, unless in bold)**

| | 2005–07 | | 2008–10 | |
|---|---|---|---|---|
| | **Number** | **US$M** | **Number** | **US$M** |
| **World Bank Operations** | | | | |
| **World Bank lending projects total** | **1,096** | **72,912** | **1,258** | **133,103** |
| Expanding economic opportunities | 52 | 61 | 48 | 58 |
| Enhancing human development | 21 | 17 | 19 | 16 |
| Reducing vulnerability | 14 | 13 | 20 | 14 |
| Improving public sector effectiveness | 13 | 9 | 13 | 12 |
| **World Bank Nonlending Services total** | **2,913** | **588** | **3,075** | **671** |
| Expanding economic opportunities | 46 | 47 | 48 | 45 |
| Enhancing human development | 15 | 16 | 14 | 18 |
| Reducing vulnerability | 14 | 15 | 15 | 14 |
| Improving public sector effectiveness | 25 | 23 | 23 | 23 |
| **IFC Operations** | | | | |
| **IFC investment projects total** | **841** | **17,295** | **1,173** | **31,490** |
| Expanding economic opportunities | 95 | 98 | 96 | 97 |
| Enhancing human development | 5 | 2 | 4 | 3 |
| Reducing vulnerability | 1 | 2 | 5 | 9 |
| Improving public sector effectiveness | | | | |
| **IFC advisory projects total** | | **295** | | **523** |
| Expanding economic opportunities | | | | 80 |
| Enhancing human development | | | | 3 |
| Reducing vulnerability | | | | 13 |
| Improving public sector effectiveness | | | | 5 |
| **MIGA Operations** | | | | |
| **MIGA projects total** | **95** | **3,889** | **59** | **4,939** |
| Expanding economic opportunities | 100 | 100 | 100 | 100 |

*Source*: IEG.
*Note*: The amount in US$M refers to total commitments for Bank lending; total expenditure for Bank AAA (from initiation to delivery); total net commitment for IFC investments; total project expenditure for IFC advisory services; and gross exposure for MIGA guarantees. Because of rounding, and also mapping of some IFC investment projects as supporting multiple objectives, percentages may not add up to 100.

**The share of short-term trade finance in IFC's total net commitments rose from 11 percent in 2007 to 31 percent in 2010.** With banks less willing to assume the risk of corresponding banks during the crisis, demand for IFC's Global Trade Finance Program (GTFP) rose sharply. The GTFP provided a less capital-intensive mechanism through which IFC was able to respond to client demand. However, as recognized by IFC, GTFP will not provide long-term capital growth for IFC. There has also been a shift from project finance to corporate finance and investments in financial intermediaries. Traditional project finance now accounts for about a third of IFC's new commitments. Mobilizing funds from other partners has also received increased emphasis. Advisory services have continued their growth and have become an increasingly important part of IFC's activities.

**IFC's project work quality has been high and stable overall in investment services, although advisory services assessments have insufficient information on efficiency.** IFC's work quality was assessed as successful in 79 percent of projects evaluated in 2008–10. This level of high work quality has been stable, but there have been recurrent weaknesses in certain areas such as overly optimistic projections, shortcomings in appraising legal and regulatory environments, and imperfect security arrangements. In Advisory Services, more than two-thirds of projects had satisfactory or better ratings on IFC's role and contribution. Efficiency was rated satisfactory or better in more than half of the evaluated projects, but there were wide variation and limited focus on reporting efficiency.

**Improved regional outcomes in the Middle East and North Africa Region are aligned to efforts to improve IFC work quality in the region, although the impact of recent political events remains to be seen.** The proportion of satisfactory work quality ratings in the Middle East and North Africa Region was 73 percent in 2008–10. There has been better selectivity in operations. A key change was the establishment of a regional hub in Cairo in 2006 that strengthened IFC's capabilities on the ground. The Region was a strategic priority for IFC and a larger budget allocation allowed for an increase in staff in the field offices. The establishment of the Private Enterprise Partnership for the Region in 2004 sought to expand synergies between investments and advisory services. Consequently, nearly half of advisory services expenditures were on investment-related advisory services or public-private partnership advisory work in 2007.

### *Institutional Determinants in MIGA*

**MIGA's volume of new guarantees issued remained level during the crisis, although its outstanding portfolio grew.** MIGA's annual volume of guarantees was $1.5 billion in FY09 and $1.4 billion in FY10, compared with an average of $1.3 billion annually in FY05–07. Although annual volume remained level, MIGA's total outstanding portfolio reached an all-time high of $7.7 billion in gross exposure in FY10, because of a sharp drop in the rate of cancellations during the crisis. MIGA's guarantee issuance in the last three years was mainly in International Bank for Reconstruction and Development (IBRD) countries in the Europe and Central Asia Region. MIGA's exposure in IDA countries was high compared with the share of foreign direct investment flows in these countries, accounting for 23 percent of guarantees issued by volume and 51 percent by number, compared with 5 percent of foreign direct investment flows. Financial sector guarantees represent the largest share of MIGA business by volume. The recent modification of MIGA's Convention has broadened its offerings to include coverage of freestanding debt as well as existing assets.

**MIGA's performance on strategic relevance was high in evaluated projects.** Overall, 76 percent of projects evaluated in FY09–11 were rated satisfactory with respect to MIGA's performance. A large majority (94 percent) had satisfactory or better ratings for *strategic relevance* and MIGA's *role and contribution.* Financial sector projects, MIGA's most important business segment in recent years, were concentrated in Europe and Central Asia transition economies and made relevant contributions.

**The sample of project evaluations shows a consistent issue with the quality of underwriting, but further evidence is needed to establish linkages to development outcomes.** Among the 17 projects evaluated in FY09–11, the quality of underwriting (with respect to assessment, underwriting, and monitoring) of projects underwritten between FY06 and FY09 was worse than those underwritten before FY06. Five of the seven evaluated projects underwritten between FY06 and FY09 performed poorly in this respect, as opposed to 60 percent (6 of 10) of projects underwritten before FY06. These low quality of underwriting ratings, however, do not necessarily correlate with low development outcome ratings, and further information and analysis is required to establish the relationship between the quality of underwriting in MIGA and project development outcomes.

**MIGA's mediation efforts can add value for the client and help preserve MIGA's capital base.** Project-level findings illustrate the potentially important role of MIGA's mediation capacity during project implementation—pointing to the agency's comparative advantages relative to commercial providers of political risk insurance, particularly for projects with concession agreements. For example, MIGA's effort to mediate a dispute over the government's intention to renegotiate an off-take tariff previously agreed on in a power purchase agreement was particularly valued by a power plant investor.

### *Strengthening the Results Agenda in the World Bank Group*

**All three WBG institutions have taken important steps to strengthen corporate results monitoring and reporting.** The Bank is developing a Corporate Scorecard that builds on its IDA Results Measurement System. IFC has introduced its development goals to complement its existing corporate scorecard. MIGA has developed a Development Effectiveness Indicator System. Each of these corporate results monitoring tools is intended to communicate development results at the institutional level, facilitate a strategic dialogue with the Board, and inform strategic decision making by management.

**The three institutions have chosen to report on different clusters of corporate results.** Each of the tools has similar but distinct structures, and they cover different aspects of what can constitute a corporate results agenda. The Bank's proposed scorecard is the most comprehensive. It plans to report on aggregate progress toward selected development goals; the reach, outcomes, and outputs of Bank interventions; and operational and organizational effectiveness. IFC's development goals and Corporate Scorecard report on the reach and outcomes of IFC-supported projects as well as indicators of operational effectiveness. Through its Development Effectiveness Indicator System, MIGA intends to identify and report on a selected set of aggregate indicators at the portfolio level.

**Aggregate indicators may not fully reflect the diverse needs and challenges of WBG member countries.** The scorecard approaches of the three institutions may not adequately reflect the diversity of needs, development levels, and challenges among WBG member countries. Large countries might dominate the aggregate results presented in all three tools. Results may also be influenced by larger projects and countries. Some indicators do not apply to all countries equally. In some countries the challenge in improving safety nets is to *reduce* coverage (that is, of the non-needy) rather than the increase in coverage reflected in the Bank's second level (Tier II) indicators. There is a risk that tools will not shed light on whether the intended clients are benefiting from WBG services. IFC's efforts to weight or normalize data are a step in the right direction.

**Most development reach indicators provide no indication of the costs or adverse impacts associated with their achievement.** The reach indicators of the scorecards (for example, Tiers I and II of the Bank's scorecard, IFC's development goals, and MIGA Development Effectiveness Indicator System indicators) do not allow for an indication of the costs associated with their achievement. For example, increasing road coverage might be achieved but at the cost of, say, unexpected unsustainable deforestation. There is a danger in the indicators implying that "more is better," which may not always be the case. In some countries, for example, more road construction may not necessarily lead to reduced transport costs.

**Care is needed to ensure the quality of information, given the diversity of sources and potential conflicts of interest.** The use of various indicators for high-profile reporting on results and performance calls for increased scrutiny of the quality and reliability of data. The proposed indicators in the scorecards come from a wide range of sources inside the WBG and across developing countries. Data gathering and reporting capacity is likely to vary substantially across clients and countries. In addition, possible incentives, biases, and conflicts of interest among government agencies, private clients, and within WBG institutions potentially can affect the quality and objectivity of information flows. A clear approach to ensure the quality and reliability of data collection and reporting, including best practice guidelines and external quality assurance, as IFC has initiated, is warranted.

### *Management Actions in Response to Evaluation Findings*

**Evaluation findings and recommendations aim to influence factors within the control of the WBG.** IEG follows up on its recommendations and is mandated to report periodically to the Board on actions taken by management in response to IEG findings in order to promote accountability and learning. This follow-up and reporting occurs through the Management Action Record process, which has had limitations in the past and is presently being revised and improved. Between 2007 and 2010, IEG completed 31 evaluations with 143 recommendations. The adoption of recommendations increases over time, with 82 percent substantially adopted by the fourth year after completion of the evaluation. Much of the differential in the years immediately following an evaluation has been driven by a difference in expectations between IEG and WBG management on what constitutes adoption of a recommendation

**To strengthen the quality of evaluation recommendations and their implementation by WBG management, the Management Action Record process is being revised.** IEG is prioritizing recommendations, considering their feasibility and cost effectiveness, and reducing their number and complexity. Greater attention will be devoted to the importance, meaning, and impact of the key messages, findings, and recommendations. Management will define actions and timelines to respond to IEG's recommendations that will provide benchmarks against which to assess progress. More upstream discussions will also take place between IEG and management during the drafting of recommendations, and the links between the recommendations and the evaluation's findings will be clarified. Early results from piloting these measures demonstrate the benefits of increased interaction between IEG and management, without compromising IEG's independence.

**Case studies suggested that several factors contributed to the increased use of lessons learned from some evaluations**. These factors included a sense of shared ownership of the evaluation; the credibility of evaluation results and methodological rigor; the quality of recommendations in terms of coherence, clarity, and cost effectiveness; the extent of interaction between evaluators and management; the timeliness of the evaluation; the presence of advocates for reform and adoption of evaluation recommendations; and the institutional incentives and accountability for adopting recommendations.

# World Bank Group Management Comments

Management welcomes the *IEG Annual Report 2011: Results and Performance of the World Bank Group* and its overall positive assessment of the World Bank Group's (WBG) development effectiveness. Management appreciates that the report provides a balanced picture of the WBG activities and recognizes that all three institutions have taken important steps to strengthen results, monitoring, and reporting. While management welcomes the efforts to join together findings on Bank, International Finance Corporation (IFC) and Multilateral Investment Guarantee Agency (MIGA)-supported operations, it would like to underscore the importance of recognizing that the three institutions have different business models and products and services, and, therefore, monitoring and evaluation practices.

**World Bank Management Comments**

Management welcomes the positive assessment of World Bank's development effectiveness in the report. The Independent Evaluation Group (IEG) classifies 85 percent of Bank operations as support to expand economic opportunities and rates these operations as relatively effective. IEG also notes that quality achievements have been maintained across time, as it rates outcomes of Bank-supported operations during 2008–10 as similar to those in 2005–07 (and well above outcome ratings a decade ago). The report is especially useful in the context on ongoing Bank self-evaluation, notably the Corporate Scorecard and results report, and identifies analogous issues for management attention.

Several of Bank management's comments provide added clarity on the time frame of Results and Performance (RAP) findings, notably with regard to the crisis. Others are in response to data issues around IEG's classification of Bank support under the four pillars, the use of the Country Policy and Institutional Assessment as a measure of Bank performance, and the coverage of Bank research. Lastly, Bank management comments on the Management Action Record (MAR) process.

***Evaluation Findings and Data.*** Bank management would like to underline the importance of being clear regarding the timing and periods covered by the data sample. It is worth noting that in the case of operations exiting the portfolio in FY05–07, these operations were approved on average about FY00. Operations exiting the portfolio in FY08–10 were approved on average about FY03. In general, it is important to understand the strengths and limitations of the findings, given the necessary time lags to truly examine evidence on outcomes.

***Crisis Period.*** The timing issue is especially important with regard to the crisis period, notably with regard to the necessary time lag to observe operational outcomes (the great strength of IEG work is that it is based on ex post evidence and not conjecture). While only a very few operations approved during the crisis period are in the evaluation sample, in several places, the IEG report could be unintentionally read as if the results are from findings gleaned from operations undertaken in the crisis period. The entire discussion on quality at entry, for example, could be taken as meaning that quality has declined during the crisis period, while the vast majority of operations in IEG's quality at entry database entered the portfolio before the crisis. Recent management data indicate that quality at entry has been showing an improving trend.

***Country Programs.*** IEG evaluates country programs after their completion. The findings do not cover country programs currently in execution. The programs now in execution often already take into account IEG findings and recommendations in completed programs. In addition, Bank management is not convinced that country program outcome ratings are lower than project outcomes because of the "selection of relatively easier 'low hanging fruit' objectives of projects rather than addressing more challenging development constraints in the country." Elements other than Bank performance (notably, country performance, performance of development partners, and exogenous factors) can naturally be expected to play a much bigger role in country program outcomes. In that regard, it is interesting to compare IEG data on Bank performance in operations, relative to outcomes (very close), and Bank performance in country programs, relative to outcomes (large gap). Bank performance as rated by IEG was almost the same for country programs as for operations.[1]

***Sector and Thematic Evaluations.*** With regard to sector and thematic evaluations, even recent evaluations, with the time it takes to prepare them, are reporting on data on operations from earlier periods. Bank management would note that it in many cases has taken action in response to these IEG findings, and these actions are sometimes not reflected in the RAP. Education is a good example. The recent education strategy recognized the shortcomings of past projects and set out the steps to be taken to improve the quality and impact of the Bank's work in education.[2] Since the completion of the strategy, the Education Board has developed an even more comprehensive set of actions to improve the sector's performance, including intensive monitoring of the operational portfolio. Similarly, the RAP could better recognize the proactive work on the quality of water and sanitation and agriculture support (for example, the important reform of the CGIAR (Consultative Group on International Agricultural Research) that has made it more operationally relevant). With regard to the Extractive Industries Transparency Initiative, while the counterfactuals are difficult to articulate, it would be too sweeping to state that none of the 31 implementing countries reduced

[1] Bank performance on operations was rated as MS or better on 77 percent of operations (relative to 76 percent for overall outcomes). Bank performance with regard to country programs was rated as MS or better on 73 percent of programs reported in FY08–11 Country Assistance Strategy Completion Reports reviewed by IEG, much higher than overall outcomes, tending to confirm that other factors played a larger role in country program outcomes.

[2] Since the last education strategy was adopted in 2000, three-quarters of all education projects that closed during FY2001–09 received an IEG outcome rating of satisfactory or higher, compared with 76 percent for other sectors. There was a decline in the middle of the decade, but the most recent (FY09) project exits also had satisfactory ratings of 77 percent. Furthermore, internal evaluation shows improved quality of supervision of projects under implementation.

corruption and/or increased government revenue (which in turn could have helped with provision of essential services).

***Mapping Operations to the Four Themes.*** While Bank management appreciates the effort that IEG put into trying to classify Bank work under the four headings, it could lead to inconsistencies in understanding the nature and focus of Bank support for learning or accountability purposes. Management classifies each operation by sector and theme and uses these classifications in reporting on Bank support, for example in annual reports. Sectors capture the economic sector that receives Bank financing, while themes capture the objectives of the project. In allocating operations to pillars, IEG mixes sectors and themes, omits certain themes, and assigns one goal to operations that often have several. For instance, the splitting of Bank infrastructure operations into either the human development pillar or the economic opportunity pillar may introduce inaccuracies. In the future, management would recommend that IEG use Bank thematic codes for this type of thematic classification.

***Use of the Country Policy and Institutional Assessment (CPIA).*** While Bank management concurs with IEG that the CPIA is a good measure of overall country progress in the policy and institutional issues it covers, it is in general not a good indicator for measuring of the effectiveness or the influence of Bank support. There are issues of attribution, causality, and timing. As IEG notes, results at the country level are affected by many factors. It is seldom that the Bank by itself can through its support help a country achieve a result at that high level and, in addition, that the causality between Bank support and the change in the CPIA can be demonstrated, especially when measured over a period of only a few years.

***Coverage of Research.*** The Bank's research agenda has made a strong contribution to country programs, and Bank management believes that the report could give more attention to this contribution. Bank research informs the operational knowledge work of the Bank, researchers provide cross-support to country teams in both lending and knowledge services, and research has a leadership role in improving the quality of analysis in measuring aid effectiveness, for example, through support for the Development Impact Evaluation Initiative.

***Management Action Record (MAR).*** Bank management would like to clearly register its concerns with the approach that IEG has taken on the MAR. The purpose of the MAR is to assess the status of the implementation of the actions that management committed to undertake in response to the recommendations of an IEG evaluation at the time of the discussion of the evaluation with Executive Directors, management, and IEG (normally at the Board's Committee on Development Effectiveness). Moreover, IEG's approach would imply the need for additional evaluative evidence to assess impact, and therefore would seem to require supplementary evidence. For the Doing Business Indicator analysis in particular, management notes that the review injected new views into the process that were not brought up in the evaluation and largely downplayed the significant number of actions that have been implemented to follow up IEG's original recommendations. These changes in this year's process are a significant break from past practices and are inconsistent with the purpose of the MAR, eroding the MAR's credibility with staff.

Bank management feels that revisiting and reinterpreting IEG recommendations to fit new developments is an inappropriate approach even while it understands the challenge of keeping up with a fast changing environment. The MAR is an accountability exercise, which requires a high degree of certainty and objectivity for teams on what they are accountable for. Second, in some cases even when management had, in the final Management Response, clearly indicated what action it would take in response to the IEG recommendation, IEG has attempted to rate the impact of the actions agreed by management without a subsequent evidentiary basis to assess impact. This shift of emphasis from agreed actions to long-term and difficult-to-measure outcomes reduces objectivity on reporting on implementation. This is a major source of disconnect between Bank management and IEG ratings on the level of adoption, as acknowledged by IEG: "However, IEG, in some cases may not consider these actions as sufficient evidence of implementation and wait to observe the effects of the actions to rate implementation as substantial or high"(chapter 7). Therefore, management objects to the way this exercise has been conducted this year and questions how units can realistically comply with recommendations, when the goal post shifts continually and the level of subjectivity is unacceptably high.

***MAR Reform.*** As noted in management comments on last year's RAP, IEG and management agreed to launch a reform of the MAR, using selected IEG evaluations as pilots. Management believes that the reform process is off to a very good start. Bank management notes a positive experience with the pilots, involving closer interaction between management and IEG. Bank management hopes that the next phase in MAR reform will help address the concerns raised above with regard to the MAR process this year.

**IFC Management Comments**

***Overall Results.*** We welcome the report's positive assessment of IFC's development effectiveness in both investment and advisory services operations. Amidst the global financial crisis, a record 73 percent of investment projects evaluated in 2008–10 had high development outcomes; that is, they contributed to country development by meeting or exceeding project financial, economic, environmental, and social benchmarks and standards, and making positive contributions to broad private sector development. The Middle East and North Africa and Africa, two IFC priority regions, showed remarkable improvements in development outcomes. Advisory Services also had a strong performance, marked by an unprecedented 63 percent high development effectiveness, confirming that key development objectives of these operations were achieved.

***Work Quality.*** We are pleased that the report found that IFC's work quality in terms of appraisal, supervision, and role and contribution has been high and stable overall. This achievement is evident in IFC's development outcomes, which have continued to improve based on IEG's independent assessment. During the crisis, IFC intensified its portfolio supervision and partly as a result of good portfolio work, the impact to date of the global downturn on the loan portfolio has been limited. IFC continues to build on its strong work quality with initiatives which should help address the few remaining issues that the report found in projects approved five to eight years ago. The new organizational structure under the IFC 2013 initiative should foster greater understanding of local conditions and client needs. IFC has also been augmenting its various credit training courses with brown bag lunch learning series and online publications such as the Frequently Asked Questions (Credit FAQs) and Special Operations' Newsletter series, which address current issues on appraisal/structuring and supervision.

***Agribusiness in Sub-Saharan Africa.*** The report's finding on IFC's strong performance in agribusiness confirms that our strategic focus in this sector is generating good development outcomes and that we need to do more, especially in agriculture-dependent economies. In Sub-Saharan Africa, where IFC has relatively limited interventions, the report confirms the difficult business conditions IFC faces, including a shortage of indigenous entrepreneurs, the small size of potential investments, the lack of access to markets, poor farm to market transport infrastructure, underdeveloped financial sectors, and higher weather-related and disease risks. IFC's approach in the Region has evolved and is now focused on extending its reach to small-scale farmers indirectly through investments in larger companies and financial intermediaries. IFC has an agribusiness anchor in Sub-Saharan Africa with a dedicated team, including experienced industry specialists. Since 2008, IFC has more than doubled its investments in agribusiness in the Region, reaching a record $270 million in 2010.

***Advisory Services.*** We were pleased that the report acknowledges recent and ongoing efforts made by IFC management to strengthen the impact and effectiveness of our advisory services. For example, the report found that 78 percent of projects with Project Completion Reports (PCRs) were rated satisfactory or better in terms of IFC's role and contribution, and that some of the low ratings were associated with programs or products that have since been discontinued. During 2011 we continued to refine our product offerings, reducing our products from 40 to 32. Similarly, the report acknowledges the increasing emphasis being placed on the efficiency of advisory services projects, including work to better benchmark and compare efficiency parameters. To facilitate further progress in this direction, during 2011 IFC launched the first phase of an initiative to harmonize cost allocation methodologies across regions and business lines, and also launched a process to enhance the consistency of product delivery models (including roles of staff and use of consultants) across the advisory services business.

We also welcome the finding that IFC engagement in extractive industries has had positive environmental and social effects. However, we found no basis for the suggestion that IFC's initiatives to better integrate extractive industries with the rest of the economy showed limited results. In assessing the impact of advisory services projects, the objectives set for each project provide the relevant yardstick. Since 2009 we have finalized PCRs for 11 advisory services projects in the oil, gas, and mining sectors. Ten of the 11 projects were found to have been successful or mostly successful.

***Results Measurement.*** We appreciate the report's agreement with the innovations we have undertaken to further strengthen results measurement in IFC. The validation of publicly reported data by an external assurance provider and the introduction of data collection manual clearly contribute to good data quality. IFC's results measurement framework has progressed over the years and now includes the Corporate Scorecard; the Development Outcome Tracking System, which covers additionality; Expanded Project Supervision Reports, PCRs, reach indicators, and most recently, the IFC Development Goals (IDGs). Taken together, IFC's results framework serves as an effective tool in tracking IFC's development contribution and informing its strategic directions.

IDGs and reach indicators should be considered in the context of an overall results measurement framework and not on a stand-alone basis. They supplement the development results ratings in IFC's corporate scorecards. IFC is piloting the IDGs and recognizes that it will learn by doing and will continue to look for ways to improve on them. Similarly, our structured tracking of additionality over the life of the project is in its early stages, and we expect to continue to refine this system as we learn from experience.

***Going Forward.*** IFC will build on these successes in its continued drive toward greater development impact where it is most needed. IEG will remain an important partner in informing our achievements, complementing our leadership in development results measurement and reporting.

**MIGA Management Comments**

MIGA thanks IEG for the *IEG Annual Report 2011: Results and Performance of the World Bank Group,* which we find overall to be well balanced and useful. We particularly welcome that the report takes note of MIGA's recent contributions in the financial sector, supporting foreign bank investment in subsidiaries. We would also like to highlight the report's recognition that all three WBG institutions have taken important steps to strengthen results monitoring and reporting at the institutional level. MIGA is developing a Development Effectiveness Indicator System, which is an important institutional step aimed at monitoring corporate-level results.

MIGA strongly supports the emphasis the report places on the MAR reform, which will strengthen the usefulness and quality of evaluation recommendations and management's abilities to implement. It is helpful that this report underscores that more upstream discussions will take place between IEG and management during the drafting of recommendations, and that IEG will be prioritizing recommendations, considering their feasibility and cost effectiveness, and reducing their number and complexity, while management focus will be defining actions and timelines to respond to IEG's recommendations.

These points being made, there are a few additional comments, as follows:

***Development Effectiveness Indicators System.*** MIGA instituted a Development Effectiveness Indicators System at the beginning of FY11 (this is not in fact in the planning stages) to monitor and report on a selected set of aggregatable indicators of development at the portfolio level. These are not meant to portray evaluation results where benefits are assessed against costs. The aim is more modest—to provide a portfolio-wide summary of some likely effects of projects MIGA guarantees. In contrast, MIGA relies on its recently established self-evaluation program (and IEG's independent evaluations) to assess development outcome. None of the individual indicators are indices but rather are simply single indicators to be aggregated across projects.

***Infrastructure Development.*** When discussing MIGA's results in the infrastructure sector, the report comments that some projects encountered "difficulties," citing the example of a MIGA-guaranteed energy project that ended up providing base load energy instead of peak energy as planned. In that instance, the fact that the project was able to step in and contribute to base load demand when it was needed was a necessary and positive contribution to the host country. (The continued absence of alternative base load capacity represented a different problem, and one that, as the report acknowledges, was outside the control of either the project sponsor or MIGA.) This example underscores that when evaluating projects it is important to be adaptable in assessing results that depart from the ex ante plans, especially when reviewing projects in complex operating environments, and not to view all departures as necessarily being negative.

***Quality of Underwriting.*** This topic continues to reoccur in IEG reports even though management has responded in detail on this point previously and maintains that this is misleading. The sample of projects evaluated is very small and by IEG's own admission is not representative of MIGA's portfolio. More importantly, however, IEG's ratings for underwriting/monitoring are not correlated with ratings for development outcomes (40 percent versus 70 percent satisfactory). This calls into question the relevance of this "finding" and how to respond to it. Underwriting quality may drive a decision about whether or not MIGA will offer a guarantee to a project, but it is not a factor in whether or not a project subsequently performs well. The key factor driving development outcome is the capacity of the project sponsor and a key aspect of good underwriting is accurate assessment of the sponsor. Nevertheless, this being said, management would note that over the past few years, MIGA has taken important measures to tighten and improve underwriting procedures, as indeed the report also notes.

***MAR and Follow-Up on IEG's Prior Recommendations.*** IEG diagnoses reasons for limited follow-up on a number of previous IEG recommendations as being due in part to: lack of shared ownership; lack of credibility of results and the manner in which they are translated into recommendations for management action (coherence, clarity, cost effectiveness); lack of upstream interaction; and lack of prioritization of recommendations. MIGA concurs with this characterization and for this reason has disagreed with several prior recommendations, which in the 2011 MAR are discussed but not rated.

***Measuring Project-Level Financial Results:*** This recommendation is not appropriate to MIGA's business model as a political risk insurer. This issue was discussed in detail with IEG and the Committee on Development Effectiveness in FY11, when it was explained that insurers set prices (premiums) and other terms for broad classes of customers rather than for individual guarantees and do so in a manner to ensure they cover all their costs on a portfolio basis. Selling insurance means pricing risk – that is, protection for something that is unknown or hard to estimate. Pricing is about assigning a premium to a random variable for risk (even the administrative cost component of the pricing model has some random characteristics). Each policy by itself is highly random, and individual outcomes vary. But when combined into a portfolio, the law of large numbers makes it possible to estimate expected losses and costs.

This is also what IEG has posited in other fora—IEG argued that evaluation of individual guarantee projects' contribution to MIGA's financial results is inappropriate to the Evaluation Cooperation Group (ECG) (Multi-Lateral Development Banks' Evaluation Cooperation Group–Working Group on Private Sector Evaluation), which sets global best practice for evaluating private sector projects. Moreover, the ECG accepted IEG's suggestions on this matter, which is now reflected in the fourth edition of the Good Practice Standard for Private Sector Investment Operations: §20, regarding rating international financial institutions' investment profitability, it states, "[T]his [evaluation principle] is not relevant for MIGA."

***Strengthening and Aligning Staff Incentives with Agency Strategy:*** This recommendation is overly broad, and it does not appear to flow from specific evaluative findings. MIGA operates under the provisions of World Bank Human Resources policies and fully utilizes performance management tools available through this framework. Where MIGA has in the past agreed with IEG's assertion that incentives are suboptimal, it is because many of the traditional tools for incentivizing employee performance (that is, as practiced in the private sector) are not available.

To the extent that MIGA can incentivize operational performance, measures are in place. For example, there are internal targets for numbers of new projects and volumes that are put forward for both sectoral teams and individuals. All prospective projects are reviewed for development impact and economic rates of return, thus linking individual targets with corporate development objectives. Staff performance is assessed accordingly, and this is directly linked to individuals' overall performance evaluation results and decisions on salary increases. There is also the Executive Vice President Awards Program (introduced in FY09) that recognizes both operational and nonoperational performance.

IEG's recommendation to directly link performance targets to development outcomes is problematic from several vantage points: (i) not all projects are subject to evaluation; (ii) there is a significant time lag of four to five years between issuance and validation of evaluation findings; and (iii) as MIGA is not a "structuring investor," it has no influence on the development performance of the projects it guarantees and hence the link between staff effort and development outcome is limited at best.

***Quality of Development Impact Analysis of the Small Investment Program (SIP):*** This is a legacy from a 2007 IEG report. IEG's recommendations in that report were taken on board by MIGA when it moved the SIP from a pilot program to mainstreaming it. This is reflected in the FY08 Board document to that effect. No SIPs issued since that time have been evaluated or validated by IEG. IEG and MIGA have discussed the possibility of evaluating SIP projects on a programmatic basis starting in FY12 and management expects this approach to yield useful insights, including whether changes in documentation of development impact are warranted.

# Meeting of Executive Directors—Chair's Summing Up

The Executive Directors discussed the report entitled *IEG Annual Report 2011: Results and Performance of the World Bank Group,* prepared by the Independent Evaluation Group (IEG), together with the World Bank Group Management Comments.

Executive Directors welcomed the IEG integrated report for its useful contribution to the institution's learning and development knowledge. Executive Directors agreed that important lessons highlighted in the report will be helpful to staff in continuing to refine and improve the ways the World Bank Group serves clients and helps achieve sustainable development results. Executive Directors noted management's appreciation for the balanced picture of the Bank Group activities.

Executive Directors commended the positive assessment of the World Bank Group's development effectiveness, including on its response to recent global economic crisis and natural disasters and the role played in several fragile and conflict-affected states. Comments and questions were raised on the four core goals at the global and country levels analyzed in IEG's report: expanding economic opportunities, enhancing human development, mitigating socioeconomic and environmental risks, and improving governance and public sector effectiveness. The issues of regional differences, impact of decentralization, and cost-benefit analysis of projects also elicited comments.

Executive Directors appreciated the outcome ratings of Bank-supported projects evaluated in 2008–10, which were similar to those evaluated in 2005–07. They underscored the need to strengthen governance and public sector management, including civil service reform, and support economic policy reform and infrastructure. Executive Directors commented on improvements in development outcomes of International Finance Corporation (IFC)-supported projects, including in agribusiness and investments in the Middle-East and North Africa Region. They also welcomed the ongoing efforts to strengthen the impact of IFC's Advisory Services. Executive Directors also commended the Multilateral Investment Guarantee Agency for the successful outcome ratings and active role in the financial sector, while encouraging further diversification of its portfolio.

Executive Directors acknowledged that all three World Bank Group institutions have taken steps to strengthen corporate results monitoring and reporting. In addition, while noting that recent progress were made in this process, Executive Directors encouraged further coordination and closer cooperation on management's follow-up to IEG recommendations through the Management Action Record process.

# Statement by the External Advisory Panel

The External Advisory Panel has reviewed the draft of the report *IEG Annual Report 2011: Results and Performance of the World Bank Group* and was also informed orally of the main comments from the managements of the World Bank Group (WBG) on the report. The Panel discussed the report on July 6, 2011, and provides the following comments.

The Panel welcomes this very good, insightful, and well-balanced report, and it found the main conclusions to be well founded. It notes that this is the first such annual report from the Independent Evaluation Group (IEG) to use a common framework to present and assess the results and performance of the WBG as a whole, rather than for the individual organizations within the Group (IBRD/IDA, International Finance Corporation, and the Multilateral Investment Guarantee Agency). It discussed in this context the possible value-added of an integrated approach versus separate assessments of each of the WBG institutions. The Panel concurred that integration is an appropriate objective to pursue for a report of this type for the WBG as a whole. It also discussed whether a truly integrated report could also as one example compare the performance and results in a region of the various parts of the Group. The Panel would welcome it if future reports could move further toward such full analytical integration.

The Panel welcomes the analytical format used in the report, although it commented that the frequent references to outcomes could indicate a degree of aggregation that may be at some variance with the many ways in which progress can occur on the ground. The report usefully considers the overarching goal of reducing poverty through the four aspects of expanding economic opportunities, enhancing human development, improving public sector management, and increasing resilience to socioeconomic and environmental risks. But the report appears to retreat from previous reports in the degree of detail it presents on poverty itself and measures taken by the Bank Group to reduce it. The Panel wondered in this regard why aggregate poverty indicators are not available after 2005, when such numbers at the country level are tracked quite timely for a number of countries. The Panel also stressed/welcomed the importance of monitoring the performance of the whole country strategy (Country Assistance Strategy performance) as well as program-by-program results.

The Panel underlined the recognition in the report that rapid and sustained poverty reduction requires growth to be inclusive. It needs to be emphasized that more is not always better, and that achievements also will normally have adverse implications for some population segments—that there will be losers as well as winners.

For future reports the Panel would like to see, in addition to information on outcomes, more discussion of the causal processes that drive those outcomes, including country-by-country data on the various components of the Country Policy Institutional Assessment, such as quality of macro policy, the dichotomy of project performance versus macro outcomes, institutional capacity and governance, and measures by the Bank Group to improve each of these. Panel members would also like to see a broader analysis of risks to go beyond socioeconomic and environmental risks to include in particular political risks (as exemplified by recent events in North Africa and the Middle East). It is important to address how the WBG responds to such external shocks. The Panel discussed in this regard the important inclusion in the report—with which it agreed—of issues concerning the WBG response to the international financial crisis.

A key purpose of such reports is to enable the WBG to learn from experience. In that regard, the Panel would encourage future reports to shine a brighter light on what has been happening to new ideas introduced within the Bank—on innovations and how they have worked. One area where the Bank has been noticeably innovative is in the area of performance-based assistance—including conditional cash transfers as discussed in chapter 3 ofthe report—and it would be good to have a general review of what the Bank has learned from such innovations.

Also, it would be useful to explore further the linkages between macroeconomic volatility and micro-level socioeconomic risks and their implications for program design. The Panel suggested that in the future it might be helpful to see more analysis of factors that cause weak outcomes but are within the control of the WBG (such as overly complex program design and poor monitoring).

It would also be useful to see attention to the results of the work that the WBG undertakes with others—such collaboration is vital for progress in development work—and on its work in the infrastructure sector. In particular, the Panel sees a need for more emphasis by the WBG on urban infrastructure in view of the very rapid growth in many developing countries of cities (and of their importance for economic development).

On a more specific matter, the Panel observed that privatization is often seen somewhat simplistically as steps to make space for development, but such processes should be seen and analyzed in more depth, because privatization can in reality mean different things under different circumstances.

The Panel noted that new results frameworks for the WBG will provide an additional framework for tracking outcomes and improvements in operational effectiveness and that reporting against these may feature in future reports.

Finally, the Panel fully agreed with the emphasis in the report on the importance of governance. Also, as a premier knowledge institution, the WBG should focus on the promotion of innovations pertaining to governance, and the Group needs generally to pay more attention to its ability to provide knowledge products in a timely manner.

**Panel Members**

Ms. Rachel Turner, Director, International Finance Division, DFID
Mr. Lu Mai, Secretary General, China Development Research Foundation
Professor Paul Mosley, Professor of Economics, University of Sheffield
Dr. Eduardo Lizano, President, Academy of Central America and former president of the Central Bank of Costa Rica
Dr. Mwangi Kimenyi, Senior Fellow and Director of the Africa Growth Institute, Brookings Institution

# Chapter 1
# Background and Context

## Introduction

**This *Report on Results and Performance* consolidates and builds on the integrated format introduced in 2010.** In 2010, the Independent Evaluation Group (IEG) introduced an integrated annual report for the three World Bank Group (WBG) institutions—IBRD/IDA (World Bank), the International Finance Corporation (IFC), and the Multilateral Investment Guarantee Agency (MIGA)—that replaced three separate annual reports.[1] The purpose of integrating the three reports was to enable a broader, more comprehensive view of the results and performance of the three WBG institutions. This year's report consolidates and builds on this format and pilots further changes. The report maintains the integrated presentation of development effectiveness across the three institutions. However, given differing organizational and business models, the report also contains sections on development effectiveness and institutional determinants of effectiveness that are specific to each institution. The report introduces a stable conceptual framework for the presentation of results around four core development goals that the WBG has consistently supported over time. The report also goes beyond traditional reporting of project performance trends and seeks to supplement these with qualitative assessments and messages from IEG project, sector, country, and thematic evaluations.

**The *Report on Results and Performance* (RAP) provides an overview of the WBG's results and performance in helping further the four core development goals based on recent IEG evaluations.** The primary source material for this report is IEG project, country, sector, and thematic evaluations prepared in fiscal years (FY) 2008–11, supplemented by material from the WBG and external sources. There is therefore no specific "period of coverage" of the evaluation. WBG activities evaluated in FY08–11 were approved at various points from the mid-1990s to late 2000s. The report therefore seeks to provide insight into the effectiveness of the WBG with respect to the core development goals in general, and not to specific periods of activity. Chapter 1 establishes the framework for presentation of results around the four core development goals and briefly describes global progress toward them. Chapters 2–5 then provide an overview of the effectiveness of the WBG in contributing to achieving each of the four core development goals.[2] Chapter 6 presents an overview of the development effectiveness by WBG institution. Chapter 7 looks at institutional determinants of effectiveness—factors in the control of WBG institutions. This includes the deployment of resources, progress on the managing-for-results agenda, and the use of IEG recommendations. The methodology used in this report, including details on evaluative evidence and limitations of the evaluation, is summarized in Appendix A. In this report, all data pertaining to trends and comparisons were verified by IEG to be statistically significant at least at a 95 percent confidence interval, unless specified otherwise.

## Core Development Goals Supported by the World Bank Group

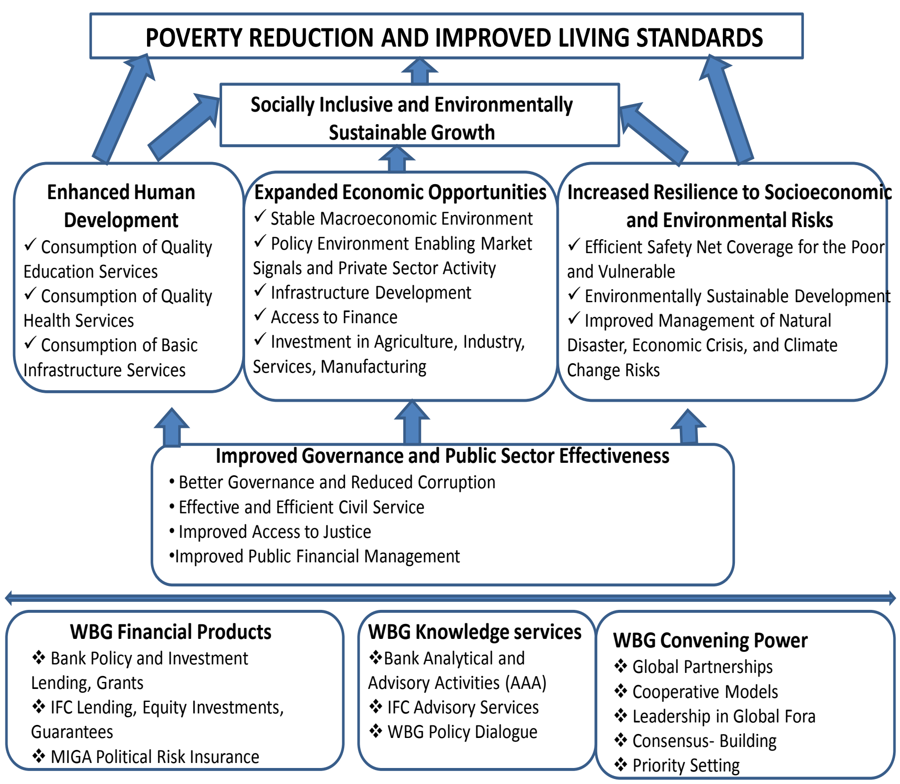
**The aim of the WBG is to help developing countries reduce poverty and improve living standards.** In 2010, the WBG elucidated several priorities under its Post-Crisis Directions strategy toward this end: targeting the poor and vulnerable, creating opportunities for growth, providing cooperative models, strengthening governance, and managing risks and preparing for crises. These priorities build on and integrate the broad strategic directions established by WBG management in 2007.[3] Underlying these strategic priorities are four *core development goals* that have been consistent over time, which the WBG has sought to help member countries achieve to reduce poverty and improve living standards (Figure 1.1). Although stated in different forms, these core goals are reflected in WBG country-level strategies that have pillars along the lines of these goals, various WBG corporate strategies, and analytical reports such as the 1990 and 2001 World Development Reports on poverty. Given their consistency over time, these goals provide a stable framework within which to present IEG's findings. Their breadth, in terms of encompassing all WBG activities, in turn provides a basis for extracting relevant implications for WBG strategies, including the current Post-Crisis Directions. The goals are to

- Expand economic opportunities
- Enhance human development
- Increase resilience to socioeconomic and environmental risks
- Improve governance and public sector effectiveness.

**Expanding economic opportunities has been a key element of the poverty reduction strategy supported by the WBG.** A central goal supported by the WBG is to help member countries achieve market-driven, private sector-led economic growth that engages a broad share of the population. Poverty is reduced as individuals obtain income through returns to labor and capital. Growth in economic activities increases such opportunities for the poor. The WBG has sought to further this goal by helping countries achieve a range of intermediate objectives. These include (i) establishing and maintaining an appropriate policy framework that includes maintenance of macroeconomic stability, removal of distortions to market signals, and establishment of an enabling environment for private sector activity; (ii) improving access to infrastructure, including transport, power, water, and communication services; (iii) developing the financial sector to increase access to a range of financial services; and (iv) and catalyzing investment in real sectors, including agriculture and agribusiness, industry, manufacturing, and the service sectors.

**A second core development goal in support of poverty reduction has been to accelerate human development.** Consumption of quality health, education, and basic infrastructure services can help meet basic needs and improve individual well-being. In addition, by building human capital, consumption of these services allows individuals to better gain from opportunities created by economic growth. Outcomes from such services also help reduce vulnerability to economic shocks, natural disasters, and other adverse circumstances. The WBG has sought to advance this goal by helping countries improve consumption of (i) quality health services, (ii) quality education services, and (iii) basic infrastructure services by targeting infrastructure development toward the poor.[4]

**Figure 1.1. The World Bank Group's Poverty Reduction Framework**




*Source*: IEG.

**A third core development goal has been to help reduce vulnerability to socioeconomic and environmental risks and protect the poorest through social safety nets (SSNs).** People, organizations, and countries are subject to adverse impacts from a range of environmental and economic shocks. The degree of exposure to natural and economic shocks is often referred to as vulnerability. Increasing resilience to vulnerability and establishing an SSN helps alleviate poverty by preventing or mitigating adverse effects on consumption and incomes following shocks as well as transferring income to the poorest. To support this goal, the WBG has sought to help: (i) establish efficient public SSNs and welfare transfer systems, (ii) manage preparedness and response to natural disasters, (iii) mitigate consequences of economic and financial crises, (iv) address long-term threats such as global climate change, and (v) ensure that economic growth is environmentally sustainable.

**The fourth core development goal has been to support effective public sector management and good governance in member countries.** The foundation for achieving the other core development goals in member countries has been a public sector capable of establishing appropriate policies and public investment through good governance and economic management. Such capabilities are necessary to create an environment for broad-based, private sector-led growth; expand the reach of quality basic social services; and build adequate income transfer and crisis response systems. To support this goal, the WBG has sought to help: (i) improve the effectiveness and efficiency of the civil service, (ii) improve public financial management, (iii) reduce corruption, and (iv) improve access to justice services.

**These goals are highly interdependent.** As already pointed out, a complex set of relationships exists among these goals. Interdependence has several implications. In particular, multiple ingredients usually need to be present for the desired outcomes to occur. For instance, private investors usually require a package of enabling policies, efficient infrastructure, and a skilled labor force in making investment decisions. This often implies that development results can be observed only after a critical mass of reforms and interventions has taken place. Interdependence also means that multiple pathways may exist to achieve the same objective. For instance, health improvements can be achieved through investments in water and sanitation services as well as through direct interventions.

**The WBG supports progress toward these objectives through a range of financial and knowledge instruments.** Bank financial instruments include investment, development policy, and technical assistance lending to governments; partial credit guarantees that support government borrowing from the private sector; and partial risk guarantees that provide political risk insurance to private investors. International Finance Corporation (IFC) financial products include lending, equity investments, and provision of guarantees for private investors. The Multilateral Investment Guarantee Agency (MIGA) provides political risk insurance to support foreign direct investment in developing countries. The Bank's analytical and advisory services include economic and sector work, non-lending technical assistance, capacity building, and knowledge dissemination. IFC advisory services for both the private sector and governments are divided into four business lines: access to finance, investment climate, public-private partnerships, and sustainable business. A key WBG instrument is its convening power and ability to influence global priorities and foster consensus and build partnerships. The WBG supports a range of regional and global partnership programs based on a "natural role for the WBG at the intersection of national development priorities and global interests" (World Bank 2010).

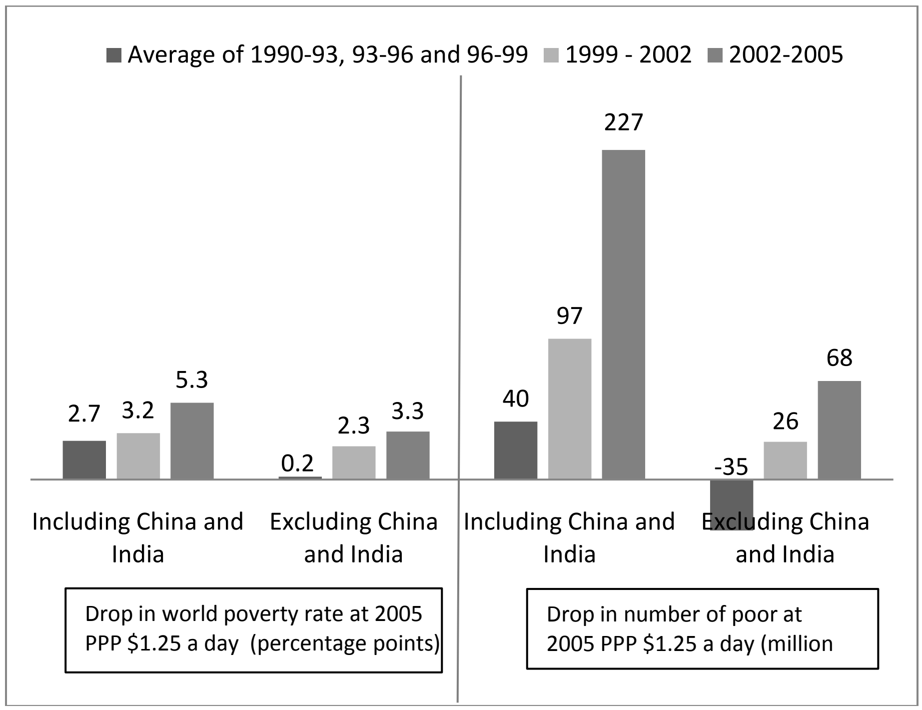
## Country Progress toward Core Development Goals

### OVERARCHING GOAL: REDUCING POVERTY

**In the early 2000s, the pace of poverty reduction in the developing world significantly accelerated.** Between 2002 and 2005, the proportion of people living in extreme poverty fell 5 percentage points, from 30 percent in 2002 to 25 percent in 2005. The decline was higher than the three-percentage-point reduction in 1999–2002 and nearly double the average reduction in 1990–99 (Figure 1.2). The pattern is even more pronounced for the absolute number of people in poverty. Despite growing populations, the number of people living on less than $1.25 a day fell from 1.6 billion in 2002 to 1.37 billion in 2005. This progress, however, has been interrupted by the succession of global crises in the latter half of the decade that—according to Bank estimates—have caused more than 100 million people to descend into poverty and reduced consumption among those already poor. Given the absence of aggregated data, progress on poverty reduction since 2005 cannot be tracked.

**Progress has been widespread across regions and countries.** The positive trends in poverty reduction are visible, even when China and India are excluded.[5] Without India and China, poverty declined 3.3 percentage points in 2002–05, compared with 2.3 percentage points in 1999–02. Poverty reduction was most rapid in East Asia and the Pacific and South Asia. China saw a remarkable decline in its poverty rate, from 36 percent in 1999 to 16 percent in 2005 and a drop of 240 million people living in extreme poverty over the period. India reduced the share of its population in extreme poverty from 45 percent to 42 percent, but because of population growth, the number of poor actually rose from 447 million to 456 million. Sub-Saharan Africa experienced a similar pattern, reducing poverty from 58 percent to 51 percent, but with an increase in the number of poor from 383 million to 388 million in 1999–2005. The Middle East and North Africa and Europe and Central Asia are the least poor regions, with less than 4 percent of the people below the extreme poverty line of $1.25 a day.[6]

**Figure 1.2. Reduction in Extreme Poverty in Developing Countries**



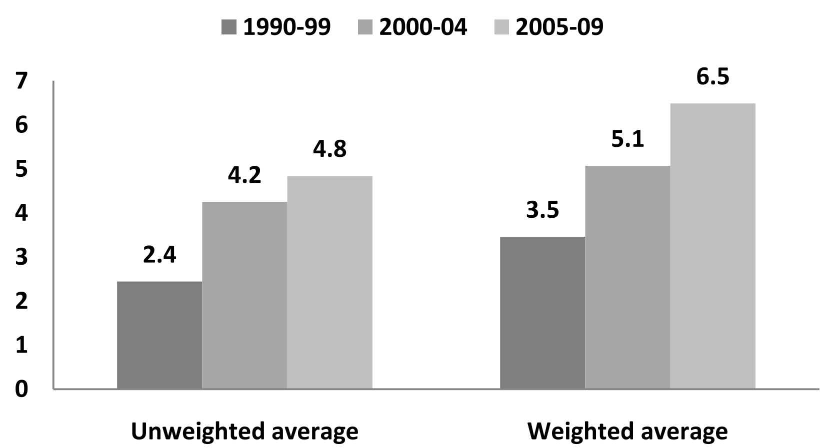

*Source:* World Bank database.

**The global Millennium Development Goal (MDG) for extreme poverty is likely to be achieved, although 1.4 billion people continue to live on less than $1.25 a day.** The East Asia and the Pacific have already achieved the MDG of halving the 1990 extreme poverty rate. Other regions are also likely to achieve the goal, although the recent global economic crisis has increased the challenge. Sub-Saharan Africa, however, is unlikely to meet the target.[7] There are also large differences among countries, with only 47 of 144 countries on track to meet the MDG on extreme poverty.[8] Moreover, notwithstanding the considerable progress in reducing extreme poverty, the number of people living below the $2 a day poverty line has remained nearly constant at about 2.5 billion since the early 1980s and has increased in all Regions except East Asia and Pacific.[9]

### CORE GOAL 1: EXPANDING ECONOMIC OPPORTUNITIES

**Economic growth has been strong over the past decade.** Until the onset of the global financial crisis in 2008, growth accelerated in developing countries during the past decade, helped by improved economic policies, high levels of private investment flows to developing countries, favorable commodity prices, large remittance flows, and liquid financial markets offering low-cost capital. The annual average growth rate among developing countries rose from 5.1 percent in 2000–04 to 6.5 percent in 2005–09 (Figure 1.3). All Regions, other than the Middle East and North Africa, achieved substantially higher growth in the 2000s than in the 1990s. Excluding India and China, average annual growth in gross domestic product (GDP) increased from 3.7 in 2000–04 to 4.3 percent in 2005–09. Growth in fragile and conflict-affected states (FCS) was comparable, with average annual GDP growth of 4 percent in 2000–04 and 4.3 percent during 2005–09.[10]

**Figure 1.3. Average Annual GDP Growth Rate in Developing Countries**




*Source*: World Bank database.

**The positive growth trend was interrupted by the global financial crisis.** The impact of the crisis was substantial. In 2008–10, growth in developing countries is estimated to have slowed to 5.4 percent a year from 8.1 percent a year in the previous three-year period. In Eastern Europe and Central Asia, annual growth slowed to 1 percent from 7.5 percent in 2005-07. The number of countries with an average annual GDP growth rate of over 5 percent decreased from 80 during the pre-crisis years of 2005–07 to 22 in 2009, and the number of countries experiencing negative GDP growth increased from 1 to 49. Upper-middle-income countries were hit the hardest, with a GDP growth rate decline of 8.5 percent, compared with a decline of 3.2 percent in lower–middle-income countries and 1.6 percent in low-income countries. In comparison, high-income Organisation for Economic Cooperation and Development (OECD) countries, where the crisis originated, saw a 6 percent drop in GDP growth rate.[11]

**However, growth has not always been inclusive.** Bank research indicates that rapid and sustained poverty reduction requires "inclusive growth" that allows people to contribute to and benefit from economic growth (World Bank 2009b). In many countries, economic growth has not translated into greater economic opportunities and benefits. In countries where growth has been driven by extractive industry exports, for example, the main productive activities have not generated significant employment or had linkages with the rest of the economy. The distributive aspects through participation in economic activity have thus been limited and confined to public expenditure of royalties instead. In contrast, manufacturing and service industries, for example, tend to generate more employment and have greater backward and forward linkages. In the East Asia and Pacific region, which has seen the most substantial reduction in poverty, the share of manufacturing to GDP was over 30 percent in 2005–09, compared with less than 20 percent in other regions. In many developing countries, formal unemployment remains high and underemployment exists in informal sectors and rural areas. The global crisis exacerbated the situation, with increased formal unemployment in developing countries.

#### CORE GOAL 2: ENHANCING HUMAN DEVELOPMENT

**Progress has been made in improving consumption of health services over the past decade.** Key indicators show encouraging health outcomes in developing countries. Infant mortality declined from 86 per 1,000 births in 2000 to 66 in 2009, and the yearly rate of reduction has accelerated in recent years. Improvements have been widespread across countries. Based on a sample of 140 countries, 78 countries had child mortality rates of below 40 per 1,000 in 2009, compared with 59 countries in 2000. Between 2000 and 2008 more than 725 million people gained access to improved sources of drinking water, raising the proportion of people with access from 79 to 84 percent.[12] The developing world (including as many as 76 countries) will likely meet the MDG target for safe water. There has also been progress in addressing malnutrition and hunger (World Bank and IMF 2011).

**Despite this progress, significant challenges remain in improving health outcomes.** Progress has been insufficient for developing countries to be on track to meet the MDGs for reducing the maternal and child mortality rates or prevalence of underweight children or improving access to sanitation (World Bank and IMF 2010, 2011). Nearly three-quarters of developing countries are off track for achieving the MDG for reducing under-five mortality. Although infant mortality has been reduced, there are eight times more infant deaths per 1,000 live births in developing countries than in developed countries. Maternal and child undernutrition are estimated to be the underlying cause of some 3.5 million deaths annually (Black and others 2008).

The share of undernourished people in developing countries fell only 1 percentage point in over 10 years, from 16.6 percent in 1997 to 15.6 percent in 2007.[13] If the financial crisis persists, it is estimated that between 200,000 and 400,000 more children will die every year—between 1.4 and 2.8 million children before 2015. Progress in access to sanitation has also been slow. Sanitation coverage rose only modestly, from 43 percent in 1990 to 55 percent in 2006, and 1.2 billion people continue to practice open defecation.[14]

**Substantial and widespread progress has been seen in improving access to basic education.** Net primary enrollment in developing countries reached 88 percent in 2007, up from 83 percent in 2000. Progress has been widespread across countries. Based on a sample of 68 countries, 47 countries had a primary completion rate of over 75 percent in 2008, compared with 40 countries in 2000.[15] No country has seen a decline in literacy or years of schooling since 1970. Primary enrollments have increased faster for girls than for boys over the past few decades, and from 1991 to 2007 the ratio of female to male primary enrollment rose in all regions (UNDP 2010). The world is on track to achieve the MDG for gender parity in primary and secondary education and will be very close on the primary completion rate.[16]

**Nevertheless, much remains to be done to improve access to higher levels of education and education quality.** Increased primary enrollments have generated additional demand for secondary and tertiary education. In low-income countries the primary enrollment rate increased by 24 percentage points from 2000 to 2008. All three groups of developing countries reached a 100 percent primary enrollment rate by 2008. However, secondary enrollment rates were still low, at 63 percent in lower-middle-income countries and 38 percent in low-income countries in 2008, compared with 100 percent in developed OECD countries. Tertiary enrollment rates were 42, 19, and 6 percent, respectively, in upper- and lower-middle-income and low-income countries, compared with 70 percent in developed OECD countries in 2008.[17] Moreover, higher enrollments do not necessarily translate into better schooling. Although assessments are difficult because of lack of data, there are large variations in the quality of education services. Children at the same education level in developing countries as their counterparts in developed countries score, on average, about 20 percent lower on standardized tests—about a three-grade difference (UNDP 2010). The picture is thus of poor countries rapidly catching up on aggregate educational attainment and gender equity but not necessarily on quality, where gaps remain significant.

### CORE GOAL 3: INCREASING RESILIENCE TO SOCIOECONOMIC AND ENVIRONMENTAL RISKS

**Over the past five years, a succession of international economic crises has threatened development gains.** Although globalization has underpinned growth in developing countries through trade, investments, and the flow of knowledge, it has also increased interdependencies and risks of contagion. Since 2007, the sharp rise in world fuel and food prices permeated developing economies, increasing income poverty and reducing basic consumption among the poorest (World Bank 2008a). In late 2008 the global financial crisis spread to developing countries through both a drying up of liquidity in financial systems as well as the loss of export markets as developed countries went through recessions. The crisis affected middle-income countries in Europe and Central Asia and Latin America and the Caribbean more severely than other regions. The global financial crisis further reversed some of the development gains of the past decade. In 2011 global food prices surged once again. Since June 2010, the WBG estimates that an additional 44 million people have become extremely poor, living under $1.25 a day because of food price increases.[18]

**Natural disasters have had substantial adverse impacts in recent years.** More than 2,000 natural disasters were reported and 950 million people were affected during 2006–10. In particular, the frequency of disastrous heat waves (Europe in 2003 and the Russian Federation in 2010, for example) and floods (such as in Pakistan in 2010) more than doubled in the 2000s compared to the 1990s. The associated annual average economic cost of all natural disasters in the 2000s was $90 billion. Developing countries have borne the brunt of these catastrophes. Over 90 percent of people affected by floods, storms, droughts, and extreme temperature (weather-related disasters) were in developing countries. The majority were in low- and lower–middle-income countries, including Bangladesh, China, India, and Pakistan.[19]

**Carbon-intensive growth is contributing to climate change, posing a significant threat to development and poverty reduction.** Much of the burden caused by climate change is expected to fall on developing countries (IEG 2010b). World energy-related carbon dioxide emissions, which constitute over 75 percent of greenhouse gas emissions, have risen sharply over the past decade.[20] The global average annual growth rate of energy-related carbon dioxide emissions reached 3.1 percent during 2000–07, compared with 0.8 percent during 1991–99. On an average per capita basis, high-income OECD countries still account for the highest emission level (four times that of developing countries). However, emissions in the developing world are rising rapidly, growing 10 times faster in 2000–07 than in 1991–99. OECD countries stabilized their emissions increase at a significantly lower rate of 0.7–0.8 percent a year.[21] Overall, the mitigation pledges on reducing greenhouse gas emissions submitted by the international community, even if fully realized, are inadequate for the world to achieve the important international goal of holding the global temperature increase to 2 degrees Celsius.[22]

**According to Bank Country Policy and Institutional Assessments (CPIA), the effectiveness of SSN policies, which are critical to socioeconomic resilience, are improving.** Policies on social protection improved in many countries in the second half of the previous decade. The Bank rates countries based on an assessment of the design and implementation effectiveness of government policies in relation to SSN, pension and old age savings, and labor standards and regulations, such as those aiming to reduce inequality and provide assistance in labor markets. Based on these ratings, 34 developing countries improved 0.3 points or more in their CPIA ratings (rating scale: 1 to 6) on social protection and labor, from 1999–2004 to 2005–09.[23] This is notable given the short period covered. The number of countries with an average CPIA rating of over 3.5 increased from 47 during 1999–2004 to 70 during 2005–09. There are large variations across countries and regions, however. East Europe and Central Asia achieved significant improvement, yet many other regions did not. Ratings for countries in the Middle East and North Africa and South Asia Regions experienced a noticeable deterioration.

#### CORE GOAL 4: IMPROVING GOVERNANCE AND PUBLIC SECTOR EFFECTIVENESS

**There have been improvements in public revenue management, although other indicators do not show progress in key areas of public sector effectiveness.** CPIA indicators for public revenue administration showed improvement in 2005–09 compared with 2000–04.[24] However, CPIA indicators for public financial management and public administration do not show significant improvement across countries.[25] Moreover, CPIA indicators for the "Rule of Law" (which measure the extent to which private economic activity is facilitated by an effective legal system and rule-based governance structures in which property and contract rights are respected and enforced) have not improved overall in developing countries in the past half decade, though there has been some improvement in the Eastern Europe and Central Asia Region.[26] In Latin America and the Caribbean and South Asia, by contrast, rule of law indicators deteriorated substantially. Other regions show no significant changes over the period.

**Other than the Europe and Central Asia Region, there has not been significant progress on accountability and anticorruption in the public sector.** According to the Bank's CPIA indicators, no significant progress has been made in reducing corruption among developing countries as a whole. The average CPIA score for transparency, accountability, and corruption in the public sector improved only 0.02

points, from 3.06 in 2000–04 to 3.08 in 2005–09. The lack of global progress is also evident in Transparency International indicators.[27] Within regions, both indicators show progress in reducing corruption in the Europe and Central Asia Region but deterioration in the Middle East and North Africa. CPIA data also show South Asia worsening but no significant change in the other regions, while the Transparency International indicators show very little change in South Asia, Latin America and the Caribbean, or Sub-Saharan Africa over the period.

# Chapter 2
# Expanding Economic Opportunities

## Overview

### *World Bank Group Approach and Activities*

**The WBG maintains a focus on expanding economic opportunities in developing countries as the primary means of reducing poverty.** The WBG's 2010 Post-Crisis Directions strategy reaffirms the WBG's basic goal of helping countries create economic opportunities and generate economic growth. There is recognition that the effect of economic growth on poverty reduction depends not only on the pace of growth but also on the pattern of growth. Bank research indicates that for widespread economic opportunities to be created and substantial poverty reduction to occur, growth needs to be "broad-based across sectors and inclusive of the large part of the country's labor force" (World Bank 2009b). The approach emphasizes the long-term need to distribute income through participation in economic activities—through employment and returns to capital—rather than through shorter-term income distribution efforts by governments. The challenge remains to establish an enabling environment that creates opportunities for a large share of the population to participate in and benefit from economic activities.

**The WBG aims to help reduce barriers to expanding economic opportunities through a broad range of support.** Most WBG activities can contribute to expanding economic opportunities in some manner. Health and education interventions, for example, contribute to growth in the longer-term through improvements in the health, skills, and productivity of the labor force. At the same time, some interventions to expand economic opportunities, such as infrastructure development, contribute to other goals, such as access to basic social services. Nevertheless, broad sets of WBG activities mainly aim to create an environment for greater economic opportunities. These include support for macroeconomic stability; removal of policy distortions that inhibit efficient allocation of resources; establishment of an enabling private sector regulatory environment that facilitates the operation of businesses while protecting public interests; investment in power, transport, water, and communication infrastructure; improvements in financial markets; and investment in specific sectors, such as agriculture/agribusiness, extractive industries, manufacturing, and services.

### Box 1.1. Definition of Outcomes of WBG Operations

**Country Program Outcome:** Ratings capture the extent to which the WBG's assistance (or partnership) strategy in a country achieved its relevant stated objectives efficiently. Ratings are on a six-point scale from highly satisfactory to highly unsatisfactory.

**World Bank Project Outcome:** This rating captures the extent to which a project's major relevant objectives were achieved or are expected to be achieved, efficiently. Thus, the rating is contingent on an operation's stated objectives and on three criteria: the relevance of the objectives and design (relevance), the extent to which the objectives were achieved (efficacy), and the efficient use of project resources (efficiency). The rating is on a six-point scale from highly satisfactory to highly unsatisfactory.

**IFC Project Development Outcome:** For investment projects, this rating captures the project's contribution to a country's economic and social development based on a project's Project Business Success, Economic Sustainability, Environmental and Social Effects, and Private Sector Development. The rating is on a six-point scale from highly successful to highly unsuccessful. For advisory services projects, this rating captures the extent to which a project's major relevant objectives were achieved or are expected to be achieved, efficiently. It synthesizes ratings of five dimensions: strategic relevance, outputs, outcomes, impacts and efficiency summarizing the achievement of the project's goals and objectives. The rating is on a six-point scale from highly successful to highly unsuccessful.

**MIGA Project Development Outcome:** This rating captures the project's contribution to a country's economic and social development based on a project's business performance, economic sustainability, environmental and social effects, and private sector development. A four-point rating scale is used: excellent, satisfactory, partly unsatisfactory, and unsatisfactory.

*Source*: IEG.
*Note:* The same methodology is used to evaluate IFC investment projects and MIGA guarantee projects.

**The operations of all three WBG institutions are substantially directed at enhancing economic opportunities.** Bank interventions aimed at this goal include a broad range of analytic and advisory activities (AAA), policy advice, development policy operations, and investment lending. In FY08–10, the Bank spent $300 million on AAA work aimed at helping expand economic opportunities, 45 percent of its total AAA costs. Approximately 60 percent of its lending ($77 billion) in FY08–10 was directed at the core goal of generating economic opportunities; more than half of that was in infrastructure. All IFC activities finance or support private investment or private sector development (PSD) in developing countries. In FY08–10, IFC committed $31 billion in loans, equity investments, and guarantees. IFC also spent $417 million in advisory services supporting access to finance, the investment climate, public-private partnerships, and sustainable business.[1] All MIGA activities aim to help expand economic activities by facilitating foreign direct investment (FDI) through the provision of political risk insurance (Table 1.1). In FY08–10, the agency issued $4.9 billion in guarantees (in gross exposure), mostly in the financial and infrastructure sectors. Taken together, about 85 percent of WBG financial instruments was aimed at the core goal of enhancing economic opportunities.

**Table 1.1. World Bank Group Activities Aimed at Expanding Economic Opportunities**

| | *Share of total (%)* | |
|---|---|---|
| | **2005–07** | **2008–10** |
| MIGA guarantees | 100 | 100 |
| IFC investments | 98 | 97 |
| IFC advisory | - | 80 |
| World Bank lending | 61 | 58 |
| World Bank analytic and advisory activities | 47 | 45 |

*Source:* IEG.

### *Effectiveness of the World Bank Group*

**Recent IEG evaluations show relative WBG success in supporting objectives related to enhancing economic opportunities.** Of 64 country programs that were completed and reviewed by IEG in FY08–11, achievement of objectives related to expanding economic opportunities were substantially achieved in 69 percent of them (See Box 1 for a definition of project outcomes). Of Bank lending projects aimed at enhancing economic opportunities that exited the portfolio in FY08–10, 80 percent had satisfactory outcomes, compared with 71 percent among other projects. Among the sample of IFC-supported projects evaluated in 2008–10, 73 percent had successful development outcome ratings, compared with 63 percent in 2005–07. Of a sample of 17 MIGA-supported projects evaluated by IEG in FY09–11 (that cannot be extrapolated to MIGA's portfolio as a whole), 70 percent had successful project development outcomes. Compared with other areas of WBG activities, support to expand economic activities shows the highest level of achievement of objectives.

## Policies to Support Expansion of Economic Opportunities

### *Work Bank Group Approach and Activities*

**WBG interventions continue to support the broad shift toward market-oriented, private sector-driven economic activity that has occurred over the past decades.** The Post-Crisis Directions strategy paper identifies a continuing WBG emphasis on policy frameworks that "give primacy to a competitive private sector and a dynamic export sector as the drivers of growth, employment, and productivity" (World Bank 2010). Since the 1980s, the Bank has supported policies to enable efficient allocation of resources and establish the private sector as the main engine of growth. These policies have included maintenance of macroeconomic stability through prudent fiscal and monetary policies; removal of distortions that inhibit market allocation of resources, such as price controls, trade barriers, and subsidies; improving the regulatory environment for private sector activity; reducing the role of the public sector in commercial activities and enhancing the competitive environment; and expanding access to financial services. Experience from the 1990s highlighted the importance of tailoring policy reforms to country circumstances and the need to focus on binding constraints rather than taking a one-size-fits-all approach (World Bank 2005). The WBG aims to support economic policy reforms through development policy lending, policy dialogue, and a range of analytical and advisory products.

**Helping improve the business regulatory environment has been a WBG focus in recent years.** The WBG's 2002 Private Sector Development strategy identified the need for "sound government policies that provide room for private initiative and that set a regulatory framework, which channels private initiative in ways that benefit society as a whole..." (World Bank 2002). Through a range of interventions, the WBG has aimed to help rationalize the business regulatory environment and remove unwarranted obstacles, many of which are vestiges from formerly public sector-dominated economies. WBG support for improving the business regulatory environment has received increased attention since the introduction of the annual Doing Business Report in 2003. Along with the annual Doing Business benchmarking exercise, WBG instruments to support improvements in the business regulatory environment include investment climate assessments that aim to identify critical constraints to expanding economic activities; policy conditions in Bank lending; technical assistance on the part of both the Bank and IFC to help implement recommendations; and the broader influence on the private sector of projects supported by IFC and MIGA.

**Substantial Bank lending and Bank/IFC nonlending services have supported policy reforms.** Bank lending broadly classified as supporting economic policy reform increased from $10 billion in FY05–07 to $11.4 billion in FY08–10, or about 8 percent of its commitments during the period.[2] Lending to support economic policy reform was concentrated in East Asia and Pacific (29 percent), Latin America and the Caribbean (23 percent), and Sub-Saharan Africa (18 percent). Three International Bank for Reconstruction and Development (IBRD) countries accounted for 43 percent of this lending in FY08–10: Indonesia, Mexico, and Ukraine. Although the dollar value was concentrated in a few countries, Bank engagement was spread broadly across 42 countries. The Bank also spent $112 million on AAA products aimed at supporting economic policy reforms, or about 17 percent of its total

AAA expenditure during the period. Doing Business now assesses over 100 countries each year. IFC expenditures on advisory services supporting investment climate reform amounted to $135 million in FY08–10. Activities covered areas such as business entry and operations, industry-specific work, and investment policy and promotion. IFC advisory services work on the business enabling environment was mostly in IDA countries (54 percent), and 27 percent was in Africa.

#### *Effectiveness of the World Bank Group*

**Bank operations supporting economic policy reforms evaluated in recent years have been largely successful.** Among projects supporting economic policy reform that exited the portfolio in FY08–10, 81 percent had satisfactory project outcomes.[3] Outcome ratings were high in all Regions except Africa (there were no evaluated operations in MNA during the period). Of 31 completed operations in East Asia and Pacific, Europe and Central Asia, Latin America and the Caribbean, and South Asia, 29 (94 percent) had satisfactory project outcomes. Evaluations consistently indicate that the effectiveness of Bank support for policy reforms depends on the underlying depth of country ownership of the reform agenda. In Africa, the outcomes of 33 percent of operations were rated unsatisfactory (9 of 27) largely because of uneven ownership of reforms caused by both the lack of a political consensus and political instability in some countries (IEG 2011a). In addition to weak country ownership, unsatisfactory project outcomes tend to reflect overly ambitious objectives in too short a period or inadequate or unrealistic Bank assessments of political economy or institutional capacity risks.

**Some policy-based operations have been successful in relatively easier reforms, but less so in more complex areas.** IEG's evaluation of Poverty Reduction Support Credits found that the operations were generally effective in supporting relatively straightforward areas of fiscal management, such as improving budget classification systems (IEG 2010i). However, more difficult or politically sensitive reforms, such as reducing the proportions of extrabudgetary funds or including all donor funds on-budget, were less successful. A further prominent area of weakness was in establishing a public financial management (PFM) results framework. In some cases, evaluations found that policy reforms were undermined by external events. In Djibouti, for example, Bank-supported fiscal consolidation was undermined by expansionary fiscal policy in 2006–07 as well as the adverse effects of global commodity price shocks in 2008. In Azerbaijan, an unexpected increase in revenues sidetracked the Bank-supported program. As oil and gas revenues soared, little further progress was made on improving the quality of public expenditure.

**Privatization of large enterprises has continued to encounter political resistance in some countries.** The WBG continues to be involved in privatization activities as part of its efforts to help improve the competitive environment, improve efficiency in commercially oriented enterprises, or reduce fiscal burdens on governments. Recent country evaluations indicate that there have been some clear successes. For example, in Albania, Bank and IFC-supported efforts helped privatize major state-owned enterprises in energy distribution, telecommunications, and oil refining. However, other efforts have encountered strong resistance and have not succeeded. In Cameroon, the government was unable to realize several planned public-private partnerships because of political opposition. In both Burkina Faso and Ethiopia, although good progress was made on privatizing smaller entities, privatization of major public entities was not achieved. In Ethiopia, key sectors such as finance, telecom, power, transport, and wholesale and retail distribution remain dominated by state-owned enterprises. In Tanzania, the government changed its policy on divestiture, and much of the Bank-supported privatization program was not completed.[4]

**IEG evaluations note cases where high-quality Bank analytical work influenced policy reform.** Evaluation of economic and sector work in a sample of four countries in Africa found that the Bank's analytical work on growth was of generally high quality and contained relevant recommendations, and in some cases effectively influenced policy change.[5] In Uganda, for example, AAA recommendations were directly reflected in the government's national budgets and were instrumental in refocusing the budget toward addressing infrastructure constraints. In Ethiopia, Bank analytical work catalyzed a constructive dialogue with the government on the importance of having a more competitive environment and a level playing field for all enterprises. In other cases, however, AAA can have limited influence. In Zambia, for example, a Quality Assurance Group review found that while a Country Economic Memorandum was of high quality in terms of its content, consultation, and dissemination, there was no evidence of any change in the government's policy as a result.

**A majority of IFC investment projects have had a positive effect on the functioning of markets and institutions.** Beyond contributing to specific projects, IFC investments can have broader indirect effects on PSD. According to evaluations over the past five years, 80 percent of projects had a *substantial* effect on PSD.[6] More than half the projects had a significant impact on the markets in which the project company operated.[7] Evaluations identified several means through which IFC's participation supported the functioning of markets:

- IFC enhanced competition when it invested in second-tier firms in markets with dominant players.
- Support for projects and companies that introduced innovations that were then replicated by other firms contributed to improvements in sector efficiency and product quality.
- Support for privatization and private sector participation helped influence industry structure and the share of private investment to GDP.
- Investments in untested legal and regulatory regimes helped encourage new entry or realize institutional improvements.
- Investments in remote areas and well-designed linkages programs supported small and medium enterprise (SME) and local development.
- In general, evaluations found that IFC had wider impact when investments supported projects in inefficient markets or in sectors undergoing restructuring (for example, liberalization or privatization).

**The sample of MIGA-supported project evaluations suggests that MIGA has also played a positive role in improving investment environments.** MIGA's technical assistance activities were transferred to the Foreign Investment Advisory Service (now the Investment Climate Advisory department) in 2007. Since then, its *direct* involvement in policy reforms in developing countries has been limited to its outreach and research efforts related to political risk insurance (PRI) and its continuing financial support for Foreign Investment Advisory Service technical assistance ($2.7 million in FY11). However, the agency's core guarantee program may have an *indirect* effect on improving the policy environment for expanding economic activities. The sample of evaluations indicates that MIGA-supported projects have contributed to improving the environment for expanding economic opportunities through broader PSD effects of these projects. Of the 17 evaluated projects supported by MIGA, over three-quarters (88 percent) were assessed as having a satisfactory or better contribution to PSD. These effects typically extended beyond the project's immediate scope, through demonstration effects, technology transfer, enhanced corporate governance, or regulatory reforms triggered by MIGA-supported market entrants.

## Infrastructure Development

### *World Bank Group Approach and Activities*

**Absence of reliable infrastructure continues to be cited as a major constraint to development, particularly in low-income countries.** Access to infrastructure services—including transport, power, water, and information and communications technology (ICT)—supports both economic activity and improved access to basic social services. Inadequate infrastructure has emerged as an increasingly important constraint to expanding economic opportunities. The OECD estimated that developing countries need to invest over $700 billion a year in infrastructure—rising to $1 trillion a year by 2030—to sustain rapid growth rates (ECG 2008). In Africa, only one-fifth of the population has access to electricity; 36 countries are in energy crisis; one in three rural Africans does not have access to an all-season road; and poor cross-border transport links inhibit regional trade. According to the Bank, official development assistance provides some $6 billion per year to Africa, compared with estimates of $20 billion per year needed to meet its infrastructure needs (World Bank 2009a).

**The WBG has a wide-ranging strategy for infrastructure development, encompassing the activities of all three institutions.** The WBG's strategy in infrastructure comprises (i) addressing the core access agenda in transport, energy, water, and ICT; (ii) addressing cross-sectoral issues such as climate change mitigation and adaptation efforts, public-private partnerships (PPPs), and support for rural-urban integration; (iii) focusing on social, environmental, and governance issues in addition to economic or financial viability; and (iv) leveraging WBG financing by supporting enabling environments for private investment, private financing (through IFC and MIGA), raising harmonized donor financing, and using financial products such as guarantees to reduce risks and project costs for clients (World Bank 2008b). The approach recognizes the important role of the private sector but is cognizant of limited private sector appetite for some infrastructure investments, caused by lack of commercial viability or uncertainties in pricing and regulatory policy. New modes of assistance are emphasized, such as sectorwide approaches (SWAps), in which funds are provided for an infrastructure program, rather than specific projects; output-based aid, in which funds are disbursed on the achievement of quantified goals; innovative PPPs; and political risk guarantees offered by the Bank and MIGA.

**The Bank has continued the significant expansion of infrastructure financing it began in 2003.** Following a decline in Bank lending for infrastructure between 1995 and 2003, the Bank has since substantially raised its infrastructure investments. Lending increased from $14 billion in FY02–04 to $22 billion in FY05–07 and to $41 billion in FY08–10 (or 31 percent of total Bank lending).[8] Of the increase, some $4.5 billion is attributed to additional financing for existing projects in FY09–10 as part of the Bank's crisis response. Given borrowing constraints and IDA envelopes in low-income countries, Bank infrastructure lending was mostly in middle-income countries, which accounted for over 80 percent of infrastructure financing. Investments were concentrated in transport (43 percent) and power (39 percent). Bank AAA expenditure in the infrastructure sectors increased from $45 million in FY05–07 to $77 million in FY08–10, 35 percent of which was for infrastructure in the Africa Region. Examples of recent Bank infrastructure investments include the $3.75 billion loan to help enhance power supply and energy security in South Africa; a $2.1 billion loan to improve road transport in Kazakhstan; and a $1 billion loan to help strengthen India's power transmission system.

**IFC's infrastructure investments have also increased significantly in recent years.** IFC investments in the infrastructure sectors rose sharply, from $2.5 billion in FY05–07 to $6.2 billion in FY08–10.[9] Investments were concentrated in power (40 percent), followed by transport (26 percent) and ICT (21 percent). Regions with the most IFC infrastructure investment were Asia (32 percent) and Latin America and the Caribbean (26 percent). As with the Bank, most IFC investment was concentrated in middle-income countries, with just 8 percent in low-income countries. To some extent, the concentration reflects the better regulatory environments in middle-income countries as well as higher income levels that make cost recovery more feasible. Examples of large recent IFC infrastructure investments (that have not yet been evaluated) include the $450 million loan to the Tata Group in India for a thermal power generation plant (IFC's largest single investment ever); a $300 million loan to support capacity expansion and efficiency of the Panama Canal; and a $55 million loan/equity investment to support the expansion of a Chinese company investing in wind power generation. Examples of smaller investments include the first rural electrification concession in Senegal, awarded through an international bidding process, and a $1.7 million investment in a rural solar power company in Thailand.

**Infrastructure remains an important business area for MIGA, even though its issued volume has decreased recently.** Infrastructure is MIGA's second most important business area, after the financial sector, and a strategic priority. The share of infrastructure issuance dropped from 33 percent in FY05–07 to 21 percent in FY08–10.[10] As with the Bank and IFC, most MIGA guarantees in the infrastructure sectors were in middle-income countries (84 percent). About half (46 percent) of the guarantee volume issued was in the Middle East and North Africa in FY08–10, because of one large project of $427 million, followed by Africa, with 26 percent of guarantee volume issued. Within MIGA's outstanding infrastructure portfolio, by net exposure as of December 2011, the power sector dominated (40 percent), followed by transport (29 percent), telecommunications (19 percent), and water and sewerage systems (11 percent). A recent example of MIGA engagement in the power sector is a project in which MIGA provided a guarantee for a U.S. company's investment in the construction and operation of a 25-megawatt power-generation facility in Rwanda that will use methane gas extracted from Lake Kivu.

### *Effectiveness of the World Bank Group*

**There have been several notable successes among recently evaluated Bank-financed infrastructure projects.** Among Bank infrastructure sector projects that exited the portfolio in FY08–10, 81 percent had satisfactory project outcomes.[11] Outcome ratings were highest in East Asia and Pacific, with 88 percent of projects rated satisfactory. These results were driven by a high-performing portfolio in China where all 17 infrastructure projects were rated satisfactory. Several infrastructure projects that exited in FY08–10 were rated *highly satisfactory*. These include a $95 million loan for an electricity market project in Romania that established a transparent and predictable regulatory framework and a power exchange that will facilitate electricity trading within a national (and eventually European) market. A $375 million loan supported a project in the Arab Republic of Egypt that introduced PPPs for the operation of airports in Cairo and Sharm El Sheikh that improved their capacity, service quality, and efficiency. In Gujarat, India, a $280 million loan helped ease road bottlenecks and enhance public road management capacity. In Turkey, a $234 million loan supported a power transmission project that exceeded grid capacity expansion targets, helped establish an independent transmission company with a transparent pricing system, and helped implement an electricity markets law. There were no projects in infrastructure that had *highly unsatisfactory* outcome ratings.

**A relatively high proportion of IFC infrastructure projects were assessed to have contributed to broader PSD.** Among a sample of 38 projects that were evaluated in 2008–10, 76 percent had successful project development outcomes. Evaluations found that IFC infrastructure investments that had substantial effects beyond the immediate project involved: (i) testing new legal and regulatory frameworks and encouraging new entrants or resulting in further modifications to laws and regulations; (ii) introducing competition in sectors dominated by one or a few large firms or controlled by the public sector; (iii) supporting second-tier companies investing in areas that were not of interest to large firms; (iv) systematically establishing linkages programs to promote SME and local development; and (v) ensuring responsible social and environmental practices.

**MIGA's infrastructure projects have development outcome ratings similar to the entire cohort of evaluated projects.** IEG evaluated five MIGA infrastructure projects in FY09–11 in power, transport, and water. Of these, three (60 percent) had satisfactory or better development outcome ratings, similar to 70 percent for all 17 evaluated projects. Evaluated power projects helped, to some degree, to improve the reliability of the host country's power supply by contributing additional capacity.[12] Broadening and diversification of the country's energy mix and reduction in dependence on foreign energy supply were found to have further positive development effects. Some MIGA-supported projects had a demonstration effect as "first-of-kind" projects, such as the first independent power producer in the host country or the first private sector geothermal power project in Africa that proved commercially viable. A toll road project supported by MIGA brought efficiency gains through reduced travel time, savings on vehicle operating costs, and increased movement of goods that enabled trade and had positive fiscal impacts.

**Evaluated MIGA infrastructure projects also encountered difficulties.** For example, in one case the anticipated energy mix of the host country did not materialize—for reasons outside the control of MIGA or the investor—and the MIGA-supported diesel power plant had to provide base load energy instead of the planned peak energy, resulting in higher than expected economic costs and, eventually, a low development outcome rating for the project. Although the evaluated toll road projects had several positive effects, as outlined above, transport density fell short of its forecast, driving down project profitability. As the concession agreement placed commercial risk on the private investor, in this case the government did not suffer fiscal pressures.

**Bank-funded road projects continue to perform relatively well, although ensuring adequate resources for maintenance is a continuing problem.** Bank-supported assistance in this area has included road management technical assistance, promotion of road funds that earmark funds for maintenance, and, more recently, use of performance-specified road maintenance contracts with the private sector. In Mali, Bank support was pivotal in putting in place a more transparent and effective institutional framework for managing the road subsector: a road maintenance fund has been created, which has already demonstrated its effectiveness, and the institutional progress has induced other donors to increase their financial assistance for roads. However, assured financing for the fund remains an issue, because the fund relies primarily on uncertain budgetary allocations.

**IFC-financed transport projects have mostly had high development outcome ratings.** Fifteen IFC-financed transport-related projects were evaluated in 2008–10, of which 87 percent had outcome ratings of successful or better. Over a longer term, 81 percent of transport infrastructure projects evaluated in 1997–2010 had successful outcome ratings. Successful projects include several transactions in port management services and logistics, one of which had a demonstration effect and led to development of several other PPPs in the port sector;

improvement and expansion of airport services at major airports in Latin America and the Caribbean and Asia; and the expansion of a civil airline in Asia. Development contributions from successful transport projects include successful PPP arrangements in both port and airport operations; an improvement in geographic linkages (connecting rural production areas with export markets); and the inclusion of social service components within larger projects (such as HIV/AIDS awareness and SME linkages programs).

**Evaluations have found positive IFC-supported outcomes in the power sector.** Of eight power sector projects evaluated in 2008–10, seven had successful development outcome ratings. Over a longer term, among projects evaluated in 1997–2010, 86 percent had successful development outcome ratings. Only 5 of 35 projects received low ratings, mostly because of commercial failure. In the Philippines, IFC contributed to liberalization and private engagement in the power sector through advisory services as well as investment in four power companies. Investments were closely aligned with progress on policy reform, and IFC was able to offer long-term peso-denominated financing. Advisory services helped prepare the regulatory framework, model power supply agreements, and develop subsidy agreements to help support private participation in rural electrification. IFC also made positive contributions in Nepal, where two power generation plants in which it invested supplied 20 percent of the country's power supply through a decade of political instability and civil strife (IEG 2011j).

**Experience in the power sector in Africa suggests that parallel progress is required on multiple fronts.** Several Bank experiences revealed how failure in one area can undermine success in related areas. In Uganda and Madagascar, for example, positive policy and institutional reforms were undermined by inadequate investment in power generation. In other cases, positive achievements in some institutional and policy reforms as well as generation capacity were undermined by the lack of financial viability of public distribution utilities. This reflected high costs of production, high system losses from poor infrastructure and theft, and consumer prices that did not reflect cost-recovery levels. However, tariff levels remain high in many African countries and across-the-board price increases have proved politically infeasible. Lessons include the need to reduce generation costs, system losses, and intermediation costs; the need for regional-level solutions; and better demand-side management, including removal of preferential tariffs for large industries, public institutions, and high-income segments of the market (IEG 2011a).

**Outright privatization of distribution and transmission utilities in the power sector may not be feasible or the optimal solution.** Recent evaluations of Bank experience in Africa have indicated that privatization is not necessarily the best approach to achieve improvements in financial performance and service delivery.[13] In distribution, in particular, efforts toward outright privatization (most of which were initiated in the late 1990s) were undermined by a lack of political will, the monopolistic nature of distribution, and a lack of interest among private investors. Meanwhile, management contracts with private firms for operation of distribution networks have proved effective in some countries. This was the case, for example, in Lesotho, where a management contract with a private sector operator yielded good operational, commercial, and financial performance. In Madagascar, following years of unsuccessful efforts to privatize the electricity utility, a management contract with a private firm was eventually established that was relatively effective.[14] The implication is that solutions along a broad spectrum of public/private institutional structures are needed, depending on local conditions.

**IFC's advisory services experience indicates continuing challenges in developing PPPs in some infrastructure sectors.** Although the overall development effectiveness rating for infrastructure advisory projects for the 2008–10 period was similar to IFC's overall development effectiveness rating, there has been a decline in project outcomes over the period. Some IFC PPP advisory services have seen clear positive results. In Kenya, for example, IFC support for privatization and restructuring of the telecommunications sector helped privatize a fixed-line operator as well as its wireless subsidiary. Strong political support and a comprehensive approach toward the sector contributed to positive results. In contrast, unsuccessful privatization assistance has been associated with a lack of commitment from client governments or responsible agencies, weak capacities in implementing reform programs, and problems associated with postconflict or high-risk country environments. As an example, an airport concession effort in Latin America suffered from delays in obtaining qualified consultants because of the country's security situation, while a lack of cooperation from the airport authority prevented an adequate degree of due diligence.

**MIGA's experience underlines the importance of well-designed concession agreements for PPP engagements.** Experience from evaluated MIGA infrastructure projects indicates that successful development outcomes of infrastructure projects can hinge on the design of the concession agreement. This agreement typically defines the risk sharing between the government and the private investor and stipulates the terms and conditions under which the investor provides services to the public. In one example, IEG found that in a power generation PPP, the off-take price was initially set above the local retail price, causing liquidity problems and driving the distribution utility toward bankruptcy and eventually causing fiscal problems for the host country.

**The WBG has made important contributions in ICT, although its contribution in some priority areas has been limited.** Notable WBG contributions were made in sector reforms and in private investments for mobile telephony in difficult environments and in the poorest countries, where most of its activities have been. Countries with WBG support for policy reform and investments have increased competition and access faster than countries without such support. However, in other priority areas, the WBG's contribution has been limited. Targeted efforts to increase access beyond what was commercially viable have largely been unsuccessful. Support for universal access programs was largely superseded by the rollout of phone services by the private sector, in some cases supported by Bank sector reforms. Access for the poor has been more effectively supported through general, nontargeted interventions focused on the enabling environment and direct support to private investments. But positive examples of WBG support, as in Chile and Pakistan, indicate the potential of targeted approaches, including through PPPs. Three quarters of Bank projects include ICT applications (or components), but the Bank's record in this area has been modest. ICT skills development is emerging as an important constraint to ICT diffusion and applications, but it has received little attention in WBG operations.

## Access to Finance

### *World Bank Group Approach and Activities*

**The 2007 Financial Sector Strategy for the WBG identifies the importance of a well-functioning financial sector in developing countries.** When financial markets work well, "they channel funds to the most productive uses and allocate risks to those who can best bear them—enhancing productivity, boosting the poverty-reduction effects of growth, and spreading equality of opportunity" (World Bank 2007a). In contrast, when financial markets do not work, they "hinder growth and accentuate inequity, waste, corruption, and crises." Weaknesses in financial systems in developing countries include vulnerability to external shocks; small financial markets; lack of products, such as long-term finance; undeveloped nonbank financial institutions; undeveloped capital markets; and limited reach of financial services. These weaknesses are usually caused less by the unavailability of funds and more because of factors such as "unsound macroeconomic and prudential policies, poor quality contractual and regulatory institutions, and ineffective transactional and informational infrastructures" (World Bank 2007a).

**The WBG's current approach is to help develop effective financial systems.** The WBG's objectives in the financial sector have been to help (i) establish the legal and regulatory foundation for financial services; (ii) build market and institutional infrastructure (such as contract enforcement, payment systems); (iii) foster the diversity of the financial system; (iv) develop capital markets; and (v) improve access by the poor and SMEs to financial services. The WBG has supported financial sector development through Bank policy lending, financial intermediary lending, and AAA; IFC investments in financial intermediaries and advisory services to support access to finance; and MIGA guarantees to financial sector institutions. The 2007 strategy recognized the evolving roles of the Bank and IFC. With increased private sector engagement in financial systems and a reduced role for governments, the use of Bank lending was expected to decrease while IFC investments in financial intermediaries would increase.[15] The WBG has also sought to establish a better division of labor on advisory services, with the Bank focusing on advice to policy makers and regulatory authorities and IFC on advice to financial intermediaries.

**Bank lending in the financial sector sharply increased.** The crisis reversed the directions of the 2007 strategy, which anticipated less demand for Bank lending in the financial sector. Bank lending in the financial sector more than doubled, from $5 billion in FY05–07 to $14 billion in FY08–10, accounting for 11 percent of total commitments Bank-wide. Close to 70 percent of new commitments in FY08–10 was concentrated in five countries: India, Egypt, Turkey, Hungary, and Mexico.[16] Most (83 percent) of the lending was in middle-income or high-income countries, reflecting the more severe effects of the financial crisis in middle-income countries. Within the financial sector, 3 percent ($450 million) of the total commitment was in Deferred Drawdown Option lending. In FY08–10, expenditure on AAA in the financial sector increased by 20 percent to $74 million, compared with FY05–07.

**IFC also saw a sharp expansion of its financial sector operations, mainly through its Global Trade Finance Program (GTFP).** New IFC investments in the financial sector more than doubled, from $8 billion in FY05–07 to $17 billion in FY08–10, and represented 53 percent of total IFC investments in FY08–10. The volume was driven by IFC's rapidly expanding GTFP program, which grew sevenfold, from $1 billion in FY05–07 to $7 billion in FY08–10. Excluding GTFP, IFC's financial sector investments grew by 35 percent between the two periods and accounted for 30 percent of total IFC investments in FY08–10. IFC's equity investments in the financial sector rose from 26 percent of its investments (excluding GTFP) in FY05–07 to 41 percent in FY08–10, making equity IFC's most significant instrument in the sector. As with the Bank, IFC investments in the financial sector (excluding GTFP) were concentrated in Europe and Central Asia and Asia, which accounted for nearly 50 percent of commitments. Access to finance constituted about one-third of IFC's total advisory services portfolio in 2010. These operations focused mainly on SME banking, microfinance, sustainable energy finance, and housing finance.

**Guarantees for financial sector projects continue to represent the largest business segment in terms of volume of newly issued MIGA guarantees.** In FY08–10, MIGA issued $3.4 billion in new guarantees in the financial sector, a significant increase over the $1.4 billion issued in FY05–07. The volume represented 70 percent of its total new issuance during the period, which was a substantial shift from the previous three-year period (FY05–07), during which financial sector guarantees comprised 37 percent of total volume. The preponderance of financial sector guarantees can be seen in the context of MIGA's crisis response (see discussion on the WBG's response to the global financial crisis below). Almost all MIGA's guarantee issuance in the financial sector in FY08–10 (98 percent by volume) was in the form of guarantees for lending by parent banks to subsidiaries in the Europe and Central Asia Region, in the following countries (by size of gross exposure issued): Ukraine, Croatia, Turkey, Kazakhstan, Russia, Serbia, Latvia, Hungary, Bosnia and Herzegovina, and Moldova.

### *Effectiveness of the World Bank Group*

**Outcome ratings of Bank-financed projects in the financial sector were on par with Bank-wide averages.** Of 23 Bank-financed projects in the financial sector that exited the portfolio in FY08–10, 74 percent had satisfactory outcomes, similar to the Bank-wide average of 76 percent. Successful interventions included microlending projects in Bangladesh, Ghana, the Philippines, and Romania; expansion of private sector rural lending in Vietnam; and improvements in the performance and competitiveness of two non-bank financial institutions in Mali. Among the unsuccessful projects, quality at entry (or time of approval) was an issue. Shortcomings included the inability to improve public-private dialogue; rapid expansion of microfinance institutions with insufficient attention to capacity development; or lack of progress on expected privatization in the sector.

**Development outcome ratings of IFC financial sector projects were on par with IFC-wide averages, although project outcomes in Europe and Central Asia were affected by the crisis.** Of the sample of 98 IFC-supported projects in the financial sector that were evaluated in 2008–10, 68 percent had successful development outcome ratings. Among projects evaluated just before the onset of the financial crisis, outcomes were high, with an 85 percent success rate. However, financial market outcomes in the region declined to 62 percent in 2008–10 evaluations. The financial sector in the region was severely affected by the crisis, and there was a sharp deterioration in project business outcomes among IFC-supported projects in the region. In 2005–07 evaluations, 85 percent of financial market projects in Europe and Central Asia met or exceeded financial return benchmarks, but less than half of projects (48 percent) met them in 2008–10. Moreover, structural problems and institutional weaknesses were exposed by the financial crisis. Shared characteristics of problematic projects included rapid lending growth not commensurate with capacity, high levels of related party lending, and portfolio concentration in a few sectors. IFC's substantially increased trade finance operations are not covered in IFC's development impact tracking system, and their development outcomes have not yet been systematically tracked. The formal monitoring and evaluation system for trade finance projects is expected to start in FY12.

**IFC investment funds had low development outcome ratings, due partly to the global financial crisis.** Among IFC financial sector projects, 59 percent of investment fund operations had successful development outcomes in 2008–10. Only 35 percent of investment fund projects had satisfactory business performance ratings (that compared financial returns against the cost of capital). This decline was in part a function of the global financial crisis that became severe in late 2008 to early 2009 and affected the performance of the funds. At the time of the 2009 evaluations of these funds, the average estimated internal rate of return from the six private equity investments was –3.2 percent per year. By January 2011, the funds showed signs of recovery, with average estimated returns of 4.3 percent, although some still remained under financial stress.

**MIGA's guarantees in the financial sector were effective in the Europe and Central Asia Region**. MIGA financial sector projects had higher development outcome ratings than nonfinancial sector projects. As identified by the 2011 IEG evaluation *MIGA's Financial Sector Guarantees in a Strategic Context*, among the 10 financial sector projects evaluated for that report, 80 percent had satisfactory development outcome ratings, compared with 48 percent among nonfinancial sector projects, consistent with this report's findings.[17] Financial sector guarantees in transition economies were found particularly effective, as they supported foreign bank subsidiaries that made important contributions to these economies, whose banking systems had yet to make needed reforms. Privatization of state-owned enterprises had increased competition and made financing available to a wider spectrum of corporate and retail customers, and new entrants were able to introduce new and innovative financial products and services not previously offered in the host countries of concern. Factors common to successful MIGA-supported projects in the financial sector included (i) sponsors with long operating experience as global financial institutions or in the respective host country or both; (ii) high strategic relevance with respect to the host countries' efforts to strengthen the banking systems; and (iii) selectivity on the part of the financial intermediaries who had clearly focused on profitable business segments.

**The WBG's support for financial sector development in Peru over the past decade illustrates an appropriate sequencing of Bank and IFC instruments.** WBG support for financial sector development in Peru over the past decade reflected an appropriate, sequenced engagement, with the Bank initially taking the lead to support the establishment of a favorable regulatory environment, followed by increased IFC activity to help catalyze private investment. In the 1990s, the Bank had provided direct lending to support financial sector development in Peru. As the regulatory environment and supervisory capacity improved and the banking sector consolidated and expanded, the Bank ceased lending in the financial sector and instead limited its engagement to policy advice and technical assistance to the regulatory authority. Meanwhile, IFC expanded its engagement in the financial sector, and its investments provided the main WBG instrument to support diversification and expanded reach of the financial sector.

**Recent evaluations illustrate several positive WBG interventions that supported microfinance.** Although without counterfactuals, the exact contribution of the WBG cannot be determined, the WBG is associated with a number of successful cases in promoting microfinance development. In Peru, the Bank supported regulatory changes that allowed microfinance institutions to collect deposits, reducing their dependence on external funding and facilitating their rapid expansion. IFC's direct investments in several microfinance institutions helped them broaden their sources of finance and expand their reach (IEG 2010h). In Nigeria, the IDA/IFC micro and small/medium enterprise program introduced the concept of profit-oriented microfinance institutions and helped reach over 100,000 users in the country. In Uganda, microfinance institutions supported by the WBG expanded rapidly, exceeding targets. In Benin, with WBG assistance, a national microfinance policy was introduced in 2006, regulatory oversight was strengthened, and microfinance institutions expanded rapidly to cover about 20 percent of the population. In Rwanda, with WBG support, a new regulatory framework for microfinance was adopted; regulatory oversight was strengthened; a leading microfinance institution was recapitalized and restructured; and it has emerged as a profitable entity with the largest market in the country (IEG 2011a).

## Support for the Real Sectors

### *World Bank Group Approach and Activities*

**In addition to helping improve the policy environment, infrastructure, and access to finance, the WBG also seeks to directly support investment in agriculture, industry, and services.**[18] The 2002 WBG PSD strategy identified the need for direct support to firms but stressed the basic principle of non-subsidization unless subsidies are transparently targeted at institution-building purposes or justified by externalities. WBG direct support to the real sectors includes (i) support for agriculture and agribusiness development through Bank lending and AAA, IFC investments, and MIGA guarantees; (ii) support for sustainable mining and other extractive industries through Bank/IFC support for developing appropriate regulatory environments, IFC investments, and MIGA guarantees; and (iii) IFC investments and MIGA guarantees to support private investment in the manufacturing and service sectors.

**In agriculture, the Bank and IFC have focused on a range of activities across the production chain.** In FY1998–2008, the Bank and IFC together provided $24 billion in financing for agriculture and agribusiness. Both the Bank and IFC also provided nonlending services, and the Bank supported several global and regional programs and partnerships in the agriculture sector. Major areas of WBG support included large-scale irrigation and drainage, research and extension, access to credit, formalization of land rights, roads and marketing infrastructure, and agribusiness. On research, the Bank aims to support global programs (most notably the Consultative Group on International Agricultural Research, or CGIAR), public systems in client countries, and partnership arrangements with other stakeholders. IFC's support is through financing and advisory services to agribusiness processors, which may in turn assist their contract farmers. On finance, examples of Bank support include training for financial institutions to operate in rural areas and on-lending programs. IFC has used investments in trader-processors, trade finance, private equity, wholesaling through banks, and index insurance products to promote access to credit.

**MIGA's guarantees for real sector investments have decreased overall, but focused on Sub-Saharan Africa and on IDA countries.** The volume of MIGA guarantees issued in the real sector—that is, in support of projects in agribusiness; manufacturing; services; tourism; and oil, gas, and mining—decreased, from $1.2 billion (or 30 percent of total volume, gross exposure issued) in FY05–07 to $458 million (9 percent of gross exposure) in FY08–10.[19] MIGA guarantees in the real sectors predominately supported projects in Sub-Saharan Africa and in IDA countries in FY08–10, with 39 percent of newly issued guarantees in Africa (by volume) and 66 percent in IDA/blend countries, respectively. The issuance of guarantees for real sector projects in IDA countries has been growing, at least in relative terms, as the share of newly issued guarantees (71 percent) represents a sizable increase compared to 33 percent in FY05–07.

**IFC support for extractive industries accounted for 5 percent of its investments in recent years.** IFC has supported private sector clients in various extractive industry sectors, including oil and gas field development, production, and transport and mineral mining and quarrying. IFC has recently required client companies in the extractive industries sector to annually disclose payments such as royalties, dividends, taxes, and signature bonuses that they make to their host governments. It also supports programs accompanying the main investment in local community development, local supply chain development, health and HIV/AIDS programs, corporate governance, and revenue management among local governments in relation to royalties from extractive industries. In FY08–10, IFC invested nearly $1.5 billion in 64 projects (compared with $1.2 billion in the previous three years). Extractive industry investments were concentrated in Latin America and the Caribbean (54 percent), followed by Asia (18 percent) and Africa (13 percent). About one-fourth of investments were made in the equity form, while the rest was in loans.

### *Effectiveness of the World Bank Group*

**Against the Bank's stated objectives and IFC's market-based benchmarks, agriculture and agribusiness project ratings were at or above portfolio averages.** Projects in Europe and Central Asia had higher outcome ratings than the Bank-wide average, and projects in Africa had notably lower ratings.[20] IEG's recent agriculture and agribusiness evaluation found that not only is the environment for agricultural development less favorable in Sub-Saharan Africa's agriculture-based economies—with poor road and market infrastructure, underdeveloped financial sectors, and higher weather-related and disease risks—but country capacity and governance are weaker as well. The evaluation flagged the overriding need to raise productivity and also noted the need to improve the sustainability of activities supported. Poor cost recovery was a continuing issue for irrigation and drainage projects. Weak links between CGIAR centers and national programs and insufficient government funding and limited cost recovery have been issues in the Bank's support for research and extension.[21] Sustainability remains a challenge in projects providing agricultural credit, and greater synergies between financial sector interventions and agricultural lending are often lacking. Bank AAA in agriculture has generally been of sound quality and the lending informed by AAA had better outcomes than lending that was not. However, in some of the poorer countries, such as Ethiopia, Ghana, Guinea, and Nepal, little AAA was done in agriculture over several years (IEG 2011e).

**IFC investments in agribusiness in Sub-Saharan Africa have had limited success.** IEG's agriculture and agribusiness evaluation attributes a low proportion of successful agribusiness projects in Sub-Saharan Africa to several factors (IEG 2011e). These include "difficult business environments, a shortage of indigenous entrepreneurs, the small size of the potential investments, lack of access to markets, and the discouraging experience of working directly with small-scale sponsors…." It argues that IFC has been pushed "toward foreign sponsors and export-oriented or niche local businesses, such as palm oil and rubber." It contrasts this experience with Latin America and the Caribbean and Europe and Central Asia, where IFC has seen success with the integrated trader-processor model, and some IFC clients have become local and regional enterprises.

**Recent evaluations show that WBG engagement in extractive industries has helped increase attention to environmental and social effects, but linkages efforts have not been successful.** In Peru, IFC and MIGA were effective in ensuring adequate environmental and social performance standards in extractive industries projects they supported. However, IFC's linkages initiatives to better integrate extractive industries with the rest of the economy showed limited results. The sector proved to have inherently limited linkages with the broader economy, particularly after the construction phase. The evaluation of the Chad-Cameroon pipeline project (IEG 2009e) found that although the project was a technical and financial success, the failure of the government to improve its use of revenues limited the benefits of the project. Nevertheless, WBG involvement resulted in stronger environmental and social protection and in higher expenditure allocations to priority sectors. In Mozambique, WBG-supported reforms in the regulatory framework of the mining sector paved the way for a large increase in mining investments, including two mega-projects (in metals and oil field/distribution). However, IEG found that these projects have not led to widespread benefits in the country, as they have generated only limited government revenues and have weak linkages with the local economy.

**IFC and MIGA development outcome ratings in manufacturing projects have been on par with averages.** Seventy-seven percent of IFC investments in manufacturing had satisfactory or higher development outcomes in FY08–10. IEG evaluated seven MIGA-supported projects in FY09–11 in mining, manufacturing, agribusiness, and services; 71 percent of them had satisfactory or better development outcome ratings. These projects performed best in PSD ratings, with 86 percent performing satisfactory or better in this area. IEG has not prepared an evaluation study of IFC support in the manufacturing and services sectors in recent years (other than the health sector, which is reviewed under the human development goal in Chapter 3).

# Chapter 3
# Enhancing Human Development

## Overview

### *World Bank Group Approach and Activities*

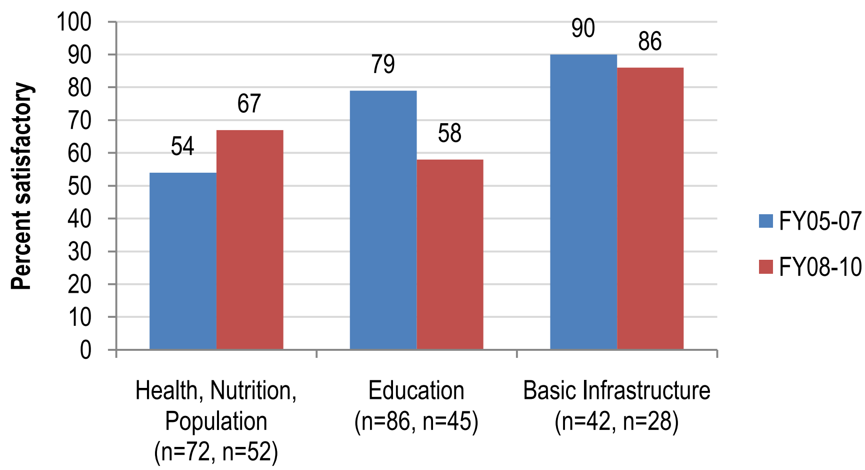
**Human development is both an end in itself and an input into the other three goals and ultimately to growth, poverty reduction, and improved living standards.** Seven of the MDGs are directly related to human development. For the purpose of this report, human development includes activities in education; health, nutrition, and population; and targeted basic infrastructure provision, such as household water supply, rural electrification, community-led infrastructure development, and social funds. The latter interventions often involve construction of community infrastructure that increases the availability of health and education services. Increasing consumption of quality health services, education, and basic infrastructure services can improve well-being in itself as well as increase opportunities to participate in and benefit from economic growth (World Bank 2000; IEG 2009b, 2010f, 2010m; UNDP 2011).

**Bank objectives aim to improve health and education outcomes through broad systemic improvements.** In education, the Bank's strategy has shifted away from a focus on access and completion of primary education to improving access at all levels, enhancing demand, improving quality, and raising learning (World Bank 2011a). In health, the Bank seeks to strengthen health care delivery systems, exploit multisectoral linkages to improve health outcomes, and strengthen governance. IFC supports private sector provision of education and health services, although it acknowledges that health and education investments will remain a relatively small part of its portfolio. Key challenges for the WBG include efficiently expanding access given fiscal constraints; ensuring the quality of service delivery; promoting demand for health, education, and other basic services; and engaging the private sector in service provision. The Bank also finances a range of basic infrastructure interventions targeted at the poor, which aim to build small-scale infrastructure across sectors, including household water supply and sanitation and rural electrification.[1] The Bank's strategies in all these sectors emphasize the need to ensure that both women and men have equal access to opportunities and benefits.

***World Bank Group Effectiveness***

**Over the past six years, Bank-supported project outcome ratings have improved in health but declined substantially in education** (Figure 3.1). Results in the health and education sectors have become more difficult to achieve as interventions have moved beyond addressing basic access issues to address more complex quality objectives and systemic reforms. At the same time, evaluations point to a range of design and implementation issues, discussed below. The project outcome ratings for education in FY08–10 are substantially below ratings for projects in sectors other than human development (78 percent).

**Figure 3.1. Proportion of Satisfactory Outcome Ratings in Bank-Financed Projects Supporting Human Development by Exit Year, FY05–10**




*Source:* IEG.
*Note:* Ratings are for all projects that had closed and been rated by IEG as of May 19, 2011. Only the trends in outcome ratings for education projects are statistically significant at p <= 0.05.

**For IFC, outcome ratings for health investments have generally been higher than those for education.** Only 19 IFC investment projects for health and education were evaluated in 2005–10. All 10 evaluated projects in health had high development outcome ratings. They contributed to higher quality of care and better management quality and helped demonstrate effective PPPs. In contrast, only four of the nine education projects evaluated in 2005–10 were successful. The small sample highlights some the challenges in achieving sustainable private business in education, discussed below.

## Education

### *World Bank Group Approach and Activities*

**The Bank's education strategy has evolved from a focus on basic education to broader attention to all levels of education and an emphasis on learning outcomes.** The Bank's 2005 Education Sector Strategy Update identified two pillars of support in the education sector: Education for All and Education for the Knowledge Economy. While continuing support for universal completion of primary education, the update increased attention to post-basic education. In early 2011, the Bank launched a new education strategy for the next 10 years (World Bank 2011a). The strategy aims to address the challenge of low learning outcomes, despite increases in enrollments and primary completion. The strategy highlights not only the contribution of school-based programs but determinants of learning outcomes outside schools (such as health and nutrition), remedial programs, and greater participation by the private sector.

**IFC has sought to mobilize private engagement in the education sector, particularly in the tertiary sector.** Private provision of education services helps reduce the financial burden on governments as well as expand the capacity of the sector as a whole. Some public-private partnerships have emerged, with governments funding demand-side schemes that allow publicly funded students to attend private schools. IFC adopted its first education sector strategy in 2001, as part of its emphasis on the social sectors. IFC has sought to mobilize private financing in the education sector, although it has recognized that these investments will remain a small proportion of its portfolio. The main areas of focus have been tertiary education, technical and vocational training, technology-based education, distance education, and student financing. The 2011 strategy identifies IFC's approach as providing financing for larger network providers who have the ability to invest across borders and go down-market to reach poorer populations; financing for education to SMEs, which typically target poor populations and students through partner banks; and advisory services to companies to support quality of education and to banks to ensure responsible lending to the sector (World Bank 2011a).

**Recent Bank financial support for education increased substantially, partly driven by crisis-related lending.** Bank financing of education projects continued its upward trend since 2000. Between FY05–07 and FY08–10, lending for education increased considerably, from $6.0 billion to $10.8 billion. New lending commitments rose to an unprecedented $5 billion in FY10, largely due to additional financing for existing projects approved as part of the WBG's crisis response. Regions receiving the most financial support in FY08–10 were South Asia (28 percent of total education lending), Latin America and the Caribbean (25 percent), and Africa (14 percent); the Middle East and North Africa (2 percent) and Europe and Central Asia (10 percent) received the least. Six countries (Brazil, Ethiopia, India, Indonesia, Mexico, and Pakistan) accounted for 63 percent of total education financing in FY08–10. As in the past, the predominant instrument in the education sector was investment loans. The Bank has ceased to use Learning and Innovation Loans (LILs), which are intended to test new approaches through small ($5 million or less) projects before taking them to scale. Although LILs comprised 6 percent of education projects in the early 2000s, none have been approved since 2004.

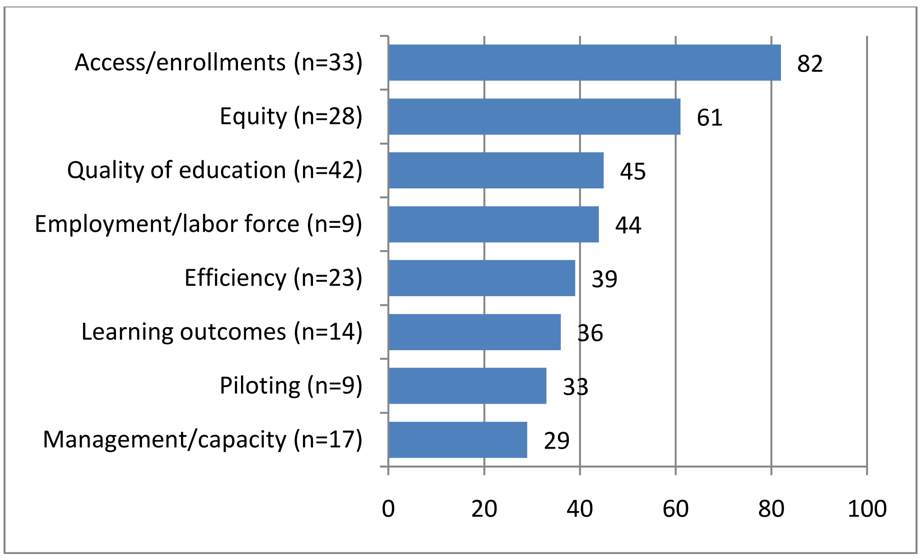
**IFC made several education investments, mostly in higher education.** Between FY08 and FY10, IFC made 17 investments in education totaling $233 million. Although the number of investments remains relatively small, commitments were four times higher than in FY05–07, reflecting gradual learning in this sector since the first strategy in 2001. The bulk of commitments were in post-secondary and professional education (85 percent); the rest were in primary and secondary education. More than half of the investments were in Latin America and the Caribbean, with Brazil receiving four investments for $70 million. The Middle East and North Africa and Africa Regions received 36 percent and 7 percent of total IFC education investments, respectively.[2] About half of the projects involved establishing risk-sharing facilities that backed low- and middle-income student loans for post-secondary and professional education.

### *World Bank Group Effectiveness*

**The outcome ratings of exiting education projects have declined since the mid-2000s, from levels that were once higher than other sectors.**[3] This trend could not be accounted for by a change in the regional composition of exiting education projects, although there was a small increase in the share of IDA projects in education compared with other sectors and a number of poor-performing LILs have recently closed. The quality at entry of Bank education projects has declined. Analysis of the results revealed a number of weaknesses that, if addressed, would improve performance, including overestimation of the strength of political commitment; overambition in relation to the time frame of projects; inadequate readiness for implementation; and excessive complexity in relation to country capacity. More than two-thirds of projects with low performance had weak monitoring and evaluation arrangements.

**Education access and equity objectives were more likely to be achieved than were quality improvements.** The variation in education project outcome ratings reflects variation in the extent to which the projects' objectives were achieved.[4] The IEG portfolio review of education sector projects approved in FY01–09 that had closed found that education access and equity objectives were the most likely to be achieved (Figure 3.2) (IEG 2011i, 2011j, 2011k, 2010g, 2009c). An even higher share of projects with explicit gender equity objectives achieved them (not shown). A recent IEG impact evaluation found that a girls' secondary school stipend program in Pakistan had sustained impacts on girls' human capital development (IEG 2011c; Box 3.1). In contrast, improving and sustaining the quality of education continues to be more difficult, and efficiency objectives were achieved in only 39 percent of projects that had them.

**Figure 3.2. Achievement of Specific Education Objectives in Bank-Supported Projects Approved since 2001**




*Sources*: World Bank 2011a; IEG 2011m, Table 3.2.
*Note:* n = number of closed projects with the stated objective. Many projects have more than one objective.

**Two objectives central to the new Education Strategy on Learning for All—raising learning and labor force outcomes—have been among the most difficult to achieve.** The main strategy to improve learning outcomes has been to improve the quality of the classroom experience, including textbooks, teacher training, instructional or learning aids, and infrastructure. Many projects encouraged greater parental participation and school-based management. This raised learning in some settings (such as in Rajasthan, India), but in other settings it did not (such as Bahia State of Brazil). Although the reasons for these variable results are not completely understood, explanations center around three factors: the inability to maintain quality standards in the face of an expansion in enrollments; an increasing number of children from disadvantaged backgrounds as a share of the student population; and the importance of local context in mediating what works to raise learning (IEG 2011m).

**Box 3.1. Secondary School Stipends in Pakistan Produce Sustained Human Development Benefits for Girls**

The Female School Stipend Program in Pakistan, supported by the Bank and others under the Punjab Education Sector Reform Program, was designed to improve educational attainment among girls and decrease gender inequities, especially at the middle school level. It was implemented in 15 of the lowest literacy districts in Punjab in late 2003, providing quarterly subsidies of 600 rupees (approximately $10) to the families of girls enrolled in middle school, with the condition that they attend at least 80 percent of classes. In 2006, the stipend was extended to girls enrolled in high school. By 2007, 245,000 girls enrolled in middle school were covered by the program.

In 2010, IEG evaluated the impact of the program among girls who had been in the program for up to four years.[a] The evaluation found that, compared with girls in nonstipend districts, girls in stipend districts (i) were 3–6 percentage points more likely to complete middle school; (ii) as adolescents, had labor force participation rates 4–5 percentage points lower; and (iii) at ages 15–19 years married 1.4 years later.

The program had no indirect effects on the educational outcomes of boys residing in the same household as participating girls. However, evidence suggests that the program may have diverted boys to private schools at the primary level.

*Source:* IEG 2011c.
a. The impact of the program was first evaluated shortly after it was launched (Chaudhury and Parajuli 2010); the IEG evaluation assessed the impact of the program several years out, to assess whether the short-run impacts would result in longer-term human development outcomes.

**Labor market–related objectives have also been difficult to achieve**. Projects' results frameworks linking post-primary education to labor force outcomes have been weak (IEG 2011m). The review found that only five of the nine recently completed education projects with labor market objectives identified any labor market outcome indicators. To some extent, this may reveal a lack of prior analysis or understanding of the links between the education system and the labor market. Bank-supported projects in Egypt and Jordan aimed to improve, among other things, the quality and labor market relevance of higher education. An ongoing assessment indicates that although they succeeded in improving the quality of instruction, including adoption of information technology, there was no evidence of impacts on student performance, and the links to the labor market were weak. Student-staff ratios increased. The share of university enrollments in humanities and social science declined only slightly in Jordan, from 60 to 56 percent, and in Egypt was basically unchanged, at 78 percent. The unemployment rate for university graduates remained high in Jordan (17 percent) and increased threefold in Egypt. In Jordan, a survey of employers found that technical college graduates lacked technical skills and their training was overly theoretical.

**Education projects are increasingly complex, which presents challenges in improving performance.** Primary education still commands the largest share of education commitments, but over the past decade its share has been declining while the share for post-primary education has increased. Secondary education systems have subject specialties requiring efficient matching of student class streams and teachers; teacher shortages and lack of capacity limit the ability to rapidly increase the number of teachers with appropriate qualifications; curriculum, textbooks, and examinations need to be reformed simultaneously; and the management challenge inherent in simultaneous rapid expansion and systemic reform would tax even the most capable education systems. The unit costs of secondary education are also much higher than for primary education. The share of projects covering three or more education subsectors (such as primary, secondary, tertiary, technical/vocational) rose from 14 to 34 percent (IEG 2011m). IEG's evaluation of Tanzania's Secondary Education Development Program (2004–08) highlighted some of the challenges in expanding access to quality secondary education while raising learning (IEG 2010l).

**Case studies indicate that sustained lending, demand-side incentives, and civil society participation help increase gender parity in education.** Bank support in Bangladesh and Ghana was more successful in contributing to results in the education sector because, unlike in Zambia, gender-aware lending was sustained (IEG 2010f). Furthermore, in Bangladesh and Ghana, although Bank support focused on the supply side (classrooms, female teachers, and textbooks), it also created sufficient demand for the services through support for various incentives designed to remove constraints. In both countries, government ownership and commitment were important, but Bank support encouraged the involvement of civil society at the local level, which helped enhance and strengthen awareness of the importance of ensuring that girls are encouraged to go to school. In the Philippines and Colombia, although there was gender parity in enrollments, there was a need to address gender issues related to quality, such as in curriculum, teaching methods, and access to labor markets.

**A small number of evaluated IFC education projects—primarily post-secondary education—highlight some lessons.** Among projects covered in 2005–10 evaluations (that is, approved just after IFC established a priority on education in 2001), four of nine evaluated projects had successful outcome ratings. Eight of these nine projects funded post-secondary, professional, and other types of education, and one was for primary and secondary education. Factors undermining the unsuccessful projects included high-risk/start-up/untested ventures (such as a pioneer of education content via the Internet, a new and untested "campus" model, and a professional bank and finance training program); overly optimistic assessments by sponsors who invested more than the market demanded; and weaknesses in IFC's appraisals that reflected its initial engagement in the sector, such as overestimating revenues and sponsor capacity and inadequate risk mitigation measures. IEG has not yet done an in-depth review of IFC's experience in the education sector, and the limited cohort of evaluated projects to date prevents broad conclusions on IFC's effectiveness and contributions in the sector.

## Health, Nutrition, and Population

### *World Bank Group Approach and Activities*

**The WBG's current strategy is to help enhance health outcomes through improved health systems performance.** Bank support aims to improve health outcomes on average and among the poor and prevent the impoverishing impact of illness by improving health system performance, including through better governance and intersectoral approaches.[5] Key strategic directions include (i) a renewed focus on health, nutrition, and population (HNP) results; (ii) efforts to help improve the performance of health systems and to ensure synergy with priority disease interventions, particularly in low-income countries; and (iii) strengthened Bank capacity to advise countries on intersectoral approaches to improve results. IFC's 2002 health strategy defines its goals as improving health outcomes, protecting the population from the impoverishing effects of ill health, and enhancing the performance of health services (IFC 1999a). Supporting private provision of health services aims to increase alternatives to public health systems as well as alleviate the burden on public resources. IFC has sought to contribute to health care systems by working with private partners who are able to bring best practices to health services provision, promote efficiency and innovation, and improve management in the sector.

**Both Bank and IFC investments in the health sector doubled in the past few years.** In FY08–10, the Bank approved $9 billion in financing for health projects, compared with $4.5 billion in FY05–07. This increase was driven by several large loans to five countries (India, Mexico, Nigeria, Poland, and Turkey), which together received about $5.5 billion. Lending for health projects as a percentage of total Bank support has remained steady at about 7 percent since early in the decade. IFC's portfolio in health also doubled, from $319 million in FY05–07 to $676 million in FY08–10. This represented 2 percent of the total IFC commitments during the period—a small share of total IFC investments, although larger than that of education. The bulk of the investments were in hospitals and clinics (87 percent) and the rest in pharmaceuticals.

#### *World Bank Group Effectiveness*

**Over the decade leading up to the 2007 HNP strategy, outcome ratings of Bank HNP projects remained flat, while ratings of projects in other sectors continued to rise.**[6] Sixty-eight percent of HNP projects exiting in FY02–06 were rated satisfactory, compared with 78 percent of projects in other sectors. Contributing factors were the increasing complexity of HNP operations, particularly in Africa but also in terms of health reform support to middle-income countries; inadequate risk assessment and mitigation; and weak monitoring and evaluation. Recent project outcome ratings in the HNP portfolio are consistent with those from earlier in the decade, with about two-thirds of exiting projects rated satisfactory.

**The HNP evaluation highlighted the need to increase efforts to ensure that the poor are reached.** It found that evidence was weak that health results from Bank-supported projects had reached the poor and that there has been a decline in the treatment of health in poverty assessments in the recent past. Lending and staffing for nutrition and population—both issues of critical importance for the poorest people—had declined dramatically. Bank nutrition support was reaching only a quarter of countries with the highest stunting and support for population, primarily Sub-Saharan African countries with the highest fertility. IEG has not been able to assess recent progress in reaching the poor, but the Bank has taken action to increase support for nutrition and population (see the Appendixes in Volume 2: http://ieg.worldbankgroup.org/content/ieg/en/home/reports/rap2011.html).

**Bank-funded programs have helped control the spread of communicable diseases that disproportionately affect the poor.** The Bank has supported communicable disease programs that have reduced the prevalence of leprosy in Bangladesh, malaria in Eritrea, tuberculosis in India, and schistosomiasis in Egypt—all diseases that primarily tend to affect the poor (Martin 2010). There are several reasons underpinning these results, including better defined boundaries, easier to understand objectives, more straightforward results chains, and visible results in a relatively short period in many cases. However, outcome ratings of the HIV/AIDS portion of the communicable disease portfolio continue to underperform (57 percent satisfactory for freestanding AIDS projects exiting in FY08–10). The HNP evaluation found that results of HIV/AIDS projects were constrained by a lack of strategic selectivity and prioritization, resulting in activities that do not have the greatest impact on the epidemic; weak national institutions for managing and implementing the long-run response, particularly ministries of health; and poor local evidence bases for effective and timely decision making (IEG 2009b).

**The Bank's support for health systems improvements will benefit from evaluative findings on health reform and SWAps to improving performance.** The 2009 HNP evaluation found that health reforms promise to improve efficiency and governance, but they are politically contentious, often complex, and relatively risky. Lessons from the past decade from Bank support for health reform—primarily in middle-income countries—point to the importance of ex ante assessments of the political economy of reform and preparation of a proactive plan to address the political risks; careful prior analytic work; sequencing of reforms to improve political feasibility, reduce complexity, and ensure adequate capacity to implement them; and strong monitoring and evaluation, both to demonstrate results and to enhance decision making. Evaluation of pilot reforms and rapid dissemination of results have helped overcome political resistance to change.

**Bank support for SWAps has contributed to greater government leadership, capacity, coordination, and harmonization within the health sector, but not necessarily to improved efficiency or better results.** SWAps support the 2007 HNP strategy's objective to improve the organization, functioning, and sustainability of health systems. The HNP evaluation, based on an in-depth review of SWAps in six countries, found that most support by the Bank has been for setting up and implementing the approach. Country capacity had been strengthened in the areas of sector planning, budgeting, and fiduciary systems, but weaknesses persisted in the design and use of country monitoring and evaluation systems. Evidence that the approach had reduced transaction costs—one of the important justifications for the approach—was particularly thin. The review could not point to links between the approach and improved outcomes from national health strategies. The national programs supported by the SWAps were highly ambitious and complex, often exceeding the implementation capacity of government. This underscored important lessons—the need for national health programs to be realistic and prioritized and for government and development partners to ensure that the process of setting up the SWAp does not distract the players from ensuring effective implementation.

**The development outcomes of IFC-financed health projects have been improving, following a learning process.** IFC started systemically engaging in the health sector in early 2000 when a dedicated department was established. For projects approved in the late 1990s, both investment and development outcomes were low, and for those approved in 2000–02 nearly two-thirds had development outcomes and investment returns substantially better than the rest of IFC's portfolio (IEG 2009b). Reasons for initial low performance included the impact of the previous financial crisis in Latin America and the Caribbean, delays in obtaining regulatory clearances from authorities, and IFC's weaknesses in screening and structuring health sector deals because of lack of staff experience. Concerns raised in IEG's 2009 health evaluation were the lack of diversification of the health portfolio beyond hospitals and the limited social impact of IFC's health interventions.

**Since 2005, all 10 IFC health sector investments that have been evaluated have been rated successful on both development and investment outcome.**[7] The projects helped establish PPPs, supported industry consolidation, leading to greater efficiency, and improved service delivery by raising management and clinical standards. In Asia, IFC investments contributed to the expansion of private health care provision in a country that served the higher end of the market, but it also played an important overall role in the sector. Expansion of private engagement helped free capacity in the public sector as well as meet higher standards of service demanded by higher-income groups.

## Targeted Basic Infrastructure

### *World Bank Group Approach and Activities*

**Experience has highlighted the importance of targeting infrastructure access to the poor.** The Bank's FY08 infrastructure strategy identified a key lesson from 20 years of experience in infrastructure: "Growth cannot come at the cost of access and that infrastructure investments that promote economic growth should be balanced with those that target enhanced access for the poor" (World Bank 2008b). At present, the WBG does not have a distinct strategy for basic infrastructure interventions. Nevertheless, in this review, IEG separates the discussion of interventions that target basic infrastructure from broader infrastructure interventions to highlight their primary purpose in enhancing access to basic social and infrastructure services for the poor. These include targeted interventions to provide household water supply, sanitation, rural electrification, and other basic infrastructure services. Alongside freestanding interventions in the respective infrastructure sectors, Bank interventions include support for social funds, community-driven development of basic infrastructure, and local government efforts to expand access to basic infrastructure.

***World Bank Group Effectiveness***

**Targeted infrastructure projects have seen relatively high success rates, although in the telecom sector past targeted approaches were not effective.** According to an approximate classification of projects, Bank lending for targeted infrastructure projects increased slightly from $5 billion in FY05–07 to $5.8 billion in FY08–10.[8] These projects have been largely successful in their efforts. Eighty-six percent of targeted infrastructure projects were rated satisfactory in FY08–10. Evaluations suggest that these projects helped increase access to newer or improved community infrastructure, such as water supply and sanitation services and rural roads. Evaluations indicate that more success has been achieved in quantitative goals, such as construction of infrastructure, than on qualitative goals, such as capacity enhancement. Evaluations also highlight that there is often little or no information on whether such projects have improved the quality of services or whether the poor in particular benefitted. As discussed above, past public sector targeted efforts to help achieve universal access to telecom services were not effective and were largely superseded by private provision of telecom services. In this case, nontargeted general interventions aimed at the enabling environment along with support for private investment were more effective.

**Active women's participation can enhance the effectiveness of basic infrastructure interventions.** An IEG evaluation found that women's participation in community committees provided them a space for participation outside their households (IEG 2010f). However, to sustainably influence gender relations and empower women, long-term support is needed, as well as carefully designed mechanisms that will address gender imbalances in participation, rather than strengthen existing stereotypes. The evaluation also found that the Bank has been very proactive in involving women in the management of water resources for domestic consumption, with good results in some cases. In Ghana, Bank support demonstrated the central role women can play in the provision of services at both household and community levels. In the Philippines, field assessments found that the inclusion of women in water committees enhanced trust in the management of those committees' activities. The Tajikistan Rural Infrastructure Project was less successful in providing water to communities, and the Implementation Completion Report concluded that it was necessary to involve women in water user committees.

# Chapter 4
# Increasing Resilience to Socioeconomic and Environmental Risks

## Overview

### *World Bank Group Approach and Activities*

**People, organizations, and countries are subject to adverse impacts from a range of environmental and economic risks**. The degree of exposure to natural and economic risks is often referred to as vulnerability. The flip side of vulnerability is resiliency, and a core goal of the WBG is to promote resiliency. Vulnerability is a pre-existing condition relative to each specific shock, while resiliency modifies a society's ability to prepare for and recover from disruptive events. The degree to which disruptive events have negative impacts is due to characteristics inherent in a country's natural conditions, economy, institutional framework, and social and cultural value systems. Major potential risks against which the WBG seeks to help manage include environmental degradation, natural disasters, climate change, and economic and financial crisis. The WBG also seeks to help countries build efficient and effective SSNs to protect those affected by shocks as well as to help meet the needs of those otherwise unable to do so. The Bank also seeks to help poor and vulnerable groups better respond to idiosyncratic shocks (for example, health problems, or unemployment). The Post-Crisis Directions strategy paper identifies the WBG's aims in targeting the poor and vulnerable and managing risks and preparing for crisis.

**Attention to vulnerability increased sharply with the recent spate of crises**. In FY08–10, the Bank financed some $18.5 billion in projects largely aimed at helping reduce vulnerabilities, compared with $9.2 billion in the previous three-year period (FY05–07).[1] IFC and MIGA do not have interventions that can be specifically classified as addressing vulnerability objectives. Instead, as discussed below, some interventions served the purpose of contributing to the financial crisis response but were classified in other sectors. MIGA's crisis response initiative resulted in a large share of its guarantees issued in the financial sector in Europe and Central Asia. IFC also has interventions that contribute to the WBG's climate change mitigation objectives and to environmental sustainability. These interventions have been increasing rapidly and represent about 4 percent of IFC's investments and 13 percent of IFC's advisory services in FY08–10. About 15 percent of the Bank's AAA during the period was broadly aimed at reducing vulnerabilities. WBG vulnerability-oriented interventions and outcomes under each distinct intermediate objective are discussed below.

## Environmental Sustainability

### *World Bank Group Approach and Activities*

**The WBG has a broad-ranging strategy to promote environmental sustainability.** Increased economic activity and development has meant increased strains on the environment and resultant environmental degradation. The 2010 Post-Crisis Directions strategy identifies the promotion of environmentally sustainable development as a major challenge for the WBG to address. The Bank's 2001 environmental strategy set three interrelated objectives to promote environmental sustainability that remain relevant today:[2] (i) improving the quality of life by strengthening management of natural resources, preventing and reducing environmental health risks, and reducing vulnerability to natural disasters; (ii) preventing and mitigating adverse effects by improving environmental policies, strengthening regulatory and institutional frameworks, encouraging the positive role of markets, and ensuring sustainable private sector development; and (iii) protecting the global commons through linkages between poverty reduction and environmental protection, facilitating financial transfers to cover costs of generating global environmental benefits not matched by national benefits, and stimulating markets for global environmental public goods.[3]

**All three WBG institutions seek to help ensure environmental sustainability.** The Bank seeks to help countries develop a policy and institutional framework needed for environmentally sustainable development through both AAA and lending operations. The Bank and IFC also help protect the global commons (climate, biodiversity, international waters) by facilitating the transfer of financial resources from their global partners (carbon markets, Global Environment Facility [GEF], Montreal Protocol) to their (country and corporate) clients. In addition, each project supported by the three WBG institutions is required to follow a set of standards and procedures designed to prevent and mitigate adverse social and environmental impacts. The Bank has a safeguards framework that consists of 10 separate policies. IFC's 2006 Policy and Performance Standards on Social and Environmental Sustainability present a set of standards adapted for private sector clients. MIGA's Policy and Performance Standards on Social and Environmental Sustainability were adopted in 2007 and are largely the same as IFC's.

**In recent years, freestanding environmental lending by the Bank has increased, driven by the use of policy loans to promote environmental sustainability objectives.** Bank funding commitments for environmental management rose from $2.2 billion in FY05–07 to $3.7 billion in FY08–10.[4] Environmental DPLs, introduced in FY06, accounted for 41 percent of total commitments. DPL funding was concentrated in three upper-middle-income countries in Latin America and the Caribbean: Colombia, Mexico, and Peru. Funding was in pollution management (50 percent), environmental policies and institutions (36 percent), and biodiversity or protected areas management (9 percent). Bank AAA products addressing environmental sustainability, which more than doubled from 2002 to 2008, were concentrated in Africa (24 percent), Latin America and the Caribbean (20 percent), and East Asia and Pacific (19 percent). The share of potentially significant impact projects funded by the Bank has increased over the past decade. The proportion of Category A projects (defined by the Bank as those projects likely to have significant adverse environmental impacts that are sensitive, diverse, or unprecedented) increased from 5 to 11 percent of the Bank's portfolio, driven by the increase in infrastructure lending. The share of Category A projects in IFC's portfolio remained low throughout the decade, at about 3 percent of projects.

### *Effectiveness of the World Bank Group*

**Bank-executed GEF projects have been more successful than those executed by other agencies.** A recent evaluation by the GEF (GEF 2010) assessed the effectiveness of the Bank as an executing agency for projects it financed.[5] The study found that, although the Bank still accounts for the largest share of GEF funding, its share declined from 58 percent during GEF's pilot phase in 1991–94 to 24 percent in the fourth replenishment period in 2006–10. Largely based on a synthesis of IEG evaluations, the study concluded that the Bank provides a satisfactory level of supervision in a high proportion (86 percent) of GEF-financed projects and outcome ratings (85 percent satisfactory) tend to be better than those of other agencies. The study concluded that the Bank's system and practice of project execution met GEF requirements for focus on results, supervision inputs and processes, and candor and quality of performance reporting during implementation.

**The WBG has been a leader in calling attention to the global importance of environmental sustainability.** The 2008 IEG report *Environmental Sustainability – An Evaluation of World Bank Group Support* found that the Bank had a recognized global leadership role and effectively supported a range of regional and global programs and partnerships (IEG 2008a). About three-fourths of nongovernmental organizations responding to an IEG survey rated WBG performance better than in the 1990s, compared to 10 percent that rated it worse. WBG clients interviewed by IEG also acknowledged the contribution of WBG environmental and social policies (IEG 2010k). Recent evaluations point to many cases of successful Bank-supported outcomes in biodiversity, pollution management, and protecting the global commons. In Costa Rica, for example, substantial improvements were achieved in the management and financial sustainability of forests and biodiversity. Some AAA was observed to have a significant impact, such as work on industrial pollution in Indonesia and river basin management in China (IEG 2008a).

**Due diligence on social and environmental risks at appraisal has improved, but there have been weaknesses in supervision.** IEG's 2010 evaluation found positive results from the application of social and environmental standards in each WBG institution. However, categorization of risks had not been consistent across the WBG, and supervision or monitoring of results had not been thorough. Staff incentives and unpredictability of resources for supervision were found to constrain effectiveness. In IFC, the quality of due diligence on performance standards during appraisal was generally good. Documentation on public disclosure and consultation were one of the weaker areas in IFC's due diligence. The new sustainability framework intends to address some shortcomings, as it includes more coverage in areas such as climate change, human rights, requirements for financial intermediaries, and supply chain management. In transparency, IFC's new Access to Information Policy will retain the presumption in favor of disclosure. IFC is also determined to provide more project-level environment and social and development outcome information to the public. Application of performance standards in MIGA-supported projects had improved compared to projects underwritten under the safeguards policies. This was particularly so with respect to community consultations and the assessment of clients' social and environmental management systems. However, due diligence of financial sector projects focused on the social and environmental management systems of the parent banks, rather than on the subsidiaries supported by MIGA's guarantee (IEG 2010k).

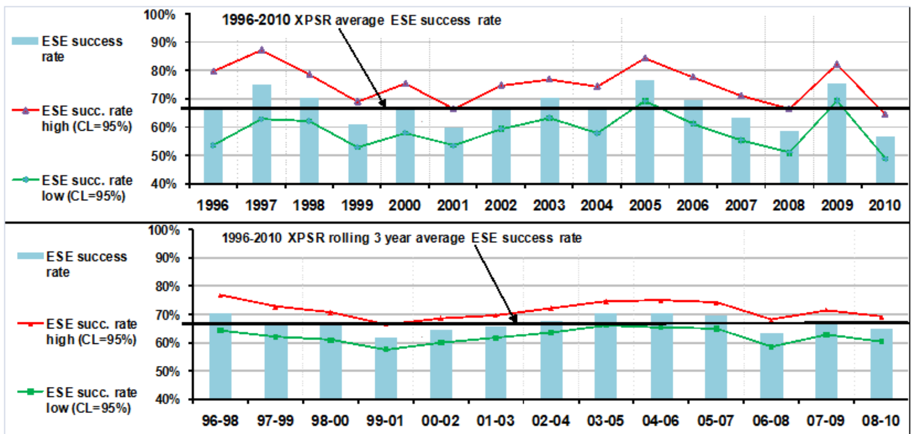
**The compliance-based approach is losing relevance.** In Bank-financed projects in particular, implementation has meant enforcing compliance with mandatory policies and procedures, which has not engendered strong client ownership. A 2010 IEG study found that the Bank's compliance-based approach was becoming less relevant as its portfolio moved beyond traditional investment projects (IEG 2010k). The study suggested that greater emphasis on developing client ownership and systems was needed. In contrast, ownership among private sector clients had improved with the introduction of the new performance standards approach by IFC and MIGA, although weaknesses persist in verification, disclosure, and community ownership.

**Achievement of broader environmental policy and institutional reforms has been more difficult.** In the majority of country evaluations completed over the past few years, the outcomes of the WBG's efforts at promoting environmental sustainability were rated marginally unsatisfactory or lower. Bank operations tended to focus on assisting countries develop policies and institutions. However, they were less effective at helping get policies implemented, in strengthening and providing new institutions with requisite authority, or achieving intended outcomes. In Georgia, for example, the Bank successfully helped establish protected areas in the coastal zones, but no integrated management systems were put in place in the face of declining government interest. In Peru, although the need for improved environmental management had long been recognized in Country Assistance Strategies (CASs) and AAA, the WBG did not support comprehensive policy and institutional reform until a 2009 DPL. Until then, the WBG's efforts consisted of various individual activities that addressed some elements of the country's environmental problems but not underlying policy and institutional weaknesses. More comprehensive WBG support was precluded by lack of government prioritization of environmental management as well as limited WBG financial leverage (IEG 2010h).

**IFC has had a positive effect on companywide integration of environmental and social (E&S) standards.** Achieving E&S sustainability and addressing climate change have been among IFC's strategic pillars in past years. A 2008 IEG evaluation found that IFC has had a positive influence on helping clients develop management systems to better address environmental aspects companywide, and not just for the specific project financed by IFC (IEG2008a). This is important, given IFC's increasing trend toward corporate loans and equity investments that cover all its clients' activities.

**IFC's E&S effectiveness ratings have been fluctuating around a long-term level of 67 percent satisfactory.** Evaluations of 70 of the 2010 sample of 78 Expanded Project Supervision Reports (XPSRs) demonstrated that IFC's E&S effects deteriorated to 58 percent satisfactory, which is below the long-term average of 67 percent (Figure 4.1). However, there is no statistically significant difference between the three-year rolling average (2007–09) of 65 percent and the long-term average. The quality of Social and Environmental Management Systems and compliance with IFC's health and safety guidelines deteriorated in 2010, compared with average performance between 2004 and 2009. Deficiencies in occupational health and safety often included high accident and fatality rates as well as poor use of personal protection equipment. Several projects evaluated in 2010 also revealed deficiencies in emergency preparedness and with meeting IFC's policy on involuntary resettlement. On the positive side, however, more than two-thirds of the projects performed well with respect to managing solid wastes, air emissions, and hazardous materials. IFC's supervision of financial intermediary projects has improved and is now statistically at the same level as real sector projects.

**Figure 4.1. Trends in Success Rates for Environmental and Social Effects**




*Source:* IEG.

## Social Safety Nets

### *World Bank Group Approach and Activities*

**The recent crises have underlined the importance of establishing effective safety nets.** SSNs can be defined as a set of non-contributory programs targeting the poor and vulnerable with five main functions: (i) reduce chronic poverty and inequality, (ii) encourage more and better human capital investments among the poor to provide the opportunity to exit poverty, (iii) enable the poor to manage risk due to individual shocks, (iv) enable the poor to manage risk from systemic shocks, and (v) protect the poor if necessary during economic reforms (IEG 2011h). Many countries, especially high- and middle-income countries, have some form of targeted SSN programs, but SSNs are increasingly spreading to the lowest income countries. Some SSN programs are ongoing, established programs integrated into state budgets, and others are more ad hoc, donor-driven projects. The 2010 Post-Crisis Directions strategy paper (World Bank 2010) emphasizes the importance of SSNs in the light of the recent crisis experiences. When hit by crisis, many middle-income countries found that their poverty-targeted SSNs were not flexible enough to increase coverage or benefits as needed, and low-income countries lacked poverty data and systems to target and deliver benefits. Countries that had prepared during stable times were better positioned to respond.

**The Bank seeks to help countries build SSN systems and institutions to respond better to poverty, risk, and vulnerability.** The Bank's current strategy for social protection has been in place since 2001. It focuses on a "social risk management" framework identifying the key sources of risk faced by households. Over the decade, the Bank moved in a positive direction, from a project-focused approach that emphasized delivery of social assistance benefits toward a broader approach to help countries build SSN systems and institutions. A new strategy is under preparation in 2011–12. Over fiscal years 2000–10, the Bank supported SSNs with $11.5 billion in lending and an active program of AAA and knowledge sharing, much of it during the past two years in response to the food, fuel, and financial crises. Bank support for SSNs over the decade was significantly more concentrated in middle-income countries than in low-income countries, but engagement in the latter has increased since the triple crisis.

### *Effectiveness of the World Bank Group*

**The Bank's effectiveness in SSNs has been enhanced by sustained engagement.** An important factor in the Bank's ability to be relevant and effective in its support for SSNs is its knowledge of country circumstance. In countries where the Bank has supported large programs (Brazil, Colombia, Ethiopia, and Indonesia), it has effectively used political economy knowledge. Timely analytical work has allowed early recognition of what is politically feasible and what is not and who the key stakeholders are. IEG's case studies found that new political leadership was responsible for SSN reform in half of the 30 countries studied. SSNs are among the most politically sensitive areas of development policy, and understanding how politics affect the ability of a country to design and implement SSNs has been an important element of the Bank's effectiveness.

**Over the past decade, there was relatively less attention to SSNs that can address shocks.** During much of the decade, most countries enjoyed strong and stable economic growth. SSNs focused on addressing the needs of the chronically poor or vulnerable as well as developing the human capital of the poor. Although these areas of support were relevant and important, the Bank and its client countries did not focus on developing flexible SSNs appropriate for responding to systemic shocks. When the food, fuel, and financial crises hit, lessons from previous crises were once again underscored. Those countries that had developed SSN programs or institutions during "stable times," such as Indonesia, were better positioned to scale up—and the

Bank was better able to help them—than those that had not. Results from IEG's survey of Bank staff indicated that only 16 percent of countries' SSNs were well positioned to respond to the crises by being able to identify and reach affected poor households. The two most common constraints for Bank support were weak country institutions and inadequate data.

**The lack of adequate SSN programs in many countries led the Bank to support SSN instruments that were not designed for crisis response.** Although existing instruments enabled countries to provide benefits to various subsets of poor and vulnerable people, modifying the target groups or scaling up programs to address new needs proved difficult. Moreover, experience has shown that it is often difficult to scale back benefits once a crisis subsides, especially when SSN programs are not designed to be flexible or are delivered on a temporary basis. Staff survey results indicated that 80 percent of countries now have plans to strengthen their SSNs to respond better to crisis.

**Impact evaluations indicate the short-term effectiveness of SSNs in protecting the poor and vulnerable if well implemented.** IEG conducted a comprehensive review of the existing impact evaluation literature on SSNs (IEG 2011d). The review found that many safety net interventions, including conditional and unconditional cash transfers as well as workfare programs, achieved their primary objectives of raising households' immediate consumption and income and reducing poverty. In some cases they also enhanced households' ability to mitigate the negative effects of shocks. In addition, programs with explicit human development goals were found to consistently improve the use of educational and health services and to reduce the burden of labor for children. The evidence is thinner on longer-term human capital improvements. Moreover, the impact evaluation evidence is scarce regarding the contributions of program components, implementation processes, and local contexts to impacts and largely concentrated on conditional cash transfers.

## Economic and Financial Crisis

### *World Bank Group Approach and Activities*

**The severity of the impact of the global crises has varied across countries.** As discussed above, the succession of worldwide economic crises since the mid-2000s has reversed some development gains. The impact of the global financial crisis varied according to differences in region, country policies, and global integration. The Latin America and the Caribbean and Europe and Central Asia Regions were the most affected. Countries in Latin America and the Caribbean were highly integrated with the U.S. economy, whereas Europe and Central

Asia had fiscal and external imbalances and financial sector vulnerabilities. Middle-income countries were more affected than low-income countries, although the latter were more vulnerable to negative shocks (IEG 2010n). Private capital flows to developing countries dropped sharply; markets in the European Union and United States contracted; and liquidity in banking sectors dried up.

**The WBG sought to tailor its response according to the nature of the crisis impact in a country.** During FY09–10, the Bank committed $107 billion and disbursed $68 billion, compared to $52 billion and $39 billion, respectively, in FY07–08. Much of the increase was driven by additional financing to existing projects as well as new lending in response to the crisis. Most crisis lending was in middle-income countries. IBRD's financial headroom enabled it to respond to a large demand for borrowing in those countries, and the more modest IDA response reflected an inelastic funding envelope and performance-based resource allocation. Much of the increased lending was delivered through development policy operations. The response was concentrated in Europe and Central Asia and Latin America and the Caribbean, and the Africa and East Asia and Pacific Regions did not see a substantial increase in lending. Crisis-related Bank financing was channeled to economic policy, social protection, and the financial sector. In Latin America and the Caribbean, the Bank's focus was on social protection, whereas in Europe and Central Asia the focus was on fiscal and debt sustainability (IEG 2010n).

**IFC also undertook several specific crisis response initiatives.** IFC undertook efforts to help its existing clients manage the crisis effects and responded with several new global initiatives—including the creation of a new subsidiary. Initiatives included new delivery mechanisms in trade finance, infrastructure, microfinance, bank capitalization, and distressed asset management. IFC made $20 billion in net commitments between fiscal years 2009 and 2010 from its own account, alongside efforts to ensure the financial sustainability of its portfolio. IFC also participated in joint initiatives with other international financial institutions (IFIs) in Europe and Central Asia, Latin America and the Caribbean, and Africa. The crisis accelerated a trend in IFC toward short-term trade finance. IFC's new business in middle-income countries initially fell and then rebounded in late fiscal 2010 (IEG 2010n).

**MIGA acted within the Joint IFI Action Plan for Central and Eastern Europe to help strengthen financial sectors.** MIGA's response to the crisis was articulated in its Financial Sector Initiative in March 2009, which constituted its implementation of the Joint IFI Action Plan. The intended purpose was to focus exclusively on the financial sector, in the form of guarantee support to banks providing cross-border investments to their subsidiaries. The developmental benefits to the host countries concerned were intended to include help in stabilizing banking systems and restoration of positive growth in bank lending to the real economy. The Financial Sector Initiative initially envisaged making underwriting capacity available in regard to host countries outside the Europe and Central Asia Region, but later the crisis response was framed in terms of that Region only (MIGA 2009). It was intended that MIGA guarantees would support gross flows in the Region of $2–3 billion.

#### *Effectiveness of the World Bank Group*

**Several lessons have emerged from the WBG's crisis response experience.** First, early warning, preparedness, and timeliness, including an eye on long-term capital adequacy, are key attributes for the Bank and IFC. Second, the benefits of the Bank's country focus go hand in hand with the need for a cross-country strategy to ensure consistency with global initiatives and to deploy scarce resources where they produce the best results. Third, even as it responds to crisis, the WBG needs to keep the requisites of sustainable long-term growth—among others, fiscal and debt sustainability, the structural reform agenda, and the environmental and climate change agenda—in focus. Fourth, particularly in averting a crisis, it is costly to let the Bank's expertise in key areas (in this case the financial sector) decline. Fifth, there is a need to balance the value of innovations and new initiatives in the middle of a crisis with continuity of support using more established and proven approaches. Sixth, coordination is needed among the Bank, IFC, and MIGA (and other partners) to capitalize on linkages across government and business and catalyze economic activity (IEG 2010n).

**The Bank's financial capacity, accumulated knowledge, and continuing dialogue with country authorities facilitated its response.** IBRD went into the crisis with an equity-to-loan ratio of 38 percent, compared with a target range of 23–27 percent, giving it substantial room to expand lending. The Bank's ongoing relations and dialogue enabled more rapid engagement with country authorities. Speed was also facilitated by providing additional financing to existing projects that allowed a transfer of resources, with shorter lead times. The accumulated knowledge of the Bank on poverty, SSNs, long-term growth, and labor markets helped the Bank tailor its responses to country conditions. Examples include Bank support for conditional cash transfer programs in Bangladesh, Colombia, and Mexico and labor market improvements in Poland, Turkey, and Vietnam. Ongoing monitoring of the poverty and social effects of the crisis could have been more systematic, however (IEG 2010n).

**WBG financing helped countries maintain social programs and microfinance.** For example, in Colombia, the Families in Action Program expanded assistance, with Bank support, to approximately 2.7 million poor and displaced families. Similarly, in Mexico, the Bank supported *Oportunidades*, the national conditional cash transfer program that helps 5.8 million of the country's most vulnerable families cope with poverty. In Bangladesh, an IDA loan was helpful in mitigating the impact of high food prices on the poor through an expansion of SSN programs, including public works. IFC's trade initiatives have had broad reach, supporting basic needs through food and energy trade. IFC's new microfinance facility has had a modest effect. WBG commitments also supported significant infrastructure development programs, although it is too early to assess outcomes of these interventions (IEG 2010n).

**The Bank's crisis response in Peru illustrates positive immediate signaling effects, although it remains too early to assess longer-term outcomes.** An IEG evaluation in Peru found that the country's strong initial conditions in both macroeconomic management and the financial sector helped it weather the crisis better than other countries in the region. The government also developed a measured response that included substantial contingency borrowing from IFIs to signal to markets that it had the capacity to intervene if needed. Within this context, the Bank played a useful role, with rapid, large lending volumes that contributed to the government's signaling effects. The Bank's response was facilitated by an existing pipeline of policy loans that were accelerated and enhanced with additional financing. The contingent nature of Deferred Drawdown Option-DPL financing made it an appropriate instrument that allowed for a flexible government response while limiting costs to the government. Beyond the initial signaling effect, however, it is too early to assess the effectiveness of the Bank response. As of the end of the evaluation period, only a small proportion of the contingent financing had been disbursed. In the longer term, contingent lending that is not disbursed represents an opportunity cost of using Bank funds elsewhere.

**IFC's response was important and creative, although it was slowed by the time needed for fundraising and internal capacity building.** IFC's crisis initiatives showed creativity and strategic positioning in soliciting funds from external partners and creating a new subsidiary, the Asset Management Company. IFC's $20 billion of investments in developing countries in fiscal 2009 and 2010 was greater than any other IFI with private sector operations over the same period. IFC also appropriately focused its response on key crisis vulnerabilities: trade, financial sector stabilization, and infrastructure. The initiatives showed some learning from past crises, in that they were targeted, phased temporary (in most cases) and involved partnerships. However, the value added by IFC has been less than expected, because most initiatives were not "ready for use" and IFC did not fully use its own capital.

Some opportunities were missed and the effectiveness of some initiatives was diluted by the time needed for fundraising and internal capacity building. Obstacles included: accommodating partner preferences, building institutional capacity, weak staff incentives to use the initiatives, and difficult conditions for fundraising.

**MIGA's focus on the financial sector in Europe and Central Asia responded to demand and was in line with crisis needs, although its overall guarantee volume was less than its potential.** MIGA's new guarantees supported several key financial institutions in the Region, where the financial sector was severely affected by the crisis. During the crisis, the rate of early cancellation of guarantees fell sharply, indicating that MIGA also played a supportive crisis role with existing clients. At the same time, MIGA could have underwritten a greater volume of business. MIGA was not capital constrained during the crisis, with a 31 percent economic-to-operating capital ratio at the end of FY10. Although total demand in the PRI market fell substantially, premium pricing rose sharply, favoring PRI providers like MIGA that were able to cover investments in riskier countries at rates that reflected a longer-term view of economic prospects. MIGA's ability to respond during the crises was partly constrained by its Convention, which—until its recent amendment—limited MIGA's ability to insure projects financed by freestanding debt or to insure financing of existing (brownfield) assets. The amendment to MIGA's Convention in July 2010, together with its recently updated Operational Regulations, allows for greater product flexibility in the future.

**MIGA's financial sector guarantees in Europe and Central Asia contributed to the sector's stabilization and recovery.** During the crisis, MIGA underwrote 17 guarantee projects in 9 host countries: Bosnia and Herzegovina, Croatia, Hungary, Kazakhstan, Latvia, Moldova, Russia, Serbia, and Ukraine.[6] In 17 guarantee projects, a parent bank augmented its local subsidiary's capital through a shareholder loan, and this loan received a MIGA guarantee. The guarantees are expected to play an important—albeit small-scale—role in supporting stabilization and recovery of the sector.[7] Expected positive outcomes include liquidity infusions by parent banks (in anticipation of recapitalization); more stable foreign-currency depository institutions in highly dollarized economies; application of foreign bank know-how to the workout of troubled assets; and, in Latvia and Ukraine, reduction in the fiscal costs of banking collapse. MIGA's guarantees were valued because of its long-term tenor (maturity of coverage) that could be passed through to subsidiary banks, which have difficulty getting long-term financing from local financial markets. MIGA's guarantees against transfer risk were valued, in particular, because of the risks of imposition of capital controls.[8]

## Natural Disasters

### *World Bank Group Approach and Activities*

**Natural disasters can significantly undermine development progress.** During the past three years, there have been major earthquakes in Japan, Haiti, Chile, China, New Zealand, and Pakistan. Forest fires and heat waves (such as in Russia in the summer of 2010) are disasters that underscore the threats that climate change and environmental degradation pose to development. Deforestation and urban development have disrupted watershed dynamics and contributed to increased flood risk. The concentration of people in large urban areas has tended to exacerbate the adverse impact of relatively small hazards. In the first decade of the 2000s, natural disasters destroyed $960 billion in property worldwide, an amount 18 times higher in real terms than in the 1950s (IEG 2006, 2007). Some 2.4 billion people were affected by natural disasters over the past 10 years. Developing countries often bear the brunt of these catastrophes and have in the past accounted for over 95 percent of all casualties (Freeman, Keen, and Mani 2003).

**The WBG's approach encompasses both preparedness as well as rapid response to natural disasters.** The WBG does not have an explicit disaster management strategy. Instead, its Operational Policy 8.00 on Rapid Response to Crises and Emergencies provides some guidance. It indicates that the Bank may provide rapid response to help (i) rebuild and restore physical assets; (ii) restore the means of production and economic activities; (iii) preserve or restore essential services; (iv) establish and/or preserve human, institutional, and/or social capital; (v) facilitate peace building; (vi) support the initial capacity building for longer-term reconstruction, disaster management, and risk reduction; and (vii) support measures to mitigate or avert the potential effects of imminent emergencies or future emergencies or crises in countries at high risk. In FY08–10, the Bank loaned $2.7 billion to support disaster management in client countries (about 2 percent its total lending). Eleven countries and the Nile Basin Initiative received Bank support for flooding in the past seven years.

### *Effectiveness of the World Bank Group*

**Recently evaluated disaster response projects have been largely successful.** Of 14 natural disaster projects evaluated in FY08–10, 11 had satisfactory outcome ratings. In India, Indonesia, and Iran, Bank-financed projects reconstructed a large number of houses and public buildings to earthquake-resistant design standards. A cyclone response project in Grenada reconstructed schools and health clinics to cyclone-resistant standards. The Samoa cyclone response project constructed seawalls and involved communities in activities such as coral replanting, mangrove afforestation, and roadside plantings in order to increase coastal resilience. In Pakistan, the Bank made noteworthy contributions in responding to the 2005 earthquake, involving community organizations in local-level planning and in reaching the poor. In Sri Lanka, the Bank helped mobilize resources that financed construction of 40,000 houses and provided more than 100,000 families with livelihood grants.

**Attention to prevention and preparedness has been uneven.** In almost half of the countries where the Bank was later called on to finance disaster reconstruction projects, disaster prevention did not play any role in the overall development strategy for the country (IEG 2006). Even in the 40 countries that had four or more disaster projects, one-third of the strategies did not mention disasters; and for those that had more than eight, still about a third did not mention disasters. In countries where a natural disaster assistance strategy—that spells out long-term disaster prevention objectives and mitigation and assesses disaster risk preparedness—has been in place, the effectiveness of the Bank's interventions has improved. Evaluations indicate that although some progress has been made with disaster prevention in Jamaica, the Organization of Eastern Caribbean States countries, Poland, and Zambia, the Bank did not adequately confront weather risks and hazards in Moldova and made little progress with strengthening disaster management capacity in Iran and Pakistan.

**Inadequate attention to socioeconomic characteristics of affected groups can undermine interventions.** Following floods in Djibouti, the government was unwilling to comply with the Bank's resettlement policies on the grounds that overly generous compensation would reach illegal immigrants and create an undue precedent. Rioting that followed severe floods in Mozambique in 2000 was due, in part, to the perception that the government was indifferent to the plight of the victims in areas that had not supported the party in power. Following the tsunami in Indonesia, the cash needs of the poor were neglected in the immediate post-disaster period, forcing them to sell their productive assets—including their land—for immediate needs such as medical care, household goods, and groceries. Flood disasters often strike informal or squatter settlements particularly hard. An earthquake-resistant building code can protect the better-off, who provide themselves with housing through the formal economy, but such codes are not applied in informal settlements, and special measures are called for if the poor are not to be left more exposed than before.

**Homeowner-managed construction is effective in housing reconstruction, but renters and the homeless are left out.** The Gujarat Emergency Earthquake Reconstruction Project financed the repair and reconstruction of over 1 million houses, with a reported high degree of satisfaction among beneficiaries and minimal grievances/allegations of corruption. Several approaches to the reconstruction of housing from this experience have now become standard across the region. These include homeowner-managed construction; the cash grant transfer process, linking fund disbursement to construction progress; a two-tier grievance redressal process; and third-party performance audits. Allowing homeowners to manage the reconstruction of their homes (rather than engaging contractors) has been effective. In India, families economized to build new houses with funds provided for repairs; local people were used in construction, creating employment in the disaster-affected region; and houses were adapted to each family's requirements. Restricting support to property owners, however, does not address the needs of renters and squatters, and in some cases support has been provided for multiple houses to wealthy landowners.

**Notwithstanding the need to react quickly, the limits of local implementation agencies and relevance in rapidly changing conditions must be factored into responses.** Initial quick actions can be important, but experience suggests that in an emergency situation, subproject readiness should not divert the investment focus from a well-planned priority list. If the highest-priority programs are not ready to go, it is better to not launch lower-priority activities simply because they are ready. In Djibouti, following a few dynamic actions in the immediate aftermath of flooding, it took a long time for the government to ensure that basic requirements for implementation of the project were addressed. In Iran, government ownership waned during implementation and lack of local capacity proved a major stumbling block. In some cases, longer-term sustainability goals may imply a delay in response. In the Gujarat Emergency Earthquake Reconstruction Project, for example, the required revision of planning and building codes to ensure earthquake-resistant construction delayed the start of housing reconstruction in urban areas; and the compliance rate of construction was initially very slow because of the lack of trained masons, engineers, and technical officers.

**IFC has effectively helped existing clients contribute to disaster recovery efforts.** IFC has provided grant funding to existing clients to support disaster relief efforts. Partners with assets on the ground have used IFC grants to provide shelter, food, and water; clean up affected areas; restore and improve airport and port logistics; and provide medical assistance and telecom services. Following the 2004 Asian tsunami, for example, IFC supported an existing client in Sri Lanka with port and airport facilities that enabled relief goods and supplies to reach affected areas. A local bank in Sri Lanka effectively directed livelihood restoration grants to local fishermen who had lost their boats. IFC also supported a U.S. company that installed water purification and disinfection systems in eastern Sri Lanka. In Pakistan, a private hospital mobilized medical teams and mobile treatment centers in disaster areas. Using existing local partners has built on their knowledge of conditions on the ground to ensure that help reached intended beneficiaries and permitted the use of simple financial arrangements due to existing trust and familiarity.

**However, commercial reconstruction initiatives can be undermined by abundant aid.** Following the Asian tsunami, IFC established limited credit facilities to demonstrate its commitment to supporting clients and countries affected by natural disasters. However, these credit facilities to support private companies in the post-tsunami reconstruction phase were used only to a limited extent. Their pricing was unattractive, given aid money pouring into the affected countries and abundant liquidity in the markets. Local banks in Thailand and Sri Lanka received cheap long-term funding from their respective governments; the larger companies had adequate insurance cover to repair their damaged properties; and most companies scaled down new investments, thereby reducing the need for additional funds.

## Climate Change

### *World Bank Group Approach and Activities*

**The WBG has recognized and is addressing the long-term risk to development posed by climate change.** For a long time the Bank Group has been involved in the promotion of renewable energy and energy efficiency, often with GEF support. At the global level, the Bank's support for the Activities Implemented Jointly Program (in the mid-1990s) evolved into sponsorship of the Prototype Carbon Fund (launched in 2000), which helped catalyze the global carbon market (IEG 2010b). In 2008, following extensive global consultations, the WBG adopted the Strategic Framework on Development and Climate Change. The framework identified six action areas to support both climate change adaptation and mitigation: (i) support climate actions in country-led development processes, (ii) mobilize additional concessional and innovative finance, (iii) facilitate the development of market-based financing mechanisms, (iv) leverage private sector resources, (v) support accelerated development and deployment of new technologies, and (vi) step-up policy research, knowledge and capacity building.

**WBG work in climate change expanded rapidly in recent years.** WBG support for climate change mitigation is most prominent in the energy sector, particularly renewable energy and energy efficiency. During FY03–08 the WBG scaled up annual investments in renewable energy and energy efficiency from $200 million to $2 billion, and it helped mobilize more than $5 billion in concessional funds for greenhouse gas reduction. IFC's support for energy efficiency started in late 1990s and is now an integral part of IFC's strategic focus, and IFC is planning to scale up its operations in this area. IFC also increased clean energy investments (from $393 million in FY06 to over $1.6 billion in FY10), developed new risk sharing instruments, and created the Climate Business Group in 2010 to sharpen its focus on climate change. In 2008 the WBG and other multilateral development banks jointly established the $6.5 billion Climate Investment Fund, which comprises (i) the $4.5 billion Clean Technology Fund, which provides financing for demonstration, large-scale deployment and transfer of low-carbon technologies and (ii) the $2.0 billion Strategic Climate Fund, which provides financing for innovative approaches or to scale up activities aimed at specific climate change challenges or sectoral responses. These two funds began disbursing in FY10; FY10 disbursements totaled $105 million for the Clean Technology Fund and $26 million for Strategic Climate Fund. The Climate Investment Funds are too new to have produced much evaluative material.

### *Effectiveness of the World Bank Group*

**Limited available evidence suggests that some kinds of energy efficiency projects offer much higher economic returns than most renewable energy projects** (IEG 2009a). Although better data is needed to document impacts, rough estimates suggest that efficient lighting projects and transmission and distribution loss reduction projects offer economic returns far above most development projects of any kind. In Ethiopia, for instance, a $5 million investment in efficient compact fluorescent light bulbs prevented the need to spend more than $100 million to lease and fuel polluting diesel generators. Among renewables, solar home photovoltaics offer very high economic returns but modest greenhouse gas reductions; the returns to windpower are modest on both dimensions. Hydropower constitutes the largest category of WBG investment in renewables; among evaluated plants, 76 percent had outcomes that were rated as moderately satisfactory or better. Capacity utilization—for example, the proportion of time that turbines are generating power—is an important but neglected determinant of returns in renewable energy.

**The WBG's ability to make long-duration loans has been a powerful means for promoting clean energy.** In Turkey, Bank finance helped catalyze longer loan terms by commercial banks, spurring renewable energy investments. Loan guarantees have been used with mixed success in Eastern Europe and China to promote energy efficiency. They have not been market transforming, as was hoped, but they can help smaller firms where credit markets function poorly. In contrast, there is a strong a priori case that loan guarantees or political risk insurance can trigger the bankability of renewable energy projects whose viability depends on the credibility of a long-term power purchase agreement. However, there are only a few examples of WBG support of this kind.

**Carbon finance has yet to realize its promise of catalyzing hydropower and wind investments.** As an institutional innovation, the Bank's Carbon Finance Unit has played an important demonstration role in helping open an entirely new field of environmental finance, popularizing the idea of carbon markets and contributing to the institutional infrastructure of the market. It has contributed to the diffusion of some technologies, such as landfill gas, and supported first-of-kind technology investments in some countries. The Bio-Carbon Fund and the Community Development Carbon Fund have supported small-scale rural and forestry projects—and learned in the process that this is difficult to do. However, carbon finance did little to increase the bankability of many hydropower and wind projects that claimed carbon credits. At current carbon prices, therefore, carbon finance has less catalytic impact on promoting clean energy and emissions reductions than was hoped.

**The WBG has contributed to the transfer of clean technologies through projects that pilot, debug, demonstrate, and diffuse innovations in engineering and finance.** These have been successful when the logic of demonstration and diffusion has been well thought out. For instance, in China, the Bank helped establish a market-based mechanism under which energy management companies provided client firms with energy efficiency solutions in return for a share of the cash savings generated by the reduction in energy costs. The pilot was a success, improving energy efficiency; providing high economic and financial returns; demonstrating a financially viable, market-based mechanism to disseminate energy efficiency measures. It was replicated across the country. This success was further consolidated by IFC's program to improve access to finance among the energy management companies that often had difficulties securing finance (IEG 2010e). Conversely, technology transfer has floundered in the absence of a solid logical framework that links interventions to technological diffusion, especially in the case of more advanced technologies.

**Forest loss, especially in the tropics, generates a quarter of developing countries' greenhouse gas emissions.** Reducing deforestation rates is a key means of reducing emissions. At present, about one-quarter of the world's tropical forests is under some form of protection. The GEF has supported more than 1,600 protected areas worldwide, covering 360 million hectares (much of it through the Bank). An IEG background study found that, on average, these were effective in reducing deforestation.[9] They also offered precious biodiversity benefits. Compared with strictly protected areas, deforestation rates were lower in areas that allowed sustainable use by local populations, and even lower in areas under the control of indigenous people.

# Chapter 5
# Improving Public Sector Effectiveness

## Overview

### *World Bank Group Approach and Activities*

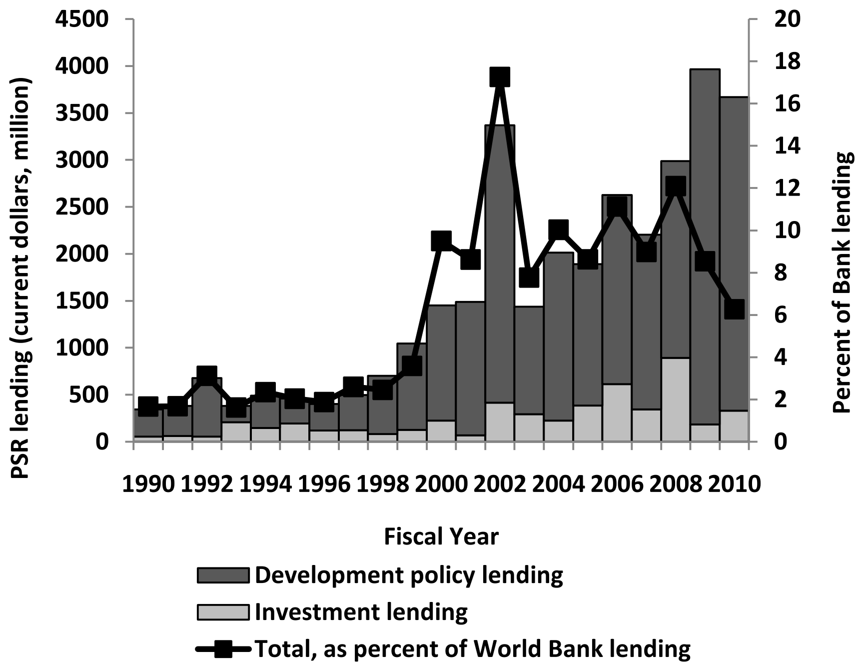
**The WBG has sought to help countries build effective and accountable institutions.** A foundation for achieving development goals in member countries has been a public sector capable of maintaining appropriate policies and effective public investment through good governance and economic management. Challenges that continue to undermine the functioning of the public sector include poor budget planning and execution, poorly motivated civil service cadres, legacies of complex or irrational bureaucratic structures, corruption, political resistance to reform, fiscal constraints, the use of public sector employment as a safety net for the job market, and unfair or unavailable judicial services. The Bank's approach has been to help countries "build efficient and accountable public sector institutions."

In support of this goal, the Bank has sought to help improve public financial management, improve the effectiveness and efficiency of the civil service, improve governance and reduce corruption, and improve access to and the quality of judicial services. The Bank's Social Development strategy also emphasizes the principles of inclusive institutions, cohesive societies, and accountable institutions. IFC aims to promote good corporate governance practices among its clients that can contribute to reducing corruption. IFC also finances interventions that seek to help municipal governments improve revenue management, particularly in areas that benefit from extractive industry royalties.

**Bank lending for public sector reform has been sustained at the high levels reached in 2005.** Bank financial support for public sector reform (PSR) can take many forms: embedded as part of larger multipurpose policy operations; part of investment projects across all sectors; or in policy, investment, or technical assistance loans aimed primarily at PSR. An accurate accounting of Bank financial support for PSR is therefore difficult. Using a classification of projects with significant PSR components, lending for PSR rose from about $2.3 billion per year in FY05–07 to about $3.5 billion in FY08–10, although the number of projects rose only slightly, from about 60 to 63 per year

(Figure 5.1).[1] By region, Bank PSR lending was concentrated in Africa and Latin America and the Caribbean. The majority of loans with significant PSR components were DPLs, as has been the case since the late 1990s. Investment loans for PSR also rose in number in 2007–10, continuing the rising trend since 2005 (other than for a drop in 2009). With the new emphasis on political economy, over 50 pieces of political economy analytic work were ongoing in the second quarter of FY11. In FY06–11 (second quarter), IFC approved 124 advisory services projects with subnational governments as a client, including 35 projects with a subnational government as the sole client. These projects supported capacity building and improvements in PSD-related regulatory issues.

**Figure 5.1. Bank Lending for Public Sector Reform**




*Source:* World Bank internal database.

### *Effectiveness of the World Bank Group*

**Two studies have shown different correlations between Bank lending for PSR and changes in countries' governance ratings.** Two-thirds of countries receiving PSR lending in 1999–2006 improved their CPIA governance ratings (average of CPIA 13–16) during that period. IEG studies explained this correlation by both (i) Bank support helping countries improve public sector performance and (ii) Bank lending flowing to countries that are more enthusiastic about PSR and would have improved somewhat anyway. In a more recent period, the correlation is much weaker. Of 80 countries that received PSR lending in 2007–09, 39 percent improved their governance CPIAs (2006–09) and 25 percent had declining CPIAs. Moreover, countries with no PSR lending in 2007–09 had similar rates of CPIA changes. The attribution factor is inherently weak, given that Bank lending might address a relatively small aspect of the broad PSR agenda, as well as the influence of multiple other factors affecting the outcomes captured by the CPIA ratings. Within individual PSR subthemes, lending in 1999–2006 for public financial management (PFM) and tax administration led to substantially improved CPIA scores in those areas for countries that received such lending. However, lending for civil service reform was not correlated with improvement in countries' CPIA on that dimension. As discussed in this chapter, this pattern of differentiation between the subthemes has largely continued.

**Although Bank PSR projects have been mostly successful, challenges remain in achieving broader PSR goals.** Of Bank PSR projects that exited in FY08–10, 83 percent had satisfactory outcome ratings, compared to 76 percent among all Bank-supported projects. Outcome ratings were high across regions. However, at the country level, only 47 percent of country programs that were completed and evaluated in FY08–11 achieved their objectives under the public sector management pillar. The discrepancy between project and country outcome ratings can be explained by several factors. The CAS assessment is against what was hoped for at the time the CAS was prepared (or as updated in the CAS Progress Report), whereas project ratings reflect outcomes for a more selected sample of activities for which the government actually borrowed. Moreover, even if individual projects did well in their focus areas, other parts of the governance agenda in the CAS might have been neglected, bringing down the rating for the whole CAS governance pillar. For example, the Bank's projects may focus on PFM, which, as discussed below, is a relatively easier area of reform. The outcomes of these projects may all be found to have been satisfactory. However, a country evaluation may have found the outcomes under the governance pillar to have been unsuccessful because of the lack of effective support in other areas, such as civil service reform or anticorruption.

**Incremental approaches have been more effective.** Evaluations have found that where Bank PSR interventions did not do well, they were often too complex in relation to local capacity, did not focus on the basics and on what the governments were ready to do, involved changes that met political opposition, or emphasized the latest ideas from the donor community that were inappropriate to local conditions. In almost every country, including in the OECD, PSR has taken considerable time, more than the equivalent of, say, a CAS period. Setting overly ambitious goals has not proven useful for improving public sector institutions. In contrast, there have been relatively good outcomes among programs with more incremental, phased objectives.

This was the case, for example, in PSR initiatives in Burkina Faso, Georgia, and Kazan in Russia. This has also resulted in successful individual Bank-supported interventions, within the context of a poor overall governance environment (such as in Afghanistan, Bangladesh, Bhutan, and the Central African Republic). In these cases, the Bank was effective in helping countries improve some elements of the PSR agenda, based on realistic assessments of what could be achieved.

**Sustained Bank engagement over time has helped countries consolidate progress.** Consistent Bank engagement in PSR issues through follow-up interventions has helped countries deepen and consolidate reforms. This was the case in Bhutan, for example, where the government received considerable support from the Bank in the form of technical assistance over several years for strengthening country fiduciary systems. The convening power of the Ministry of Finance as the focal ministry for programmatic support helped ensure that line ministries remained on track to achieve agreed on targets in specific sectors. The IEG evaluation of the Africa Action Plan found that "...While the region as a whole appears to have experienced little change in any area of governance and state capacity in 2004–09, progress was in fact made by countries where the Bank was most active" (IEG 2011a).

## Civil Service and Administrative Reform

### *World Bank Group Approach and Activities*

**Civil service reform remains a critical but politically difficult need in many countries.** In many countries the civil service suffers from a range of weaknesses, including hiring and promotion not based on merit, overstaffing at lower-level positions, low pay at upper-level positions, misallocation of staff resources relative to needs, and lack of incentives for good service delivery. Civil service reform measures aim to improve the direct delivery of services to citizens, improve core functions such as PFM, and reduce the fiscal burden of the wage bill. The importance of improving the civil service is revealed in the Bank's CPIA ratings. CPIA ratings for PFM are usually equal to or a little better than ratings for civil service and administration, but never by more than one grade. In other words, improving PFM to the point where it gets beyond just preparatory processes and has real effects on public service performance and accountability has not happened without improving the civil service as well.

**The Bank's strategy for civil service reform has shifted its emphasis toward improving service delivery results rather than on reducing the wage bill.** In the 1990s and even the early 2000s, Bank-supported civil service reforms often focused on reducing the overall size of the civil service, especially the numbers of low-skill employees, and revising the entire civil service grading and pay scales. These efforts were not usually successful (IEG 2008b). Statistical analyses in past evaluations found that countries with loans for civil service reform did not strengthen the corresponding CPIA any more than countries that had no lending for civil service reform (IEG 2008b). Although CPIA scores change for many reasons besides Bank support, the lack of correlation suggested that civil service quality was not improving in places getting lending for that purpose. Also, the AAA on civil service and administration was scarce compared to PFM and had a much less developed analytic framework. By the mid 2000s, the Bank's strategy on civil service and administration shifted toward an emphasis on improved procedures for recruiting and promotion to key positions (rather than across the board), which had more political acceptability and was motivated more directly by service delivery results, rather than aggregate fiscal needs. The benefits of this shift in strategy have yet to show up in aggregate indicators of country performance, such as the CPIA.

**The Bank has increased its level of support for civil service reform in recent years**. Civil service and administration lending averaged about 51 percent of PSR lending in FY08–10, compared with 40 percent in 2005–07. In recent years, the Bank developed several new tools to support its efforts. These include an instrument for capturing evidence on multiple dimensions of the design, implementation, and performance of human resource management systems (380 questions) that has been agreed to with other donors active in civil service reform (OECD, European Commission, and U.K. Department for International Development) in an effort to establish an industry standard for such evidence. It has been piloted in 11 countries, with favorable reactions, although the demand for civil service assessments has not grown strongly in other countries.

### *Effectiveness of the World Bank Group*

**Recent evaluations indicate continued difficulties in achieving civil service reform objectives.** Of the 46 countries getting loans for civil service reform in 2007–09, only 13 percent had improved CPIA ratings for civil service and administration, and 9 percent worsened. Over three-fourths of the countries getting lending for civil service and administration had no change of CPIA in that area between 2006 and 2009. Recent country evaluations also indicate underachievement of objectives related to civil service and administration. Among recent country program evaluations, five of the six ratings for the civil service subpillar were unsatisfactory. In most cases, progress was very slow or partial, such as in Cambodia. In Pakistan, little was achieved, except for some improvements in financial reporting. Past evaluations point to several factors behind the limited degree of success. Civil service reforms are politically sensitive, and high-level commitment to fully implementing them often wavers. In addition, civil service reforms are often outside the control of the Ministry of Finance, and effective implementation requires a broad consensus that is usually not present. Progress has also depended on the broader labor market, as civil servants have voluntarily left and created space for reform when new jobs have been created in the private sector.

## Public Financial Management

### *World Bank Group Approach and Activities*

**Improvements in PFM aim to increase the efficiency of public expenditure.** Improvements in PFM aim to give managers within the public sector better information with which to manage the operations of their units, make procurement more cost effective, improve management of government personnel, and improve the transparency of public finances. As such, they are a potential tool to reduce corruption. Tax administration reform is closely related to financial management and serves to improve the reliability of resource flows into the financial management process. Most Bank support for PFM and tax administration centers on the Ministry of Finance, although some efforts are aimed at strengthening parliamentary and audit oversight to improve the transparency and accountability of the executive branch. The Bank-supported Extractive Industries Transparency Initiative (EITI) aims to contribute to improved financial management and reduced corruption by increasing public knowledge of natural resource revenue collection. Municipal governments are another important locus of governance issues, and IFC has provided support for their financial management systems, especially for planning, monitoring and evaluation, and public access to information.

**There has been a sharp growth in loans for PFM and tax administration.** Most Bank public sector management loans, especially DPLs, now address PFM issues—85 percent of the total.[2] The number of loans with PFM components increased by almost half around 2005. A recent evaluation of Bank lending to state-level government found that lending at the state level had a common substantial focus on PFM, including on enhancements in tax capacity, modernizing the tax structure, developing a sustainable fiscal policy and medium-term expenditure framework, and improving budget and expenditure management. Lending for tax administration reform also increased in 2007–10, compared to earlier years. The increase in coverage of PFM issues can be partly attributed to more in-depth treatment of PFM in the Bank's AAA. In particular, the actionable indicators in public expenditure and financial accountability studies almost automatically generate a list of potential prior actions and a list of technical assistance needs that can be the basis for Bank lending interventions. There have been fewer freestanding fiduciary reports (Country Procurement Assessment Report, Country Financial Accountability Assessment, and Accounting and Audit reports), which have mostly been consolidated as integrated assessments, often part of Public Expenditure Reviews. To better coordinate PFM activities and the reforms for civil service, the Bank also created the Financial Management Information System Database.

### *Effectiveness of the World Bank Group*

**The past pattern of relatively positive results for PFM has continued, although considerable challenges remain in improving PFM.** Among IEG's recent country program evaluations, seven of nine assessed outcomes of PFM activities as satisfactory. IEG in-depth evaluations of PSR projects in Burkina Faso, Georgia, and Kazan (Russia) found positive results for the PFM parts of the PSR program. One factor behind the relative success of Bank-supported PFM and tax administration reform was that both were directly under the Ministry of Finance. This limited the need for broader consensus building among multiple public agencies and facilitated management of the pace and scope of reforms. Moreover, the Ministry of Finance had strong inherent incentives to enhance revenues and manage them with more technical efficienc**y.** Notwithstanding these relatively good outcomes to date, most countries still need substantial improvements in public financial management. In 2009, the average CPIA PFM score was only 3.4, and only 46 of 137 countries had ratings of 4.0 or better, which, according to the CPIA criteria, is the level at which PFM can have a noticeable positive effect on the overall performance of the public sector.

**Progress in PFM has been achieved even in countries where there has been little broader progress on public sector management.** In several country programs, while progress toward the overall PSR goals was modest, good progress was seen in specific areas of PFM. In The Gambia, for example, although the program-based budgeting target was not met, good progress was made in carrying out PFM reforms, with passage of a Budget Management and Accountability Act, introduction of an integrated financial management information system, and the production of annual reports on budgetary execution. In Cameroon, although indicators of the quality of the Public Expenditure Management System as defined in the tracking action strategy for the Highly Indebted Poor Countries Initiative showed almost no improvements, good progress was made in several PFM areas, including making the budget more inclusive, developing medium-term expenditure frameworks for selected ministries, improving fiscal reporting, and establishing a new procurement code.

**A few examples indicate positive IFC contributions to municipal capacity development, although the evaluated sample is small.** In Peru, use of IFC's advisory services to strengthen municipal capacity had positive demonstration effects. In 2004, IFC was approached by some of its mining company clients for assistance in helping municipal governments better spend revenues in order to alleviate pressure from local communities and broaden the benefits of the mining operations. IFC responded with a series of capacity-building initiatives to help municipal governments better manage public expenditures, improve financial management, and increase public oversight. Results in several projects were positive, and IFC has since sought to institutionalize this approach by creating a common platform so that more local governments can avail themselves of these services. IFC's role in this area reflected a relatively unique position as a partner of the major mining companies (which had a vested interest in seeing municipal governments spend more effectively) as well as a member of the WBG, with the capacity to approach and work with municipal governments.

## Anticorruption and Transparency

### *World Bank Group Approach and Activities*

**In recent years, the Bank has sought to mainstream anticorruption activities into all aspects of its work.** The negative effects of corruption on managing public finances and personnel, on service delivery, and on the judicial system are well established (World Bank 1997, 2007b). The Bank's approach has aimed to tailor anticorruption measures to country circumstances.[3] However, it has been difficult to design effective measures to address country-specific problems with corruption and transparency. At the country level, the Bank is helping strengthen institutions of accountability, focusing on access to information and transparency. Aside from Bank lending operations with anticorruption measures, the WBG supports the anticorruption agenda through AAA, support for ICT, and IFC advisory services aimed at promoting good corporate governance in the private sector.[4]

**The Bank has recently launched several initiatives related to anticorruption and transparency.** In collaboration with other development partners, in 2008 the Bank launched an initiative to build capacity and promote effectiveness of anticorruption authorities. In parallel to the development and launch of the Actionable Governance Indicators Data Portal, the Bank has continued to support the implementation of detailed Governance and Anticorruption Diagnostic Surveys aimed at identifying priorities for anticorruption efforts. Detailed analyses were conducted in several countries in Africa and the Middle East (Cameroon, Côte d'Ivoire, Mauritania, Morocco, Senegal, and the Republic of Yemen). A new Preventive Services Unit within the Department of Institutional Integrity now works with some Bank teams to identify and address risks of corruption during project preparation. The WBG has also continued to support the EITI (first announced in 2002) and EITI++ initiatives. Other multistakeholder initiatives the Bank is engaged in include the Construction Sector Transparency Initiative, the Medicine Transparency Alliance, and the recently integrated Forest Law Enforcement and Governance and Program on Forests initiatives.

**IFC investment projects and advisory services operations aim to promote good corporate governance practices.** Improving corporate governance in the private sector not only benefits the private economy but can also help increase demand for good public governance and reduce bribery (North and others, forthcoming). Stronger rule-based institutions in the public sector do not arise in isolation, but rather evolve out of symbiotic relationship with a growing number of rule-based institutions in the corporate sector. Simplifying regulation, as part of the Doing Business agenda, and improving the government's regulatory capacity could potentially reduce the opportunity for bribery and help focus the attention of the public sector on service delivery. In addition, IFC identifies improving corporate governance as part of its intended contribution to the project in many of its investments.

### *Effectiveness of the World Bank Group*

**Country evaluations indicate shortfalls in achieving anticorruption objectives.** Among the recent country evaluations, the achievement of anticorruption objectives was unsatisfactory in 7 of 10 counties. The impact of PSR AAA on governance is hard to evaluate. The IEG evaluation of economic and sector work and technical assistance did find that the latter usually had an above-average effect in building capacity or strengthening institutions, according to a survey of users (IEG 2008c). Country evaluations suggest that successes in civil service reform and in improving transparency have often come through reforms linked with improved financial management—such as payroll reforms, improved auditing, and making public finance information more available to citizens and the press. The relatively limited results suggest that the Bank has not yet found a way to make interventions to reduce corruption more effective. The Multi-Donor Trust Fund for EITI has contributed to getting over 21 countries to pilot the reporting of revenue from extractive industries, exceeding its target of 5–10 countries. Although the program has advanced its narrowly defined goal of greater transparency on revenue collection, an IEG review of the program did not find clear evidence of its meeting higher order goals to help address consequences of the resource curse and achieve tangible benefits, such as improved revenue management and reduced corruption (IEG 2011g).

**IFC helped establish good corporate governance codes in seven Middle East and North Africa countries.** Eleven IFC advisory services operations in corporate governance were completed and evaluated in FY08–10. Nine projects achieved high development effectiveness, although it was too early to judge the project impacts in the other two. With IFC's involvement and advice, national corporate governance codes were developed and adopted in several countries in the Middle East and North Africa Region (Algeria, Morocco, Qatar, Syria, Tunisia, and the West Bank and Gaza) as well as in Bulgaria. The relatively high degree of success was driven by government interest in and commitment to promoting corporate governance, effective use of IFC's toolkit on the development of corporate governance codes, and IFC's efforts to raise awareness on benefits of good corporate governance. IFC also assisted several private companies and banks in the Middle East and North Africa Region in assessing corporate governance performance and implementing improvement plans.

## Access to Legal Recourse

### *World Bank Group Approach and Activities*

**Improving access to justice services has broad potential implications for individuals, governance, and the business environment.** Although many Bank-supported reforms involve changes in the law, the legal-judicial part of PSR focuses on improving the processes of the judicial system per se: administering caseloads and services of courts, improving the physical infrastructure of the courts, making legal information more available and understandable, training legal professionals, and supporting nonjudicial justice agencies (nongovernmental organizations, arbitration centers). These measures aim to benefit citizens directly by reducing crime and widening the spectrum of those with access to justice services. They also improve the private sector investment climate with more efficient resolution of disputes over contracts, government regulations, and taxes. Legal and judicial reform also supports other elements of the governance reform agenda, especially anticorruption, tax administration, and corporate governance.

**Bank work in justice reform has been growing modestly since the 1990s.** The Bank has been building a portfolio of projects aimed primarily at improving justice systems and has also generated knowledge and provided advice to client countries on how to build and improve justice institutions. A range of challenges in further developing WBG support in access to justice services exists, however, as summarized in a 2010 report from the Legal Department. Questions persist on what value the Bank adds in law and justice reform and how it can best engage in the risky, long-term projects. The Bank does not have an institutional center for its work in the area, and staff who work in the justice area are scattered across three sectoral, three central, and all six regional units, the World Bank Institute, and IFC. This has raised questions about consistency, coordination, policy formulation, portfolio monitoring, and quality assurance. The level of Bank support for justice systems has varied according to country demand as well as task managers' entrepreneurship. The number of new projects with substantial justice sector components declined from 22 in 2006–07 to 8 in 2008–10. Four reports in FY07–10 focused on reviews of legal and judicial systems in particular countries.

**IFC has engaged in efforts to establish and develop alternative dispute resolution (ADR) systems for the private sector.** The ADR interventions aim to support implementation of more efficient, less expensive conflict resolution mechanisms for businesses in emerging economies. The I FC's ADR activities have been relatively limited. Thirty projects (including 19 stand-alone ADR projects) implemented in FY06–10 had ADR components.

### *Effectiveness of the World Bank Group*

**Bank-supported justice reform projects have had some success, but some have focused mostly on basic physical outputs**. Recent in-depth IEG project evaluations indicate some successes in improving access to justice services under Bank-supported projects (IEG 2010d). In Ecuador, for example, a Bank-supported intervention was found to have helped "rationalize management, human resources allocation, and even the quality of judicial decisions." Moreover, the program exceeded expectations with regard to the number of women users and improved access to justice for poor women in a sustainable manner. In Guatemala, a project helped increase judicial coverage in areas previously least well served by the justice system. There was also a favorable redistribution toward those regions that had the largest proportion of indigenous communities. However, among five recent country program evaluations that assessed justice sector interventions, outcome ratings were unsatisfactory in three (Georgia, Mozambique, and Uganda), and satisfactory in two (Bangladesh and Peru). According to the evaluations, some Bank interventions have been largely focused on physical outputs, such as constructing court facilities. In Georgia, for example, the evaluation found that although outputs were delivered in the judicial sector, there was little concrete indication that they led to improved functioning of the judicial system (IEG 2008e). It is too early to judge results from the portfolio of IFC's

ADR projects, as the product is still under development, but initial outcomes have been positive based on the evaluations of two recently closed projects.

# Chapter 6
# Development Effectiveness by World Bank Group Institution

## Development Effectiveness of the World Bank

**Country and project outcome ratings show the highest WBG successes among interventions to help expand economic opportunities.** Country programs represent the WBG's support to help individual countries advance their development objectives. Reviews of the 64 CAS Completion Reports (CASCRs) found that overall country program objectives were substantially achieved in 58 percent of them. Outcome ratings were highest in the pillar aimed at enhancing economic activities (69 percent). WBG project outcome ratings also show high rates of success among projects aimed at expanding economic opportunities: 80 percent were satisfactory in the Bank; the proportion of IFC-supported projects with successful development outcomes rose from 63 percent in 2005–07 to 73 percent in 2008–10; and 70 percent of MIGA-supported projects evaluated in FY09–11 had successful development outcomes.

**Overall outcome ratings of Bank-supported projects in FY08–10 were similar to those from FY05–07.** Among Bank-financed projects that exited the portfolio in FY08–10, 76 percent had satisfactory outcome ratings, compared with 79 percent in FY05–07.[1] By region, project outcome ratings were lowest in The Middle East and North Africa and Africa. In the former Region, outcome ratings dropped from 82 percent satisfactory in FY05–07 to 54 percent in FY08–10. In Africa, the proportion of satisfactory projects remained stable at 68 percent satisfactory between the two periods. Sectors with the lowest proportion of satisfactory projects were education, energy and mining, and HNP. In education, the proportion of satisfactory projects dropped from 79 percent in FY05–07 to 58 percent in FY08–10. Project evaluations show repeating patterns of the following factors among unsuccessful projects: overambitious designs, weak results frameworks, weak implementation capacity, lack of government ownership, and changes in government during implementation.

**Table 6.1. Bank Outcomes and the Quality of Public Sector Effectiveness**

| | FY05–07 | | FY08–10 | |
|---|---|---|---|---|
| | NUMBER EVALUATED | PERCENT SATISFACTORY | NUMBER EVALUATED | PERCENT SATISFACTORY |
| **Countries with low CPIA (< or = 3.2)** | **201** | **71%** | **149** | **66%** |
| **Countries with medium or high CPIA (>3.2)** | **592** | **82%** | **347** | **79%** |

*Source:* IEG, World Bank CPIA data.
*Note*: Both periods are significantly different at a 5 percent confidence interval.

**Outcome ratings for Bank-supported projects are higher in countries with better public sector effectiveness.** CASCR Review outcome ratings were correlated with the quality of public sector management and institutions in the country (as measured by CPIA data) but not with country income levels (as measured by GDP per capita).[2] Only 21 percent (4 of 19) of programs in countries with low CPIA public sector management scores (3.2 or less) had satisfactory country program outcome ratings, compared with 75 percent in countries with moderate to high CPIA scores (above 3.2). Project outcome ratings were also lower in countries with low public sector effectiveness. Table 6.1 shows that project outcome ratings in countries with low-quality public sector management and institutions were consistently lower than those in countries with higher-quality public sector management and institutions (significant at 95 percent confidence interval).

**Country program outcome ratings are consistently lower than project outcome ratings, and future work could usefully examine this further.** Achievement of objectives at the country program level was lower than project-level outcome ratings (Table 6.2). This trend has been observed in past country program evaluations, where despite a relatively high proportion of projects with satisfactory outcomes, the outcome of the country program has been rated less than satisfactory. The divergence between country and project ratings can result from many factors. Some hypotheses include the selection of broader objectives and outcome targets in country programs that are more difficult or take longer to be achieved; CAS objectives that are more subject to factors beyond the control of WBG than project objectives; the combination of various instruments (lending, AAA, policy dialogue, and coordination with other stakeholders) reflected in country programs in contrast to projects that are more focused, stand-alone operations; or the selection of relatively easier "low hanging fruit" objectives for projects rather than addressing more challenging development constraints in the country. These explanations remain largely speculative, however, and to date little effort has been devoted to examining how development outcomes as defined at the country program level relate in practice to development outcomes as defined at the project level. It has not been clearly established if there is a stable relationship between the two or that it is robust across countries and over time. Future work could usefully examine this question further.[3]

**Table 6.2. Summary of World Bank Group Development Outcome Ratings**

| *Objective* | *Number* | *Percent* | *Number* | *Percent* |
|---|---|---|---|---|
| **COUNTRY PROGRAMS (PERCENT SATISFACTORY)** | | | | |
| **Overall outcome** | | | **FY08-11** | |
| | | | **64** | **58** |
| Expanded economic opportunities pillar | | | 64 | 69 |
| Enhanced human development pillar | | | 64 | 67 |
| Mitigation of socioeconomic and environmental risks pillar | | | 58 | 60 |
| Improved public sector management pillar | | | 58 | 47 |
| **WORLD BANK PROJECTS (PERCENT SATISFACTORY)** | | | | |
| **All evaluated Bank projects** | **FY05-07** | | **FY08-10** | |
| | **817** | **79** | **517** | **76** |
| Expanded economic opportunities | 415 | 82 | 248 | 80 |
| Enhanced human development | 202 | 73 | 129 | 67 |
| Mitigation of socioeconomic and environmental risks[a] | 126 | 87 | 84 | 74 |
| Improved public sector effectiveness | 74 | 69 | 56 | 77 |
| **IFC PROJECT DEVELOPMENTS (PERCENT SUCCESSFUL)** | | | | |
| **All evaluated IFC projects[a]** | **CY05-07** | | **CY08-10** | |
| | **174** | **63** | **220** | **73** |
| Expanded economic opportunities | 165 | 63 | 210 | 72 |
| *Financial sector* | *67* | *72* | *97* | *69* |
| *Infrastructure* | *37* | *68* | *38* | *76* |
| *Real Sector[a]* | *61* | *51* | *75* | *75* |
| Enhanced human development | 9 | 67 | 10 | 80 |
| **MIGA PROJECTS (PERCENT SATISFACTORY)** | | | | |
| **All evaluated MIGA projects** | | | **FY09-11** | |
| | | | **17** | **70** |
| Expanded economic opportunities | | | 17 | 70 |
| *Financial sector* | | | *5* | *80* |
| *Infrastructure* | | | *5* | *60* |
| *Real sector* | | | *7* | *71* |

*Source:* IEG.
*Note*: Ratings are by number of projects.
a. Trend is statistically significant at p <= 0.05.

**Both country program and Bank-supported project outcome ratings were low in the Middle East and North Africa Region.** Outcome ratings in the Region were low, as indicated by both country evaluations (four of six country programs unsatisfactory) and project outcome ratings (26 of 48 unsatisfactory). The lower ratings were associated with low quality of public sector management and institutions among Middle East and North Africa countries: in 2008, 7 of the 10 (70 percent) countries had low CPIA ratings for public sector management and institutions (less than 3.2), compared with 42 percent across Bank member countries and 56 percent (5 of 9) of Middle East and North Africa countries in 2000–02. Outcome ratings in the Region were also lowered by four unsuccessful operations in Iran that were undermined by factors such as international sanctions that complicated implementation of projects and lack of both Bank staff and government counterpart familiarity with each other's policies and procedures. In Algeria, all three projects were unsatisfactory, undermined by a loss of government commitment to projects after the oil price increases after 2005.

**Evaluations identify an important Bank role in FCSs.** Project outcome ratings in FCS do not show significantly worse outcome ratings than those of other countries: 70 percent were satisfactory, compared with a Bank-wide average of 76 percent. Among a small sample of country programs in FCS, two of five had satisfactory outcome ratings. Evaluations indicate that although risks are higher, the Bank can play a key role in FCS. In the West Bank and Gaza, the Bank played an "important and irreplaceable" role throughout the 2001–09 review period and was widely credited with keeping the main state institutions afloat during the worst crises. In Timor-Leste the Bank worked closely with the donor community and helped realize positive outcomes in several areas during the early reconstruction period, often under challenging conditions. The Bank's experience in Lebanon indicated that it can remain a valid development partner during very difficult times, helping rebuild after conflict while encouraging the country to keep its long-term development challenges in sight. In Sierra Leone, the Bank effectively used both investment loans and DPLs to advance the decentralization agenda and build capacity for improved budgeting and better PFM.

**Over the longer-term, Bank-supported project ratings rose between 1987 and 2006, but they have declined moderately since 2006.** Using a moving average—which smoothes out year-to-year fluctuations—the proportion of satisfactory project outcome ratings improved between 1987 and 2006, peaked in 2006, and has declined since then. Since the FY06 peak, the percentage of satisfactory projects declined from 83 percent to 74 percent in FY09. Sufficient data are now available to establish that the decline between 2006 and 2009 is statistically significant. Two possible factors behind the decline include first the lower performance in specific sectors, particularly human development. Second is the rise in additional financing operations from 13 in FY06 to 82 in FY09. Because projects selected for additional financing tend to be better projects, and their closing is delayed, it is possible that increased use of additional financing served to lower the quality of the pool of projects that closed in 2009. All of the additional financing operations in 2009 were selected from parent projects with satisfactory or better supervision ratings. Therefore, it is plausible that the rise in additional financing explains some of the decline. Nevertheless, simulations suggest that the size of the impact is on the order of one or two percentage points, so additional financing cannot explain the full decline.

**Economic rates of return (ERR) for Bank-supported projects have also risen over several decades.** The ERR is the interest rate that, when applied to discount benefits, equates the present value of benefits and costs. Hence, a higher ERR means higher benefits relative to costs. ERRs are typically calculated for projects in agriculture, energy and mining, transport, and water. In FY08 ex post ERRs were calculated for 56 projects in 8 sectors. ERRs have risen from a median of 12 percent in the early 1990s to 25 percent in recent years. A median ERR of 25 percent is a high rate of return in any line of business or public investment. IEG's evaluation of cost-benefit analysis in Bank-supported projects (IEG 2010c) stressed that it would help decision making and learning if such figures were subject to a robust process of vetting and confirmation, especially given the magnitudes of recent estimates.

**The rise in ERRs and the rise in outcome ratings of Bank-supported projects since 1987 appear to be linked.** The long-run rise in Bank-supported project performance since 1987 occurred mostly among projects in sectors where ERRs are calculated (agriculture, energy and mining, transport, and water). When projects are divided simply into those that have an ERR calculated (at appraisal, at closing, or both) and those that do not, there has been a sharp difference in the performance increase since 1987. This evidence suggests either that the rise in ERRs is behind the rise in performance ratings, or alternatively, that good metrics are associated with better outcomes as the metrics enable better learning over time.

## Development Effectiveness of IFC

**IFC-supported project development outcome ratings have improved overall.** Of the 2008–10 cohort of evaluated projects, 73 percent had satisfactory development outcome ratings, compared with 63 percent in 2005–07. Within regions a high proportion of successful outcome ratings were seen in Latin America and the Caribbean (81 percent satisfactory) and the Middle East and North Africa (80 percent). In Africa, the proportion of projects with successful outcome ratings was 74 percent in 2008–10. The improvement in the Middle East and North

Africa, a region with historically low outcome ratings, has been an important achievement. Africa and the Middle East and North Africa are now the fastest growing regions for IFC business, as well as among the better performing ones. It is unclear at this stage, however, what the impact of the political turmoil in the Middle East and North Africa might be on IFC clients and project development outcomes. In Africa, a higher number of repeat projects, improving business climates, and strengthening financial sectors underpin outcome ratings. There was no statistically significant difference in development outcomes between loan or equity-financed projects. Among the sample of equity-only investment projects in 2008–10, 63 percent had successful development outcomes, compared with 76 percent for projects financed by loans only.

**Development outcome ratings in** the Middle East and North Africa **have improved.** The proportion of successful projects in the Region increased from 38 percent in 2005–07 to 80 percent in 2008–10.[4] The improved performance can be explained by both external and internal factors. Some countries in the region enjoyed strong economic growth before the financial crisis, and even after the crisis, many countries in the region benefitted from high oil revenues. Some governments, such as Egypt, had made significant progress on privatization and liberalization reforms. The region was on its way to economic recovery in the post-global financial crisis context, although the affect of the recent political events across the region remain to be seen. As discussed below, several factors internal to IFC also help explain the relatively high level of development outcomes in the Middle East and North Africa.

**Outcomes in** the Middle East and North Africa **and Africa were positively affected by improved work quality.** The Risk-Adjusted Expected Development Outcome distinguishes two types of factors that influence the project outcomes. Those external to IFC (notably country risk, sponsor risk, and product market risk) and those internal to IFC (the quality of IFC's work in project appraisal and structuring, project supervision, and additionality). By distinguishing these two factors, the Risk-Adjusted Expected Development Outcome analysis focuses on the factors over which IFC has direct influence, namely IFC work quality (see Appendix 5 for methodology and full results). IEG's analysis found that even after adjusting for other risks, IFC's estimated potential for success was not achieved in Africa and the Middle East and North largely because of shortcomings in work quality (IEG 2010, footnote, p. 91). However, the latest results indicate that the gap between potential and actual outcomes narrowed in these regions as a result of improved work quality.

**It remains too early to observe trends in IFC advisory service project outcomes given the relatively recent establishment of systematic evaluation.** IEG's review of IFC advisory services project completion report began in 2008. Based on the initial three-years of results in 2008-10, the proportion of satisfactory development effectiveness ratings for IFC's advisory services evaluated was 64 percent. By business line, the proportion of satisfactory development effectiveness was: 74 percent for Access to Finance, 64 percent for Investment Climate, 62 percent for Sustainable Business Advisory, and 42 percent for Public-Private Partnerships. Strategic relevance measures the importance of the advisory services project to achieving specific country, sector, corporate, or global priorities; the project's appropriateness at both initiation and completion; and whether IFC advisory services was the appropriate instrument. Successful ratings for strategic relevance dropped from 87 percent in 2008 to 73 percent in 2009–10. Changes in the external environment were partly responsible for this decline, as circumstances changed as a result of the global finance crisis.

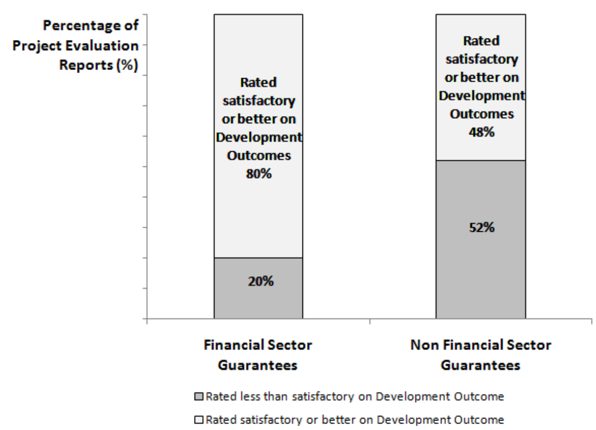
## Development Effectiveness of MIGA

**The sample of evaluated MIGA-supported projects cannot be extrapolated to its portfolio as a whole.** IEG completed 17 ex post evaluations (Project Evaluation Reports, or PERs) of MIGA-guaranteed projects in FY09–11. About half (53 percent) of these projects were underwritten by MIGA in or after FY05 (more recent projects) and the rest in FY98–04. Findings on financial sector projects are based on a different database.[5] It is important to note that these performance ratings cannot be extrapolated to MIGA's portfolio as a whole, as the project evaluation database covers too narrow a range of projects to make statistical inferences at the portfolio level. Therefore, these findings only strive to find "common patterns" and "success factors" among the evaluated MIGA-supported projects.

**Successful development outcome ratings among MIGA-supported projects were linked with more experienced investors.** Over two-thirds (70 percent) of project evaluations completed in FY09–11 had satisfactory outcome ratings.[6] Satisfactory outcome ratings reflected positive broader contributions to PSD, with 88 percent of projects rated as satisfactory on contribution to PSD. Development outcome ratings also reflected positive business performance and economic sustainability, with 76 percent of the 17 projects rated as satisfactory in these areas (IEG 2010a). Successful outcomes were linked with more experienced investors. Almost all projects with successful development outcome ratings had sponsors and project managers with previous experience in the host country or in another developing country. Projects with better outcome ratings also tended to have sound business models that included in-depth knowledge of customers, a solid marketing plan, and use of appropriate technology.

**Financial sector project evaluations had higher development outcome ratings than in other sectors**. Eighty percent of evaluated financial sector projects were rated satisfactory on development outcome, higher than nonfinancial sector projects (Figure 6.1).[7] Although projects evaluated in the financial sector have demonstrated the best development outcome ratings, the majority of infrastructure projects reviewed (60 percent) also had satisfactory or better development outcome ratings. This outcome is similar to the entire cohort of projects evaluated in FY09–11, where 70 percent had satisfactory development outcome ratings. All infrastructure projects were rated satisfactory or better with respect to PSD, and four of five were rated satisfactory with respect to both business performance and economic sustainability. Outcome ratings among real sector projects were slightly better than those in infrastructure. Among seven real sector projects evaluated by IEG (in mining, manufacturing, agribusiness, and services), 71 percent had satisfactory or better development outcome ratings.

**Figure 6.1. Project Development Outcome Ratings**




*Source:* IEG.

**Projects with low development outcome ratings had weak business performance**. Projects that had unsuccessful development outcome ratings tended to have low business success as a consequence of flaws in the project design. Examples of flawed project designs (identified in the 2010 IEG report *Achieving Value-Driven Volume: MIGA's Development Results and Institutional Effectiveness – 2010*) include relying on old and inappropriate technology; a credit line to a participating financial institution that had excess liquidity and thus did not disburse; a joint venture agreement with unbalanced risk sharing between the investor and government, leading the government to abandon it prematurely; and a renewable energy project whose concession area was nearly depleted (IEG 2010a).

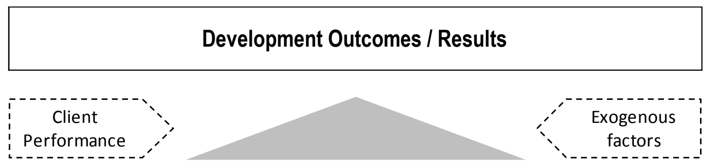
# Chapter 7 Institutional Determinants of Development Effectiveness

## Introduction

**A range of factors within the control of each institution can influence the development outcomes of its interventions.** Outcomes of WBG interventions can be a function of three factors: the WBG's management of factors within its own control or "institutional performance"; the client's management of factors in its control (government, private sector client); and external factors, such as exogenous shocks or the performance of other partners. At its broadest level, "institutional performance" within each institution consists of the strategic objectives the organization pursues; its priorities and deployment of resources; how it delivers its services and products; which organizational structures, management systems, and incentive frameworks it adopts; how it deploys its internal financial and human resources to best achieve its mission; and how it leverages its activities through coordination and partnerships across the WBG and with external parties. A conceptual framework that broadly illustrates the factors that make up institutional performance is presented in Figure 7.1 (IPDET 2010; Universalia; Saloner, Shepard, and Podolny 2006; Kaplan and Norton 2000). Although this report identifies a comprehensive assessment framework, it does not aim to provide an exhaustive analysis of all performance aspects. In this chapter, IEG identifies recent trends in resource allocations ("commitments" for the Bank and IFC and "guarantee issuance" for MIGA), selected institutional performance issues, progress on the results agenda, and the use of IEG lessons and recommendations.

**Each level of evaluation provides an assessment of "institutional performance."** Each IEG project, country program, and sector evaluation provides an assessment of *institutional performance*—factors in the control of the institution. Country and sector evaluations assess the performance of the institution based not only performance in designing and implementing projects but also on factors such as strategy development or the quality of its AAA. Bank project evaluations assess institutional performance (termed "Bank performance") based on the quality of performance at entry and the quality of performance during supervision. IFC-supported project evaluations assess institutional performance (termed "work quality") based on IFC's screening, appraisal, and structuring; supervision and administration; and role and contribution. MIGA-supported project evaluations assess MIGA's institutional performance (termed "MIGA effectiveness") based on the project's strategic relevance; MIGA's role and contribution; and MIGA's assessment, underwriting, and monitoring of the project.

**Figure 7.1. Institutional Performance as a Driver of Development Outcomes**




| Strategic Management | Program and Project Cycle Management | Organization and Incentives | Resources and Support Processes | Coordination and Partnerships |
|---|---|---|---|---|
| • Mission and Vision<br>• Strategy and Policy<br>• Strategic Leadership<br>• Allocation of Investment and Non-Investment Operations<br>• Results Monitoring and Reporting | • Additionality, Role and Contribution<br>• Planning, Assessing, Due Diligence, Underwriting<br>• Implementation and Monitoring of Programs and Projects | • Organizational Structure and Governance<br>• Incentives / Rewards<br>• Efficiency | • Human Resources Management<br>• Financial Management<br>• Infrastructure<br>• Management of Support Processes | • Internal WBG Coordination<br>• External Linkages and Partnerships |

*Source*: IEG.

**Bank and IFC project institutional performance ratings are positively correlated with project outcomes.** WBG projects that are rated satisfactory on *institutional performance* are more likely to achieve satisfactory project development outcomes (Table 7.1). However, the extent to which institutional performance ratings and project outcome ratings are correlated declines from the Bank to IFC, and a correlation was not established for MIGA. This might partly be explained by the degree of control that each institution exercises over a project. The Bank works closely with a government in designing and implementing a public sector project and has a considerable degree of influence at both the design stage and on the implementation of the projects through its supervision. While IFC, as a financier of a private investment project, has a say in the project's structuring and operation, its degree of influence might be less than that of the Bank. Many factors in the design and operation of the project remain in the hands of the private company. As a political risk insurer, MIGA typically enters a transaction toward financial closure, when many of the decisions relating to the project design and covenants with the financiers and the government have been concluded. Because it is neither a lender nor an equity holder, MIGA does not supervise projects and has minimal leverage with which to influence operations, other than through the contractual requirement to comply with E&S performance standards. It is interesting to note that although

Bank performance in operations (77 percent satisfactory) is very close relative to outcomes (76 percent satisfactory), there is a large gap in Bank performance in country programs and country program outcomes (73 percent versus 58 percent satisfactory). The difference points to a greater role of other factors (client performance and external factors) in influencing country program outcomes than Bank performance.

**Table 7.1. Institutional Performance and Project Outcome Ratings**

| | *Development outcome rating (percent satisfactory/successful)* | | |
|---|---|---|---|
| ***Institutional performance rating*** | ***World Bank (FY08-10)*** | ***IFC (CY08-10)*** | ***MIGA (FY09-11)*** |
| Satisfactory | 93<br>(n = 400) | 82<br>(n = 170) | 77<br>(n = 13) |
| Unsatisfactory | 17<br>(n = 117) | 40<br>(n = 47) | 50<br>(n = 4) |

*Source:* IEG.

## Recent Trends and Patterns in Operations

### THE WORLD BANK GROUP

**The financial crisis affected the activities of each WBG institution in different ways.** In FY09–10, following the onset of the crisis, Bank lending increased significantly, reaching a record high annual average commitment of $53 billion, compared with an annual average of $22 billion in FY01–08. The rise in demand for IBRD lending reflected a need for governments to signal that they had the capacity to intervene if needed as well as support for fiscal stimulus programs that ranged from shorter-term safety net programs to longer-term infrastructure development programs. During the same period, MIGA's annual volume of guarantees issued remained, on average, at the level of previous years (about $1.5 billion). However, its outstanding portfolio reached an all-time high of $7.7 billion at the end of FY10, reflecting a drop in the rate of cancellations. In the period of uncertainty immediately after the onset of the crisis, IFC's commitment volume declined to $8.6 billion from $10.4 billion between FY09 and FY08, but it recovered in FY10, reaching a record high of $11 billion. The financial instruments of all three institutions were concentrated in the Latin America and the Caribbean and Europe and Central Asia Regions: 43 percent of Bank lending, 46 percent of IFC investments, and 76 percent of MIGA issuance.

### WORLD BANK OPERATIONS

**Sub-Saharan Africa is the largest regional recipient of Bank nonlending support.** Between FY05–07 and FY08–10, the Bank's AAA funding increased by 14 percent to $671 million (Table 7.2). AAA funding was evenly split between economic and sector work and technical assistance. The share of trust funds in total AAA funding increased from 32 percent in FY05–07 to 39 percent in FY08–10. Among regions, one-quarter of AAA funding was in Africa, followed by East Asia and Pacific and Europe and Central Asia (14–16 percent). Among the networks, 33 percent of AAA funding was in Social Development followed by Poverty Reduction and Economic Management (30 percent) and Human Development and Finance and Private Sector Development (17 percent each). The three largest recipient countries were Indonesia (6 percent), India (3 percent), and China (3 percent). There has been increased use of the nonlending technical assistance instrument, which increased by 66 percent in FY08–10. The increase partly reflects increased use of the instrument in countries where governments are less willing to borrow for technical assistance. Close to 53 percent of total nonlending technical assistance funding in FY08–10 was from trust funds, and close to two-thirds of that funding in Africa was through trust funds.

**Bank lending commitments over the past three years have been dominated by the crisis response.** In FY08–10, Bank commitments increased to $133 billion from $73 billion in FY05–07. The increase, driven by the Bank's crisis response, was concentrated in Europe and Central Asia and Latin America and the Caribbean, where Bank lending doubled. Lending to middle-income countries, which were more affected by the crisis, rose by 80 percent, compared to a 40 percent increase in low-income countries. About half the commitments approved in FY08–10 were concentrated in nine middle-income countries: Brazil, China, Egypt, India, Indonesia, Mexico, Poland, Turkey, and Vietnam. The main sectors of Bank lending (by sector board) in FY08–10 were economic policy (17 percent), energy and mining (14 percent), and transport (13 percent). Additional financing to existing projects rose fivefold to $12 billion, and the volume of projects classified as "simple" and "repeater" almost doubled to $24 billion in FY08–10. The share of DPL lending increased to 36 percent of the total from to 28 percent in FY05–07. About $6 billion of Deferred Drawdown Option loans were approved in FY08–10.[1] There was a fourfold increase in Bank Financial Intermediary Loans. No LILs were approved in FY08–10.

**Several new Bank instruments and initiatives are being introduced.** A major effort is under way to reform the Bank's investment lending model so that it better responds to borrowers' needs and a changing global environment. The new approach includes a focus on results and risks, streamlined processing of low-risk operations, and more attention to implementation support and higher-risk investments. The Bank has proposed a new Program-for-Results lending instrument that it states responds to changing development needs and demand from client countries. This new lending instrument would link Bank financing to the achievement of results.

**Table 7.2. World Bank Operations, FY05–10**

| | *FY05–07* | | *FY08–10* | | *AFR* | *EAP* | *ECA* | *LAC* | *MNA* | *SAR* |
|---|---|---|---|---|---|---|---|---|---|---|
| | *Number* | *US$M* | *Number* | *US$M* | *US$M* | | | | | |
| **Lending projects total** | **1,096** | **72,912** | **1,258** | **133,103** | **26,118** | **20,496** | **24,378** | **32,789** | **7,925** | **21,371** |
| Expanding economic opportunities | 52 | 61 | 48 | 58 | 65 | 54 | 59 | 44 | 79 | 65 |
| Enhancing human development | 21 | 17 | 19 | 16 | 15 | 17 | 16 | 17 | 8 | 21 |
| Reducing vulnerability | 14 | 13 | 20 | 14 | 9 | 15 | 14 | 21 | 8 | 10 |
| Improving public sector effectiveness | 13 | 9 | 13 | 12 | 12 | 14 | 12 | 18 | 5 | 4 |
| **Nonlending projects total** | **2,913** | **588** | **3,075** | **671** | **160** | **113** | **95** | **65** | **65** | **61** |
| Expanding economic opportunities | 46 | 47 | 48 | 45 | 55 | 37 | 44 | 52 | 37 | 45 |
| Enhancing human development | 15 | 16 | 14 | 18 | 15 | 17 | 10 | 10 | 27 | 14 |
| Reducing vulnerability | 14 | 15 | 15 | 14 | 9 | 25 | 13 | 13 | 11 | 21 |
| Improving public sector effectiveness | 25 | 23 | 23 | 23 | 21 | 21 | 33 | 25 | 25 | 20 |

*Source:* World Bank.
*Note:* Figures show percentages unless in bold. The amount in US$ million refers to total commitment for Bank lending and total cost for Bank nonlending or AAA (from initiation to delivery). World region projects are not shown. Due to rounding, percentages may not add up to 100. **Regions:** AFR = Africa, EAP = East Asia and Pacific; ECA = Europe and Central Asia; LAC = Latin America and the Caribbean; MNA = Middle East and North Africa; SAR = South Asia.

Other new initiatives include the Bank Fellows program, which seeks to help "bring global expertise and world-class ideas to clients" by hiring eminent thinkers and doers in various fields on short assignments. The Rapid Resolution for Results is a new help desk facility to assist managers and staff resolve policy and procedural bottlenecks they face as they address operational challenges in FCSs. The new Access to Information Policy, which became effective on July 1, 2010, aims to position the WBG as a more open and accountable organization.

### IFC OPERATIONS

**Following a drop immediately after the onset of the crisis, IFC commitments recovered in 2010.** The global financial crisis affected IFC's commitment volume in the short term. IFC's commitment in FY09 declined to $8.6 billion from $10.4 billion in FY08, reflecting increased uncertainty and postponement of investment decisions following the onset of the crisis. However, volume recovered in FY10 and achieved record commitment levels of $11 billion (Table 7.3). In the past few years there have been significant changes in the regional distribution of IFC's commitments. Net commitment volume in the Middle East and North Africa and Africa Regions more than doubled between FY05–07 and FY08–10, and their share of IFC commitments rose from 9 percent to 12 percent in Middle East and North Africa and 12 percent to 17 percent in Africa. Associated with this shift was an increase in IFC commitments in IDA and IDA-blend countries—from 24 percent to 31 percent of total net commitments.

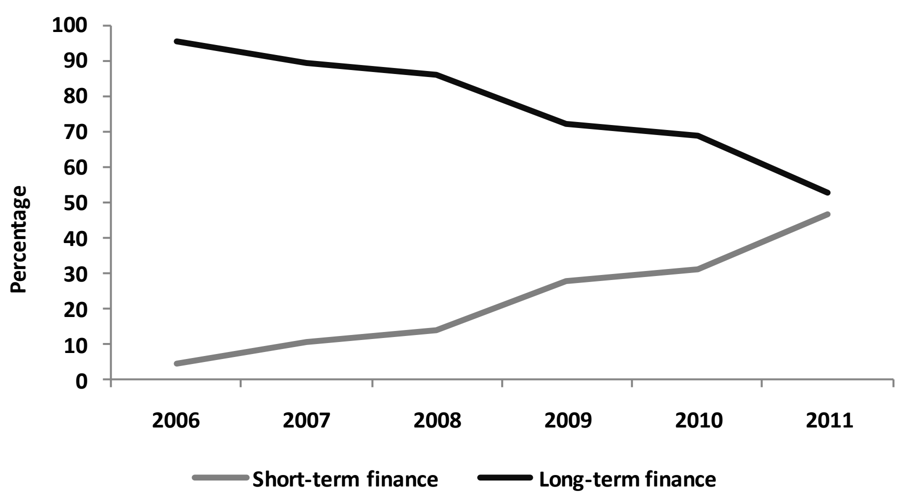
**Table 7.3. IFC Operations, FY05–10**

| | *FY05–07* | | *FY08–10* | | *AFR* | *EAP* | *ECA* | *LAC* | *MENA* | *SAR* |
|---|---|---|---|---|---|---|---|---|---|---|
| | ***Number*** | ***US$M*** | ***Number*** | ***US$M*** | ***US$M*** | | | | | |
| **IFC investment projects total** | **841** | **17,295** | **1173** | **31,490** | **5,227** | **3,655** | **6,811** | **7,616** | **3,754** | **2,967** |
| Expanding economic opportunities | 95 | 98 | 96 | 97 | 98 | 97 | 99 | 97 | 93 | 94 |
| *Financial sector* | *50* | *47* | *50* | *53* | *65* | *44* | *49* | *51* | *58* | *34* |
| *Infrastructure* | *19* | *22* | *21* | *24* | *17* | *34* | *19* | *31* | *21* | *35* |
| *Real sector* | *31* | *32* | *29* | *22* | *18* | *22* | *32* | *17* | *21* | *31* |
| **IFC advisory projects total** | | **295** | | **523** | **136** | **71** | **89** | **46** | **38** | **45** |
| Expanding economic opportunities | | na | | 80 | 77 | 83 | 76 | 94 | 86 | 91 |
| Enhancing human development | | na | | 3 | 8 | | 0.1 | 0.2 | 0.3 | 2 |
| Reducing vulnerability | | na | | 13 | 13 | 14 | 11 | 5 | 3 | 5 |
| Improving public sector effectiveness | | na | | 5 | 2 | 3 | 13 | 1 | 11 | 2 |

*Source:* IFC.
*Note:* Figures show percentages unless in bold. The amount in US$ million refers to total net commitment for IFC investments and total project expenditure for IFC advisory operations. World region projects are not shown. Because of rounding, percentages may not add up to 100. na = No breakdown is available for IFC advisory project expenditures in FY05–07 by this classification. **Regions:** AFR = Africa, EAP = East Asia and Pacific; ECA = Europe and Central Asia; LAC = Latin America and the Caribbean; MENA = Middle East and North Africa; SAR = South Asia. IFCs Middle East and North Africa Region includes Afghanistan and Pakistan, which are in South Asia in the Bank's Region.

**IFC's recent rapid growth in investment volume has been driven by a sharp rise in short-term trade finance products.** Several long-term trends exemplify a transformation in the nature of IFC's investment finance. In particular, the share of GTFP in IFC's total net commitments rose from 11 percent in 2007 to 31 percent in 2010 (Figure 7.2). There has also been a shift from project finance to corporate finance and investments in financial intermediaries. Traditional project finance now accounts for about a third of IFC's new commitments. In terms of the tenor of financing, the establishment and rapid growth of the GTFP led to a pronounced shift toward short-term financing, and short-term trade finance now accounts for a third of IFC's commitments. With banks less willing to assume the risk of corresponding banks in developing and risky markets, the demand for GTFP increased after the crisis. IFC increased the GTFP's authorized volume ceiling from $1.5 billion to $3.0 billion. The GTFP has provided a less capital-intensive mechanism through which IFC has been able to respond to client demand. At the same time, IFC recognizes that the GTFP will not provide long-term capital growth for IFC as the global markets recover.[2]

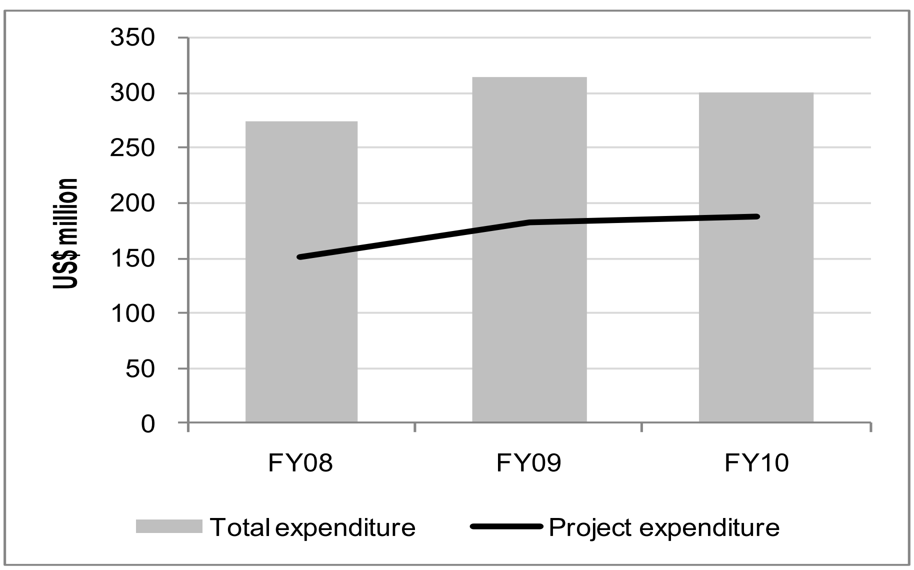
**Figure 7.2. IFC Long-Term and Short-Term Commitments (share of total), FY06–11**




**The mobilization of funds from other partners has received increased emphasis in recent years.** Increasing capital mobilization from the private sector and other partners has become a key part of IFC's strategy to leverage its own resources and increase its development impact. In FY09, IFC established the Asset Management Company, a wholly owned IFC subsidiary to act as a fund manager for third-party capital. As of March 15, 2011, the Asset Management Company had more than $4 billion of assets under its management in three funds: the IFC Capitalization Fund; the IFC African, Latin American, and Caribbean Fund (IFC ALAC Fund); and the African Capitalization Fund.

**Advisory services are an increasingly important portion of IFC's operations.** IFC's advisory services financing grew more than tenfold in expenditures and sixfold in staffing between FY01 and FY10. A decline in advisory services expenditures of 11 percent in 2010 compared to 2009 is mainly a result of a reduction in IFC's administrative and overhead costs. When administrative and overhead costs are excluded, project-level expenditures more than doubled from $88 million in 2005 to $188 million in 2010. This continued to grow during the same period, though the growth rate has been at a marginal rate in recent years (Figure 7.3 ). Advisory services have been the main vehicle for IFC engagement in the poorest countries and in those with more difficult business environments where investment opportunities are limited. IDA countries and AFR account for the largest share of advisory services expenditures. Other recent changes in IFC include the introduction and subsequent revision of IFC's performance standards, which marks a new approach to E&S stewardship in private sector investment; support for inclusive business models; and efforts to mainstream new approaches to cooperation with the Bank, particularly in IDA countries, including through the IDA-IFC Secretariat.

**Figure 7.3. IFC Advisory Services Total Expenditures from All Funding Sources and Project Expenditures, 2008–10**




*Source*: IFC.

#### MIGA OPERATIONS

**The volume of MIGA's issued guarantees has remained constant, although its outstanding portfolio has grown.** MIGA's annual volume of guarantees issued stayed fairly level over the past two years at $1.5 billion in gross exposure in FY09 and $1.4 billion in FY10, compared with an average of $1.3 billion annually in FY05–07. However, in FY11, MIGA issuance increased to $2.1 billion in new guarantees (Table 7.4). By the third quarter of FY11, MIGA had issued $1.3 billion in new guarantees. Although annual volume has remained fairly even, MIGA's total outstanding portfolio—a measure of its total coverage outstanding—continued to increase over the past few years, reaching an all-time high of $7.7 billion in gross exposure as of the end of FY10. Much of this can be attributed to the sharp drop in early cancellations of MIGA coverage during the crisis period—a result of the heightened risk perception of investors during crisis times.[3]

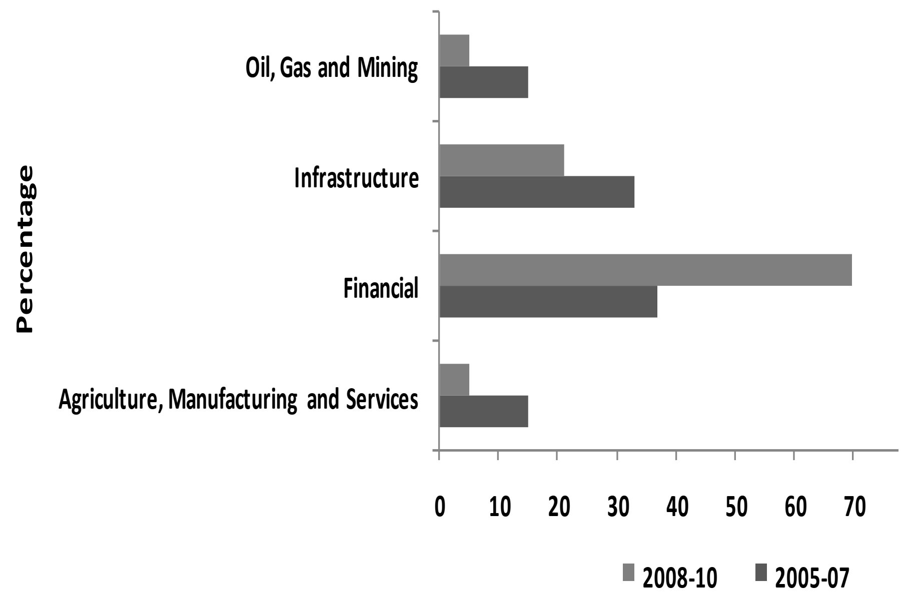
**Table 7.4. MIGA Operations, FY05–10**

| | *FY05–07* | | *FY08–10* | | *AFR* | *EAP* | *ECA* | *LAC* | *MENA* | *SAR* |
|---|---|---|---|---|---|---|---|---|---|---|
| | *Number* | *US$M* | *Number* | *US$M* | *US$M* | | | | | |
| **MIGA projects total** | **95** | **3,889** | **59** | **4,939** | **605** | **138** | **3,555** | **211** | **431** | |
| Expanding economic opportunities | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | |
| *Financial sector* | *39* | *37* | *53* | *70* | *3* | *27* | *95* | *9* | | |
| *Infrastructure* | *33* | *33* | *17* | *21* | *45* | *72* | *2* | *91* | *99* | |
| *Real sector* | *28* | *30* | *31* | *9* | *52* | *1* | *4* | | *1* | |

*Source:* MIGA.
*Note:* Figures show percentages unless in bold. The amount in US$ million refers to gross exposure for MIGA guarantees. Due to rounding, percentages may not add up to 100. **Regions:** AFR = Africa, EAP = East Asia and Pacific; ECA = Europe and Central Asia; LAC = Latin America and the Caribbean; MENA = Middle East and North Africa; SAR = South Asia.

**MIGA's recent guarantee issuance has focused on the Europe and Central Asia Region and IBRD countries.** The majority of MIGA guarantees issued between FY08 and FY10 supported mostly projects in that Region, both by volume (72 percent) and by number (41 percent of new projects). The second most prominent Region was Sub-Saharan Africa (by volume, 12 percent and by number, 39 percent). Given this focus it is not surprising that most MIGA guarantees issued between FY08 and FY10 supported investments in IBRD countries, in terms of both volume (77 percent) and number of new projects (49 percent).[4] By comparison, IDA countries accounted for 23 percent of guarantees issued (by volume) and 51 percent in numbers of new projects during the same period. Still, MIGA's portfolio is in relative terms more concentrated in IDA countries than overall investment flows, as MIGA issued 23 percent of its new guarantees to support projects in IDA countries, compared with 5 percent of all FDI flows to IDA countries. Similarly, MIGA's outstanding portfolio was "overweight" in IDA countries, with 26 percent of gross exposure in IDA countries in the strategy period, far more than IDA countries' share in the stock of FDI flows to developing countries.

**Figure 7.4. Composition of Gross Exposure Issued (percent), Selected Sectors and Years**




**Guarantees in the financial sector continue to represent the largest share of MIGA business by volume.** The financial sector accounted for 70 percent of the total volume of guarantees issued between FY08 and FY10, followed by infrastructure at 21 percent (Figure 7.4). This is a substantial shift from the previous three-year period (FY05–07), where financial sector guarantees comprised just 37 percent of total volume. The preponderance of financial sector guarantees can be seen in the context of the global economic crisis, which has heightened attention to MIGA's financial sector guarantees. (For details, see discussion of MIGA's crisis response in chapter 5). Infrastructure and other real sector guarantees have higher concentrations in Africa and IDA countries, particularly by number of projects supported. As opposed to the financial sector, where 17 percent of the number of projects in FY08–10 was in Sub-Saharan Africa, 40 percent of the number of infrastructure projects and 72 percent of the number of real sector projects were in this Region. With respect to IDA, 50 percent of the number of infrastructure projects and 83 percent of the number of real sector projects were in these countries, whereas just 30 percent of financial sector projects was in IDA countries.

**Modification of MIGA's Convention has broadened its product range.** Recent changes in MIGA's Convention and Operational Regulations have given the Agency an important opportunity to enhance its role, with new risk coverage and broader definition of eligible investments. In particular, the changes enable MIGA to insure freestanding debt as well as existing assets—removing two significant constraints to MIGA's ability to do business. Moreover, MIGA now offers coverage for a new type of risk: nonhonoring of sovereign obligations, which protects an investor against losses resulting from a government's failure to make contractual payment obligations. A project making use of these new instruments—such as the Otogar Baðcýlar-Ýkitelli-Olimpic Village metro project in Istanbul—was approved within a month of the Convention change, and by December 2010, two further transactions were approved and several definitive applications were submitted that would make use of the new offerings.

## Institutional Factors Affecting Outcomes

### THE BANK'S INSTITUTIONAL EFFECTIVENESS

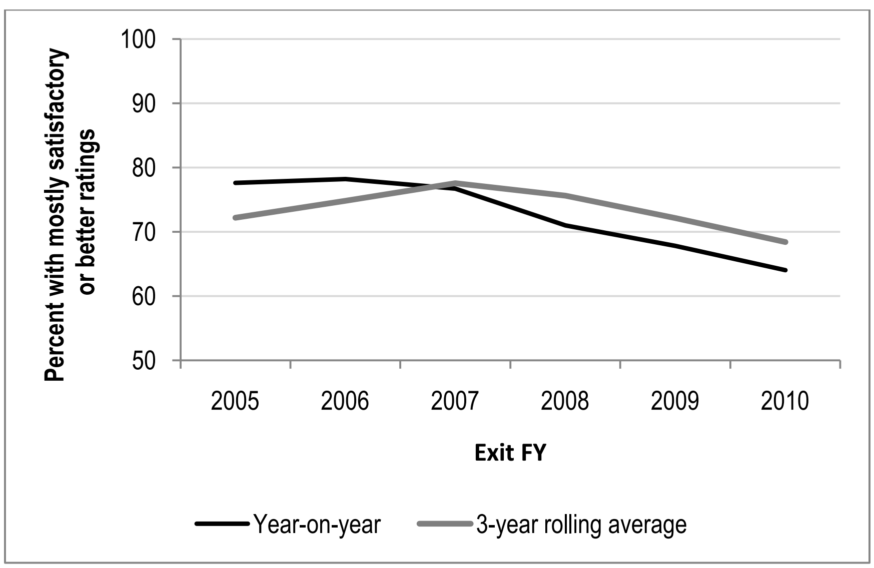
**Bank performance ratings in projects have been lower than in previous periods, particularly in the Middle East and North Africa Region.** Among projects that exited in FY08–10, Bank performance was rated satisfactory in 77 percent of projects, lower than the 82 percent satisfactory in FY05–07. The East Asia and Pacific Region had the highest proportion of satisfactory Bank performance ratings. In the transport sector in East Asia and Pacific, all 15 evaluated projects had satisfactory Bank performance ratings. The overall decline in Bank performance ratings in FY08–10 partly reflects lower ratings in the Middle East and North Africa Region (discussed below). Excluding projects in this Region, Bank performance increases to 80 percent satisfactory. IEG reviews of CASCRs in FY08–11 found Bank performance satisfactory in 73 percent of country programs.

**Among sectors, the water and transport sectors had the highest proportion of satisfactory Bank performance ratings.** Water sector board projects had a high proportion of satisfactory outcome ratings, particularly in the Europe and Central Asia and Latin America and the Caribbean Regions. The transport, economic policy, and agriculture and rural development sector boards each had 80 percent or higher satisfactory Bank performance ratings. Fifty-seven percent of education sector board projects had satisfactory Bank performance ratings, a 29 percent decline from FY05–07. Bank performance ratings at the institutional level, without education, would increase to 79 percent.

**Bank performance in LILs has been poor.** Among lending instruments, LILs (13 projects) had the lowest ratings on quality at entry with less than 40 percent of its FY08–10 exits rated satisfactory. Of the eight LILs rated unsatisfactory on quality at entry, five were in the education sector. Factors accounting for lower quality at entry ratings in LILs include little consultation with other donors during project preparation, overestimation of the capacity of implementing agencies, inadequately developed monitoring and evaluation systems, and poorly articulated objectives.

**Quality at entry ratings among projects evaluated in FY08–10 were lower than in the past.** Quality at entry was rated satisfactory in 68 percent of projects, lower than the 78 percent among projects that exited in FY05–07. Quality at entry was particularly low among completed projects in the Middle East and North Africa Region (49 percent satisfactory) and declined by 28 percentage points compared with FY05–07 exits. In Latin America and the Caribbean, quality of entry ratings dropped from 85 percent satisfactory in FY05–07 to 64 percent in FY08–10. Among the sector boards, quality at entry ratings in education projects declined from 78 percent in FY05–07 to 55 percent in FY08–10, mainly because of low ratings for projects in the Middle East and North Africa and Latin America and the Caribbean. Across sectors and regions, factors broadly accounting for lower quality at entry ratings included lack of clarity of objectives, poor results frameworks, inadequate monitoring and evaluation frameworks, poor assessment of the capacity of counterpart agencies, and unrealistic assessments of political economy issues and government ownership.

**Figure 7.5. Proportion of Satisfactory Quality of Entry Ratings among Projects that Exited in FY05–10**




**The quality of supervision has remained relatively high in projects that exited in FY08–10.** IEG rated Bank supervision as satisfactory in 83 percent of projects that exited in FY08–10. By region, the quality of supervision was highest in East Asia and Pacific (93 percent satisfactory) and lowest in the Middle East and North Africa Region (64 percent satisfactory). Good practices in supervision from evaluations include early identification of problems and timely adjustments to address design and implementation weaknesses; good coordination between the Bank, implementing agencies and key stakeholders; frequent and intensive missions by teams consisting of specialists from all relevant sectors; good continuity among Bank teams; and high-quality and timely Bank staff advice on procurement, disbursement, and financial management issues.

**Lack of evaluation of Bank nonlending services prevents coherent assessment of AAA effectiveness, whereas IFC has established systematic evaluation of its advisory services.** The Bank has no comprehensive framework for evaluating AAA and assessment of AAA results has been rudimentary at best.[5] Yet the Bank's nonlending services remain a critical part of its services to member countries. Its substantial research and development functions, for example, aim to inform the Bank's lending and knowledge services as well as global thinking on development. A recent study found that the Bank was a global leader in development research and that its work had influenced developing thinking (Ravallion and Wagstaff 2010). It is important that a more systematic approach to assessing Bank nonlending services be adopted so that their influence and contributions can be better understood and improved through learning. IFC has established a more structured system for monitoring and evaluating AAA and its self-evaluations are reviewed by IEG. This is a relatively new system for IFC and noteworthy in that it reflects a results-based approach.

**Inadequate monitoring and evaluation was an important factor that undermined institutional performance in projects.** Monitoring and evaluation is rated substantial or high in only one-third of projects closed in FY08–10 Bank-wide. The Middle East and North Africa Region had the lowest rating (13 percent satisfactory). Issues that project evaluations raised concerning monitoring and evaluation include limited availability of reliable baseline data and poorly defined performance indicators that were mainly confined to processes rather than outputs and outcomes.

**Bank coordination with other donors in low-income countries has been broadly positive.** A recent IEG evaluation of donor coordination in low-income countries (IEG 2011l) found that the Bank made good progress in harmonizing lending and nonlending activities with other donors. It has undertaken some joint strategies with other donors, but the high transaction costs entailed for all parties are often not worth the benefits, whereas coordinated strategies have been a good alternative. There has been limited progress in selectivity due in part to government and donor demand for the Bank's broad presence. Bank strategies have been aligned with partner country development priorities, and there has been good progress in integrating project implementation into the country structures. But progress in the use of country financial management and procurement systems has been constrained by inadequate capacity in the countries, weaknesses in public financial management systems, and the Bank's fiduciary obligations. The Bank's donor coordination activities were generally effective in meeting the three objectives of reducing transaction costs to the government, improving the quality of the policy dialogue, and building government capacity.

**The importance of frequent review of country strategies has been underlined in recent years.** Several country evaluations point to the need for "real-time" monitoring of strategies and timely adjustments, if warranted. In Algeria, for example, the Bank did not adequately address the declining relevance of its strategy as oil prices rose sharply and Algeria's prospects and challenges on all fronts changed considerably. The lack of a timely adjustment in the Bank's strategy hindered its lending, project implementation, and delivery of nonlending services. In Azerbaijan, the Country Partnership Strategy Progress Report missed the opportunity to adjust and firm up the strategy in response to a weak macroeconomic policy framework, higher lending levels, emerging implementation problems, and emerging pitfalls in the policy dialogue. Implementation of the country strategy, as it was designed, moved Bank lending to the higher levels as requested by the government but was accompanied by sharply deteriorating portfolio performance that was only reversed in FY09. Moreover, implementation of AAA also suffered. This placed the Bank in a position of high lending and low levels of effective policy advice that led to disappointing outcomes.

**The Bank's experience in Albania illustrated a case where weaknesses in one aspect of Bank performance undermined all Bank operations in a country.** During the last CAS period in Albania, lack of clarity and communication on how the Bank's safeguard policies were applied had broad detrimental effects. During the CAS period, two Inspection Panel cases were investigated in Albania: a coastal zone management project and a power-generation project. In one project the Bank safeguard policy on resettlement conflicted with Albanian law, which led to tension with the government and affected the relationship with key development partners. The series of negative consequences significantly slowed the pace and curtailed the scope of implementation of all Bank programs and activities in the country. As the implementation of most projects slowed, relations with key external development partners that were cofinancing critical projects were also affected. The fallout from this tension was still being felt at the end of the CAS period, although the Albanian government had signaled its willingness to move on.

### IFC'S INSTITUTIONAL EFFECTIVENESS

**In recent years, IFC has introduced a range of changes to maintain and enhance its relevance and development effectiveness.** The various changes in IFC's business model (identified above) partly reflect IFC's ongoing efforts to enhance its development effectiveness, relevance, and additionality. In FY10, IFC management launched its IFC 2013 Initiative (IFC 2010) as the next step in decentralization "to ensure that IFC's organizational structure, processes, and incentives are aligned with its strategic priorities." One of the four areas of focus of IFC 2013 Initiative is the shifting of regional and industry portfolios to regional operating centers.

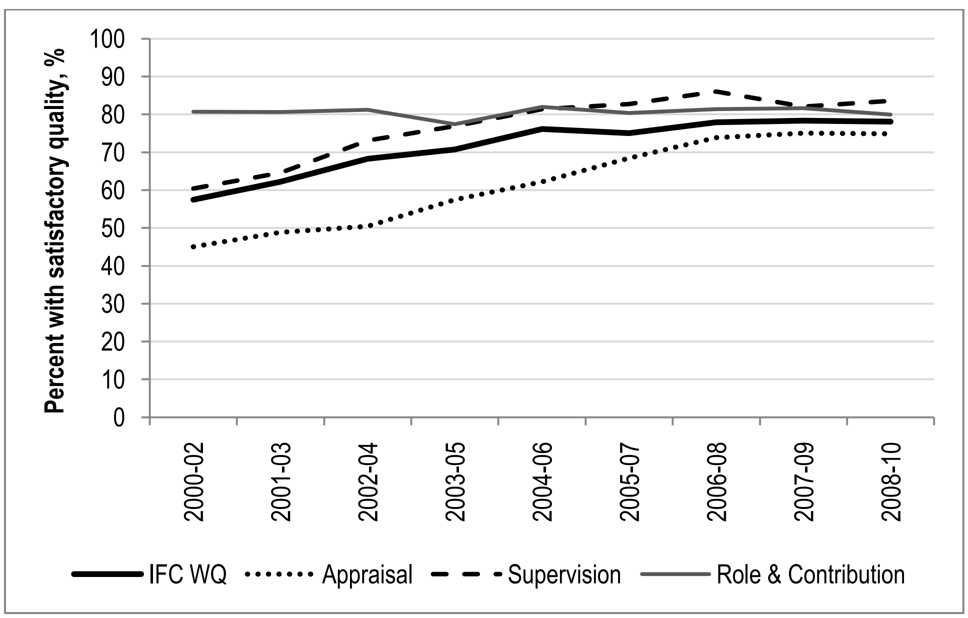
**The rapid and numerous changes have complicated the assessment of IFC's development effectiveness in several aspects.** First, multiple and simultaneous changes make it difficult to isolate contributing factors to changes in institutional performance. This makes learning and accountability a challenging task. Some new initiatives (such as the IFC 2013 Initiative) have rapidly superseded old ones, making evaluation, assessment (self and independent), and learning difficult. Second, new products can grow so fast that the development of a monitoring and evaluation framework follows after significant resources and commitments have already been made. The development of the trade finance activities is a case in point. The product line has reached significant size, accounting for a third of IFC's commitments, and further rapid expansion is planned. However, these activities have not yet been evaluated properly. Third, the shift away from traditional project finance into corporate finance—and especially financial intermediaries—implies a lengthening of IFC's result chain—from point of interventions to point of impact.

#### *IFC Investment Services*

**Overall, IFC's project work quality has been high and stable.** Project evaluation and in-depth analysis show that project development outcomes hinge significantly on two factors: those external to IFC (notably projects' risks and host country business climate) and those internal to IFC—the quality of IFC's work in project appraisal and structuring, project supervision, and role and contribution. IFC's work quality was assessed as successful in 78 percent of projects evaluated in FY08–10 (Figure 7.6), and appraisal work quality was satisfactory in 75 percent of projects. Supervision quality and IFC's role and contribution remained steady at 83 percent and 81 percent satisfactory, respectively.

**Improved regional outcomes in the Middle East and North Africa Region are aligned with efforts to improve IFC work quality in the region, although the effect of current political events on project development outcomes remains to be seen.**[6] The proportion of satisfactory work quality ratings in the Region was 73 percent in 2008–10. There has been better selectivity, and IFC operations in these countries are relatively small and selective. IFC has also been careful to focus on businesses with quality sponsors. All recently evaluated projects in the region had well-established sponsors, but the potential effect of political turmoil in the region on clients and therefore on project outcomes remains to be seen. A key change was the establishment of a regional hub in Cairo in 2006. As the region was a strategic priority for IFC, there was a larger budget allocation that allowed for an increase in staff in the field offices. The hub strengthened IFC's capabilities through the presence of senior staff in the field. Business development efforts were enhanced by hiring senior officers in Algeria, Egypt, Pakistan, and the United Arab Emirates (IFC 2006). IFC also reorganized its advisory services operations in the region. The establishment of the Private Enterprise Partnership for the Middle East and North Africa in 2004 sought to expand investment-advisory services linkages. Nearly half of the expenditures of the partnership were spent on investment-related advisory services and/or privatization and PPP advisory work in 2007.

**Figure 7.6. IFC Investment Work Quality Ratings**




*Source*: IEG.

**Evaluations also point to some recurring weaknesses in both project due diligence and supervision.** IFC work quality has improved in recent years, reflecting various efforts to enhance quality. IEG reviews of XPSRs point to some recurring performance weaknesses in screening, appraisal, and structuring. These include overly optimistic projections and assumptions due to flawed information or lack of independent market studies. Some up-front work reflected a lack of full understanding of the local legal environment, regulations, and relevant approval authorities. IEG also observed few instances of weak loan security arrangements and cases of complicated security packages that were difficult and costly to perfect. In supervision, evaluations identified cases of weak and/or incomplete supervision, including frequent changes in portfolio officers and supervision not adequately addressing material changes that affected company financial viability. As reflected in the ratings, these issues were less frequent in recent years.

**IFC investment outcomes remained strong, despite the crisis**. Investment performance (return to IFC) is essential to IFC's sustainability and to achieving its mandate. Project evaluations measure the gross profit contribution of each evaluated project. In the 2008–10 sample, 82 percent of projects had satisfactory or better investment outcomes, compared with 70 percent in 2005–07. Because of higher risk, the proportion of satisfactory investment outcomes for equity investments is usually lower than that for loan investments. In 2008–10 the gap in the proportion of satisfactory investment outcomes between equity and loan instruments was 42 percent (94 percent successful for loans against 52 percent for equity).

### *IFC Advisory Services*

**More than two-thirds of IFC's advisory service projects had satisfactory or better ratings for IFC's role and contribution.** Evaluations of advisory services projects assess the extent to which IFC made a particular contribution to the project, or its role and contribution. Based on the 2008–10 Project Completion Reports, 78 percent of projects were rated satisfactory or better in terms of IFC's contributions. Some of the low ratings were associated with multiregional projects under the "grassroots business initiatives" that have now been discontinued.

**There has been insufficient attention to efficiency of IFC's advisory services projects.** Efficiency is assessed according to three criteria: (i) positive cost-benefit ratio; (ii) resources were expended economically; and (iii) resources were reasonable in relation to alternatives. Efficiency was rated satisfactory or better in more than half of the projects evaluated in 2008–10. Evaluations have found wide variation in the focus on efficiency. There is tremendous variation in budgets across regions for similar interventions, and not all efficiency issues can be explained by cost differences. Although projects have increasingly tried to provide information on cost-benefit ratios, when they do, they have generally not provided a benchmark for that ratio. IFC has not yet developed benchmarks to assess and compare efficiency parameters in establishing and assessing achievement of development objectives. IFC is in the process of setting up benchmarks and integrating them in the operational procedures.

### *IFC's Poverty Focus*

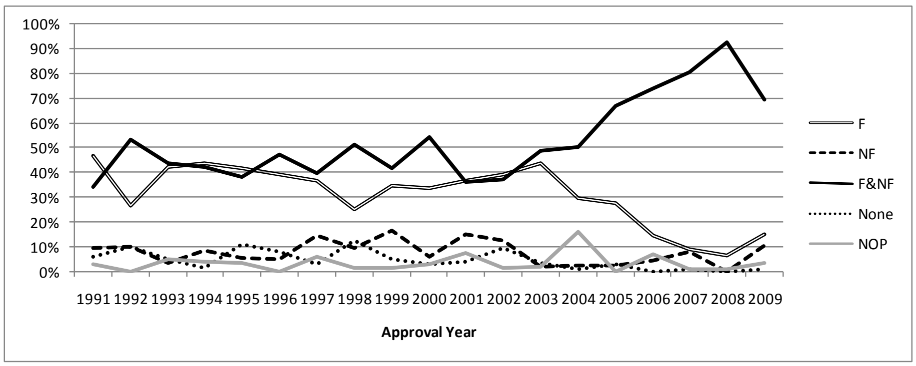
**Although attention to economic growth is embedded in IFC's mission, it has been challenging for IFC to incorporate distributional issues in interventions.** IFC has strategic priorities in IDA countries and sectors to promote broad-based growth and economic activities such as agribusiness, infrastructure, the financial sector, and health and education. However, it has been challenging to incorporate distributional issues in IFC interventions. Less than half of a random sample of projects reviewed by IEG included evidence of poverty and distributional aspects in project objectives, targeting of interventions, characteristics of intended beneficiaries, or tracking of impacts. Projects that paid attention to distribution issues performed as well, if not better than, other projects on both development and investment outcomes. This suggests that a poverty focus need not come at the expense of financial success.

**IEG found that a broad range of IFC's interventions can be simultaneously pro-growth and pro-poor, but this link is neither universal nor automatic** (IEG 2011b). On development results, most IFC investment projects generated satisfactory returns but did not provide evidence of identifiable opportunities for the poor to participate in, contribute to, or benefit from the economic activities that the project supported. However, the fact that projects did not provide evidence of enhanced opportunities for the poor did not necessarily mean that they did not contribute to poverty reduction. Achieving satisfactory economic returns suggested that projects made a positive contribution to growth and therefore most likely to poverty reduction. However, the relatively high proportion of projects that did not generate identifiable opportunities for the poor suggested that IFC's primary reliance was on the pace of growth for poverty reduction, at a time when its strategies pointed to more attention to the pattern of growth that it supports.

### *Additionality in IFC Investment Activities*

**IFC's ex ante statements of additionality have gradually shifted to combine both financial and nonfinancial types of additionality.** Additionality is a subset of IFC's role and contribution that aims to capture what IFC provided that could not have been provided by the client or commercial financiers (IFC 2009). As this is one of the guiding principles of IFC operations, IEG has been reviewing IFC's expected additionality at the time of project approval among projects approved since 1999. This tracking has indicated whether project approval documents clearly articulated IFC's expected additionality and what type of additionality broadly classified as financial or nonfinancial was expected (Figure 7.7). Since 2004, projects have increasingly featured both types of additionality. As an example, IFC might provide long-term local currency financing, which is not available in the local market, along with technical advice on corporate governance and E&S risk mitigation.

**Figure 7.7. Ex Ante Statement of IFC Additionality**




*Source:* IEG.

**IFC recently introduced mechanisms to monitor its additionality through the life of a project, although the system has implementation weaknesses.** With the introduction of the second generation of the Development Outcome Tracking System (DOTS 2), IFC's additionality is now meant to be captured and monitored throughout a project's life cycle, whether expected additionality was realized or not. FY11 will be the first full year of implementation, although to date, IFC has struggled to achieve full coverage.[7] Moreover, the updating of additionality information in the DOTS system has not been systematic.

**Ex post reviews found that IFC generally has added additionality in the projects that it financed.** In 2008, IEG began to systematically record the types of IFC additionality evident from evaluated projects. It found that in only 5 percent of evaluated projects did IFC fail to realize the unique role and contribution aspects that it expected to provide at approval.[8] Morever, IFC's realization of a unique role and contribution was dynamic in nature. Of those projects that identified additionality in both financial and nonfinancial roles at appraisal, 38 percent eventually realized either financial or nonfinancial additionality, but not both. In contrast, in many cases, IFC played a role that was not initially anticipated in the appraisal document. Forty-two percent of projects that had indicated either financial or nonfinancial additionality at approval ended up realizing both financial and nonfinancial additionality at evaluation.

#### MIGA'S INSTITUTIONAL EFFECTIVENESS

**MIGA-supported project evaluations illustrate a high rate of institutional effectiveness with respect to underwriting strategically relevant projects.** Three-quarters (76 percent) of projects evaluated in FY09–11 performed well with respect to MIGA's performance. Most evaluated projects (94 percent) had satisfactory or better ratings for strategic relevance and MIGA's role and contribution. Box 7.1 summarizes the strategic relevance aspects of MIGA's performance with respect to its most important business segment, financial sector guarantees.

**Box 7.1. Case Study—Strategic Relevance of MIGA Financial Sector Guarantees**

**MIGA's financial sector guarantees—its most important business segment—were strategically relevant at the country level.** Project-level findings indicate that most guarantees in the financial sector were consistent with the CAS and Bank sector strategies. Fully 90 percent of evaluated financial sector projects were rated satisfactory or better with regard to strategic relevance. This rating was consistent with those of nonfinancial sector projects (94 percent).

**MIGA's support to foreign-owned banks made positive contributions to banking systems in Europe and Central Asia that had not completed their reforms**. MIGA guarantees were critical in establishing the credibility and sustainability of private foreign bank subsidiaries in an environment where weaknesses in the regulatory regime presented high risks to the operation of private banks and where the dominance of state-owned and politically connected private banks limited private banks' client pools for both loans and deposits. State-owned banks that operated with implicit government support brought serious operational challenges to private banks that were not politically connected.

**IEG found that the foreign bank subsidiaries supported by MIGA competed effectively in this environment.** This was because of their better operational efficiency, more selective lending, which reduced credit risk and nonperforming loans, and better banking services. These operational responses greatly increased competition and efficiency in the host countries' banking systems and also accelerated the introduction of a wide range of banking products for both corporate and household customers. MIGA's support for private financial intermediaries in transition countries hence became strategically important to developing sound financial systems, promoting competition, and supporting PSD.

**IEG also found that MIGA-supported banks contributed positively in upgrading the host countries' banking sectors.** Most of the banks in evaluated projects increased competition for deposits and financial products and services, were more efficient in their operations, and introduced new and innovative banking products that better met local needs. Overall, these projects contributed positively to upgrading the host countries' banking sectors.

*Note*: Four of the evaluated projects involved financial intermediaries that also received investments from other multilateral agencies, including IFC.

**More evidence is needed to establish the relationship between MIGA's quality of underwriting and project development outcomes.** The limited number of project evaluations conducted show a consistent issue with the quality of underwriting. Among the 17 projects evaluated in FY09–11, the quality of underwriting (with respect to assessment, underwriting, and monitoring) of projects underwritten between FY06–09 was worse than those underwritten before FY06. About three-quarters (72 percent or 5 of 7) of the evaluated projects underwritten between FY06–09 performed poorly in this respect, as opposed to 60 percent (6 of 10) of projects underwritten before FY06 (Table 7.5). The low quality of underwriting ratings, however, does not necessarily correlate with low development outcome ratings and further analysis is required to establish the relationship. IEG will continue to evaluate MIGA's quality of underwriting, and this information, along with more evidence from MIGA's own self-evaluations, will help clarify the role of the quality of underwriting in achieving project-level development outcomes.

**Table 7.5. MIGA Institutional Effectiveness Ratings**

| *(No. of projects)* | *Satisfactory* | *Unsatisfactory* |
|---|---|---|
| MIGA effectiveness | 13 | 4 |
| Strategic relevance | 16 | 1 |
| Role and contribution | 16 | 1 |
| **Assessment, Underwriting, and Monitoring (Quality of Underwriting)** | | |
| Projects underwritten prior to FY06 (10 PERs) | 4 | 6 |
| Projects underwritten since FY06 (7 PERs) | 2 | 5 |

*Source:* IEG-MIGA project evaluation database.
Note: PER = Project Evaluation Report.

**MIGA's mediation efforts during project implementation can add value for the client and help preserve MIGA's capital base.** MIGA can play an important role during project implementation through its mediation capacity—underscoring the agency's comparative advantages relative to commercial PRI. MIGA actively mediated in 15 cases in FY05–11 (third quarter), of which 60 percent (corresponding to an accumulated capital at risk of about $320 million in gross exposure) was resolved successfully.[9] Most of the remaining cases (largely more recent cases) are still pending and continue to be mediated. In addition, MIGA was involved in 24 other cases during FY05–11 in which the agency assisted by fostering exchange of information, providing statements, or simply monitoring the situation. Of these 24 cases, more than half resulted in amicable resolutions.

MIGA's mediation was more prominent in the infrastructure sector (53 percent), followed by the services sector (40 percent) and the financial markets sector (7 percent). Of the 8 infrastructure cases, 38 percent involved concession agreements. Project-level findings from two infrastructure PERs illustrate MIGA's mediation effort in such cases. In one case it helped settle a dispute over the government's intention to renegotiate an offtake tariff previously agreed on, and in another, it helped resolve payment delays by another off-taker. Both MIGA interventions were highly valued by the investors.[10]

## World Bank Group Initiatives to Strengthen the Results Agenda

**All three WBG institutions have embarked on initiatives to strengthen their corporate-level monitoring and reporting on results.** Each WBG institution is in the process of developing tools to better monitor and report on the results that it is helping achieve. The Bank is developing a Corporate Scorecard that builds on its IDA Results Measurement System; IFC is introducing its IFC Development Goals that complement its existing Corporate Scorecard; and MIGA has introduced a Development Effectiveness Indicator System (DEIS). All three corporate results monitoring tools are intended as *apex tools.* The Bank's Corporate Scorecard and IFC's Development Goals are intended to communicate development results at the highest level, facilitate a strategic dialogue between management and the Board, and inform management's own strategic decision-making processes. MIGA intends to use six of its DEIS indicators to report on development results when implementing its new FY12–14 strategy.[11]

**The three WBG institutions have chosen to report on different clusters of corporate results.** Corporate results may refer to any of three levels of results: country-level achievements; the reach, outcomes, and outputs of WBG-supported operations; and operational and organizational effectiveness. The Bank's proposed scorecard plans to report on all three levels. IFC's scorecard will address the reach and outcomes of supported projects as well as IFC's operational effectiveness. MIGA's DEIS focuses on the reach of its guarantee projects.[12] IFC has also taken steps toward linking the indicators in its scorecard with internal staff incentives, which the Bank and MIGA have not done yet. Further details on the efforts of the individual WBG institutions are presented in Box 7.2–Box 7.4. The differing stages of evolution and approaches among the three institutions might warrant further efforts for mutual exchange of experience.

**Figure 7.8. Architecture of the Major Corporate Results Reporting Tools of the World Bank Group**

| | World Bank | IFC | MIGA | |
|---|---|---|---|---|
| **Corporate Results Reporting (*Apex Tools*)** | **WB Corporate Scorecard** (1)<br>• *Tier 1*: Country Progress on Key Development Outcomes | | | *Country Progress* |
| | • *Tier 2*: Outputs and Outcomes Supported by Bank Operations | **IFC's Development Goals**<br>• Six aggregate development reach indicators (IDG 1 -6) | **Development Effectiveness Indicator System (DEIS)**<br>• Six development reach indicators | *Reach, outcome, and outputs of WBG operations* |
| | • *Tier 3*: Operational Effectiveness<br>• *Tier 4*: Organizational Effectiveness | **IFC Corporate Scorecard**<br>• Six broad areas of operational and organizational effectiveness | (4)<br>(5) | *Operational and organizational effectiveness* |

**Apex tools are supported by project and country-level systems**

| | World Bank | IFC | MIGA | |
|---|---|---|---|---|
| **Project and Country Level Monitoring / Evaluation Systems** [2, 3] | **World Development Indicators (WDI )**<br>• Statistical data on country progress | **Development Outcome Tracking System (DOTS)**<br>• Self ratings<br>• Standardized p roject reach indicators | **Development Effectiveness Indicator System (DEIS)**<br>• Six generic development reach indicators; plus sector specific indicators | *Project and country outcomes* |
| | **Project Level Evaluation and Self Evaluation**<br>• Project Performance A ssessment Report (PPAR)<br>• Implementation Completion and Results Report (ICR) for lending and Activity Completion Summaries for Advisory Services | **Project Level Evaluation and Self Evaluation**<br>• Project Evaluation Summary (PES)<br>• Expanded Project Completion Reports (XPSRs) for Investment Services and Project Completion Reports (PCRs) for Advisory Services | **Project Level Evaluation and Self Evaluation**<br>• Project Evaluation Reports (PERs)<br>• Self Evaluations | |
| | **Country Level Evaluation and Self Evaluation**<br>• Country Assistance Strategy Completion Review Reports (CASCR-Rs) | | | |

1. The proposed World Bank Corporate Scorecard builds on the IDA 16 Results and Measurement System.
2. This illustration focuses on all those monitoring and evaluation products that *directly* and *routinely* feed into the *Apex Tools*; it does not represent an exhaustive listing of all monitoring and evaluation products operated by the WBG and IEG. For example, it excludes corporate and sectoral IEG evaluations and Country Program Evaluations, which may also be referred to in the *Apex Tools.* It furthermore does not list the broad range of data sources for Operational and Organizational Effectiveness, such as Quality of Lending Portfolio (QALP) data, survey results, and diversity indicators.
3. Comprises products prepared by Bank Group institutions with or without IEG validation, and those independently prepared by IEG.
4. MIGA's Executive Vice President reports contain also indicators on operational / organizational effectiveness, such as business volume, number of projects, etc. However, the new strategy FY12–14 is mute about integrating these in a broader corporate monitoring system.
5. MIGA further plans to extend its indicators to also cover project-level development outcomes, business development, underwriting efficiency, and sector composition of guarantees issued in relation to targets.

**The corporate results monitoring tools build on the frameworks for measuring project and country-level outcomes.** The corporate results monitoring tools rely heavily on project and country-level outcome data, along with operational and organizational data. The Bank and IFC have mature systems in place to generate information on project and country-level results, for example, the Bank's Implementation Completion Report and CASCR systems for projects and country programs and IFC's XPSR, Project Completion Report, and DOTS. In MIGA, the new DEIS is intended to fulfill both functions: generating project-level data as well as reporting on aggregate results. MIGA can also use IEG's PERs, and is scaling up its self-evaluation of projects. The development reach indicators contained in all three institutions' apex tools will illustrate the reach of WBG activities. MIGA's six DEIS indicators, IFC's Development Goals, and the Bank's Tier 2 indicators are "reach indicators" that aim to capture effects on stakeholders. These might include the volume of project purchases in the local economy, taxes and fees paid by project companies, the number of people with increased or improved access to infrastructure services, or the kilometers of roads constructed. Figure 7.8 presents the architecture of the corporate results monitoring and reporting tools across the WBG.

**Box 7.2. The World Bank's Corporate Scorecard**

The Bank's Corporate Scorecard is the most comprehensive approach of the three institutions. The initial Corporate Scorecard was presented to the Board in FY10 (World Bank 2011b). It builds on the IDA16 Results Measurement Framework but covers both IDA and IBRD. The scorecard presents information at four levels: Tier 1 on countries' progress toward key development goals; Tier 2 on outputs and outcomes supported by Bank operations; and Tiers 3 and 4 on operational and organizational effectiveness. With a total of 97 indicators, the Bank's scorecard is the most comprehensive apex tool within the WBG. The four-tier structure is logical, although the array of indicators can become heavy in data requirements.

The Bank's scorecard has a twofold purpose, but both goals may not be well served with the same tool. The scorecard is intended primarily as a strategic tool for engagement with the Board, but over time it is expected to become a framework for the Bank's internal strategic management as well. Whether the Bank will be able to pursue both objectives with the same tool remains open, however. Given the complexity of the proposed scorecard, dialogue with the Board might be hindered by information overflow. Greater selectivity and prioritization of the currently proposed 97 indicators, in particular in Tiers 3 and 4, may be warranted. In contrast, for the scorecard to provide information for strategic management decisions, a higher number of more decision-relevant data in a less aggregated fashion along with more contextual information may be warranted.

**As presently designed, large countries or projects might dominate the results of the scorecards.** All three scorecards propose to use aggregate development reach indicators. The aggregate indicators will be more influenced by larger countries and projects. In theory, the WBG could only work on, say, India and China to influence these outcomes rather than work with all of its member countries. IFC's efforts to address this challenge through weighting or normalization of indicator data are a step in the right direction. To reflect the Bank's need to support all its member countries, the indicators might be complemented by also monitoring and reporting the number of countries achieving a certain degree of progress.—for example, number of countries with x percent of the population living below $2 day or number of countries with household electrification rates above x percent.

**"Relevance" may not be well captured in aggregate reporting.** As presently designed, the scorecards do not provide an indication of whether the "right" clients are benefiting from the "right" WBG services. That is, aggregate reporting does not capture the relevance of WBG interventions to country conditions. For example, an indicator such as "increasing the number of direct beneficiaries of social safety net programs" may be very relevant in some countries but irrelevant in countries where the challenge is to better target existing resources and reduce the number of direct beneficiaries of safety net programs. This risk reflects the tension between standard indicators that apply to all projects in a sector or subsector and indicators that reflect project-specific objectives. The latter are likely to reflect relevance in a country context and warrant consideration in aggregate reporting. Complementing the proposed aggregate indicators by measuring and reporting on the number of countries achieving a certain degree of progress relative to their development needs and their country specific objectives may provide a more nuanced overall message.

**Box 7.3. IFC's Development Goals**

The IFC Corporate Scorecard is regularly used to inform the organization's strategy. It reports the DOTS score (the percentage of self-evaluated projects with development outcome ratings of successful or better), along with other indicators on business volume, client satisfaction, financial indicators, and operational indicators. The information in the scorecard in itself does not provide a view on actual development reach, for example, tangible effects of IFC's operations on client countries or people's lives. To address this, IFC has introduced a second corporate results monitoring tool, IFC's Development Goals.

In its Development Goals, IFC is further expanding its results monitoring to include measures of development reach. IFC has identified six Development Goals and is beginning to report on these on a pilot basis, with full operationalization anticipated in FY13: sustainable farming opportunities, health and education services, access to financial services for microfinance and SME clients, improved infrastructure services, increased revenues for micro and small/medium enterprises, and increased percent of new investment commitments for climate-positive projects.

The Development Goals are intended to offer improved ways to communicate IFC's development reach and to help drive IFC strategy and operational decision making. For the Development Goals to be effective communication tools, they must be easy to identify, linked to tangible outcomes, and few in number. In contrast, for the Development Goals to inform IFC's strategy and operational decisions, they need to provide credible information on a broader range of issues, that is, through a higher number of indicators, in a more disaggregated manner along with more contextual information.

Poverty reduction is at the core of IFC's (and the WBG's) mission, but it is not explicitly reflected in the Development Goals. The recent IEG report on IFC's poverty focus (IEG 2011b) found that it has been challenging for IFC to reflect distributional aspects in projects, and IFC has not measured the poverty effects of its projects. Going forward, the poverty focus of the Development Goals can be enhanced by including distributional aspects, such as type of beneficiaries.

*Source*: IFC 2011.

**The proposed reach indicators are partial measures of development effectiveness and can be misleading**. Selective reporting of certain achievements of a project can understate other aspects of the project or of WBG interventions more broadly. For example, a Bank-financed project may help build 2,000 kilometers of roads—which is captured in the scorecard—but this may have been at the cost of, say, unsustainable deforestation and loss of biodiversity, which is not captured in the scorecard. If a MIGA-supported project mobilizes investment, pays taxes, or procures locally, this does not necessarily mean it has a positive development outcome. For a project to have a positive development outcome, it needs to also be financially sound, economically sustainable, and limit its negative environmental or social effects. As presently formulated, the respective scorecards provide no indication of costs or adverse impacts associated with achievements. This results in the danger that "more" will necessarily be seen as "better," when this may not always be the case. The implication is that capturing development reach in itself may not be sufficient, but parallel measures on costs and adverse impacts are also warranted. One way this risk might be mitigated is by presenting development reach information along with the project development outcome ratings in cases where projects have been evaluated.

**Many of the WBG development reach indicators are a result of aggregation, which calls for full transparency regarding how they were composed.** For example, the IFC Development Goals aggregate data across several dimensions, including various types of interventions (investments, advisory services and the Asset Management Company), sectors, and countries. MIGA's six DEIS indicators similarly aggregate data across projects, sectors, and countries. Aggregating data in such a fashion offers clear benefits, including a reduction in the number of indices. However, this process has clear tradeoffs, such as limited operational relevance because of the disparate units that are aggregated. Ability to disaggregate as well as a high degree of transparency about how the indicators are derived is warranted.

**Transparency is also warranted with regard to use of IEG-generated or validated data**. All three systems use a wealth of data originating from various sources, including IEG. Some of the data originate *directly* from IEG's independent work; others are validated by IEG. Yet other data are gathered directly by the WBG institutions—without any IEG involvement. A consistent practice of using independently validated project ratings has not yet been established across all three WBG institutions. Being transparent about the origin of data and about IEG's role in producing or validating them will enhance the overall credibility of the reporting frameworks.

**Box 7.4. The Evolution of MIGA's Corporate Monitoring and Reporting**

To date, MIGA has concentrated its corporate monitoring and reporting on operational and organizational effectiveness issues. The *Operational Directions FY09–11* (MIGA 2009) initially stipulated a set of three KPIs focused mostly on guarantee volume. This was subsequently broadened to five KPIs reported on quarterly, including gross issuance (in millions of dollars), number of new projects, guarantees in IDA countries, return on operating capital, and the ratio of administrative expenses to net premium income.[a]

Going forward, MIGA plans to monitor project-level development outcomes—the percentage of projects rated satisfactory or better on development outcome—in addition to tracking a more complete set of financial and operational indicators.[b] To monitor its new Strategy FY12–14, in FY11, MIGA began to track six project development reach indicators: direct employment, training budgets, the value of locally procured goods, taxes and fees paid, community investment amounts, and investment leveraged, based on information reported by guarantee holders.[c] Given MIGA's intention to apply DEIS for strategy implementation monitoring, DEIS could be considered MIGA's corporate development results monitoring tool even though the Strategy FY12–14 is not explicit about the role of DEIS in strategy implementation monitoring.[d]

*Source:* MIGA.
a. With the goal of being "overweight" in IDA countries, compared with the share of all FDI flows flowing to IDA countries.
b. Including KPIs for business development, underwriting efficiency and the sector composition of guarantees issued in relation to targets.
c. See MIGA 2011.
d. http://miganet.worldbank.org/secure/docdisplay/l7economics.cfm.

**Care is needed to ensure the quality of data, given the various sources and potential conflicts of interest.** The use of various indicators for high-profile reporting on the results and performance of the WBG calls for scrutiny of the quality and reliability of these indicators. The various proposed indicators for the scorecards and key performance indicators (KPIs) come from a wide range of sources inside the WBG and across its member countries and clients. Data gathering and reporting capacity are likely to vary substantially across these sources. In addition, possible incentives, biases, and conflicts of interest among government agencies, private companies, and within the WBG can potentially affect information flows. An approach is needed to ensure an adequate level of quality, integrity, and reliability of the data collection and compilation process that will underlie the Corporate Scorecards, Development Goals, and KPIs. IFC's data collection manuals and external validation of development outcome scores represent steps in the right direction, in this respect.

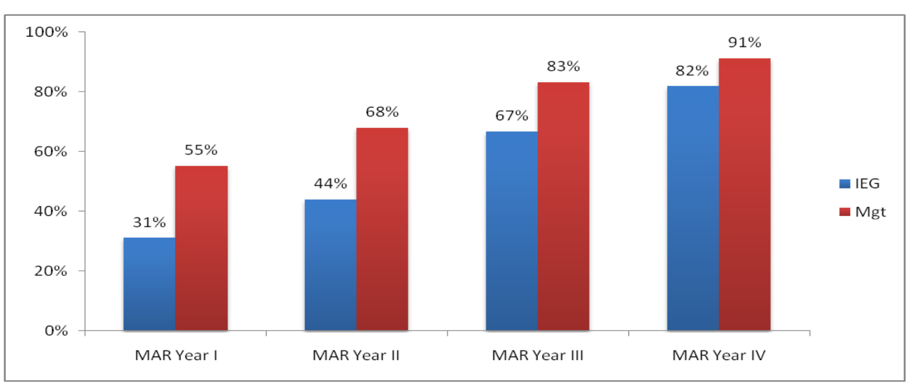
## Learning from and Using Evaluation Findings

**Recommendations in evaluations and subsequent follow-up aim to improve the WBG's development effectiveness.** Evaluations prepared by IEG contain recommendations intended to "help improve the development effectiveness of the WBG's programs and activities, and their responsiveness to member countries' needs and concerns."[13] The recommendations aim to influence factors within the control of the WBG, which affects the institutional performance of the three institutions and, ultimately, influences the development effectiveness of the WBG. IEG is also mandated to report "periodically to the Board on actions taken by WBG management in response to evaluation findings." IEG therefore monitors the degree to which its recommendations are implemented using its Management Action Record (MAR). This follow-up and reporting serve both accountability and learning functions.

### ADOPTION AND IMPLEMENTATION OF EVALUATION RECOMMENDATIONS

**Adoption of IEG recommendations increases over time and, by the fourth year, 80 percent of recommendations are substantially adopted.** IEG has been tracking actions in response to its recommendations since the late 1990s for the Bank, since 2003 for MIGA, and since 2004 for IFC. Between 2007 and 2010, IEG completed 31 evaluations with 143 recommendations that were tracked in the MAR, covering the Bank, IFC, and MIGA. On average, across a four-year implementation period, 65 percent of all recommendations were substantially adopted.[14] Of recommendations that had reached their fourth year of tracking, IEG considered 82 percent to have been substantially adopted (Figure 7.9). The differential in ratings between IEG and WBG management decreased over time, from about 24 percentage points in the first two years to about 9 percentage points in year four.

**Figure 7.9. IEG and World Bank Group Management Overall High/Substantial Average Level of Adoption Ratings over Time, 2007–11**




*Source:* IEG.

**Different adoption ratings between IEG and management often reflect lack of clarity on what constitutes adoption.** The difference in ratings between IEG and WBG management's self-evaluation of recommendation adoption decreases over time from about 24 percentage points in the first two years to about 11 percentage points in year four. Much of the difference is driven by different expectations about what constitutes adoption, particularly in the early years of implementation. Overall adoption rates by year four are high across the WBG, but historic differences in the way the MAR was implemented in each institution have resulted in substantial variation across the institutions. A detailed review of the recommendations for each institution follows.

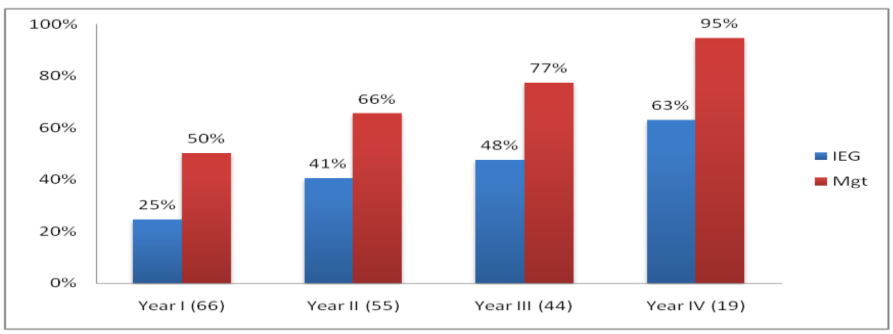
### *Recommendations to the World Bank*

**The Bank accepted nearly all evaluation recommendations, although with some qualifications.** IEG conducts sector, thematic, corporate, and country evaluations.[15] Evaluation topics are selected based on various criteria, including specific requests by the Board, relevance to development of a new Bank strategy, or as part of a regular cycle of coverage by IEG. The current MAR contains recommendations from 19 evaluations completed in calendar years 2007–09. The evaluations covered a wide range of topics, including the Bank's transportation strategy, PSR, guarantee instruments, and the Doing Business indicators. Of the 72 recommendations made in these reports, Bank management accepted 68 (94 percent), although with qualifications in about half of them.[16]

**There is a disconnect between Bank management and IEG ratings on the level of adoption.** Figure7.10 shows the level of adoption as rated by Bank management and by IEG, by year of implementation. Bank management rated adoption of 50 percent of recommendations as high or substantial in year one and 95 percent in year four. In contrast, IEG rated adoption of 25 percent of recommendations as high or substantial in year one and 63 percent in year four. Underlying this disconnect on the level of adoption are differing interpretations about what is considered completion of an action. In response to an IEG recommendation, for example, Bank management may issue guidance, develop monitoring indicators, or establish a roster of experts and then rate adoption as substantial or high. However, IEG, in some cases may not consider these actions as sufficient evidence of implementation and wait to observe the effects of the actions to rate implementation as substantial or high. The reform of the MAR will help address this issue by providing clarity on actions and timelines for implementation.

**Recommendations often addressed the Bank's strategic approach in a sector.** Although evaluations generally found that the Bank was achieving its objectives, they identified areas where changes could be made to improve its effectiveness. Seven of 10 sector and thematic evaluations found areas for improvement in the Bank's strategic approach. Some called for changes in direction (transport and HNP evaluations) or suggested ways to incorporate sector strategies into country strategies (for example, IEG 2008b, 2011e). Some evaluations called for more attention to major emerging challenges, such as traffic congestion, environmental damage, and safety in transport or pollution control, coastal management, and groundwater conservation. Other evaluations called for doing more within the existing strategic framework, such as strengthening the civil service administration component of PSR, emphasizing energy efficiency policies, or refocusing on mainstreaming in gender.

**Figure7.10. Bank Adoption of Recommendations—IEG and Bank Management Ratings over Time, 2007–11 (percent high or substantial)**




*Source:* IEG.

**Greater attention to the political and institutional context was also a common focus of recommendations.** Half of the sector and thematic evaluations recommended greater awareness of the political and institutional context within which the Bank operated. As an example, Bank policy advice on agriculture development in Sub-Saharan Africa fell short because of weak political support and insufficient appreciation of conditions on the ground. A weak understanding of political economy factors and associated risks led to overly optimistic objectives in Bank decentralization operations. Insufficient political or institutional analysis resulted in poor performance in Bank training and the HNP lending portfolio.

**Evaluation recommendations have drawn attention to the need to improve Bank policies and procedures.** Approximately half of IEG recommendations concerned Bank policies, procedures, and structures. Examples of recommended changes in procedures included establishing benchmarks for measuring progress (IEG 2011e) and developing guidance and quality criteria for the design and implementation of training (training evaluation). All sector and thematic evaluations and nearly half the instrument evaluations recommended improvements in monitoring and evaluation. Eleven of the 19 evaluations also recommended improved coordination both among units within the Bank and among WBG institutions.[17] Other recommendations covered staff incentives, insufficient client engagement, and better knowledge management. Given the importance of process issues, IEG's External Advisory Group recommended that IEG should continue to evaluate the WBG's internal processes, as is being currently done through the evaluation of the Bank's matrix management system.

**Instrument evaluations highlighted the need for changes in instrument design.** The evaluation of Bank instruments found room for improvement in the design of six of the seven instruments reviewed. The lack of a satisfactory risk analysis framework in Country Financial Accountability Assessments and Country Procurement Assessment Reports prevented the Bank from arriving at a comprehensive risk rating, limiting their effectiveness.[18] The evaluation of guarantee instruments recommended a series of changes to enhance the use of the Bank's risk mitigation instruments.

**Recommendations in their fourth year are retired unless IEG or Bank management decides to keep tracking them.** Nineteen recommendations from six evaluations completed in calendar year 2007 are now in their fourth year of follow-up. The recommendations cover sectoral work (transport, agriculture in Africa) as well as thematic issues and instruments (financial accountability and procurement assessments, regional programs, middle-income countries, and capacity building and training). According to IEG, 63 percent of these recommendations have been substantially adopted. As examples, the Bank strengthened its risk assessment framework, the transport portfolio was rebalanced to address emerging issues, and the Bank demonstrated its flexibility in responding to the financial crisis. However, IEG considered other recommendations not substantially implemented, or it lacked evidence to show otherwise. Of the seven recommendations whose adoption was rated as medium, five were rated thus primarily because of insufficient evidence from Bank management on their adoption. Progress has since been made on some recommendations, and others will be taken up by other evaluations (such as on agricultural productivity and regional programs), and IEG has agreed to retire these recommendations at the end of this year.

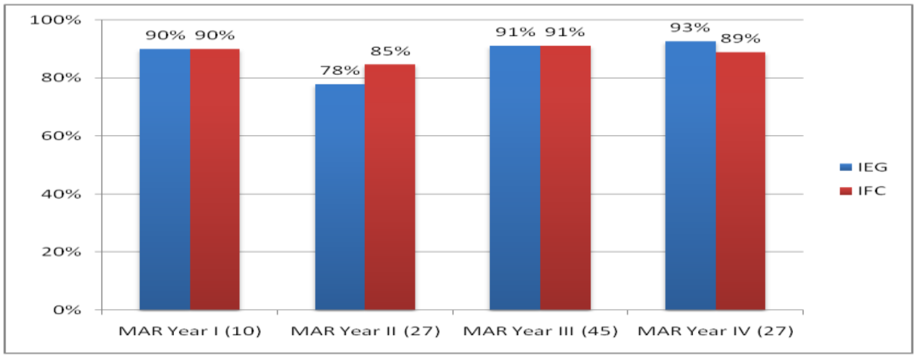
#### *Recommendations to IFC*

**A two-stage approach to assessing the adoption of recommendations has reduced ambiguity in the process with IFC.** IEG has tracked the implementation of recommendations in IFC since 2004. The tracking system employs an iterative approach and relies on two-way feedback between IEG and IFC management. The MAR is designed as a two-stage system. In the first stage, IEG and IFC management agree on indicators by which to assess each recommendation's level of adoption. In the second stage, IEG and IFC management independently rate implementation progress. This system sets clear expectations around the implementation of recommendations and reduces ambiguity about what constitutes adoption.

**IFC management's rates of adoption of recommendations are high.** IEG has made 58 recommendations to IFC in its evaluation reports since 2007. Of the 56 recommendations that have been tracked in the MAR, IEG determined that 23 were substantially implemented by 2010 and another 17 will be retired next year due to substantial adoption. Almost half of the recommendations that require further tracking are from corporate reviews such as the former annual report and the Biennial Report on Operations Evaluation. For the 34 active recommendations in the MAR 2011, adoption rates are 79 percent high or substantial according to IEG and 84 percent according to IFC (Figure 7.11). Adoption rates were high from the initial year. This indicates that IFC has substantially adopted even recommendations from very recent IEG reports.

**IEG's recommendations have been consistent with the direction of IFC's evolution.** Highlights of IEG's recommendations include better coverage of IFC's portfolio in reporting on results; expanded support for innovative approaches and viable business models that demonstrate private sector solutions to improve the health of the poor; improving the process of country strategy development; improved learning from evaluation findings; systematic staff training in core skills; better environmental supervision; and improved quality of data collection methods, pricing, and cost accounting in advisory services. Good progress has been made in addressing issues in several areas. These include enhancing the coverage of monitoring and evaluation, although substantial gaps remain (particularly in trade finance); training and internal capacity building for assessing development impact and additionality; improvements in certain areas of environmental and social sustainability; and substantially improving work quality in Sub-Saharan Africa. Challenges remain in addressing recommendations in areas such as assessing IFC's development effectiveness at the country level, supporting development of local currency markets as in Indonesia, and implementing the pricing policy for advisory services.

**Figure 7.11. IFC Adoption of IEG Recommendations—IEG and IFC Management Ratings over Time, 2007–11 (percent high or substantial)**




*Source:* IEG.

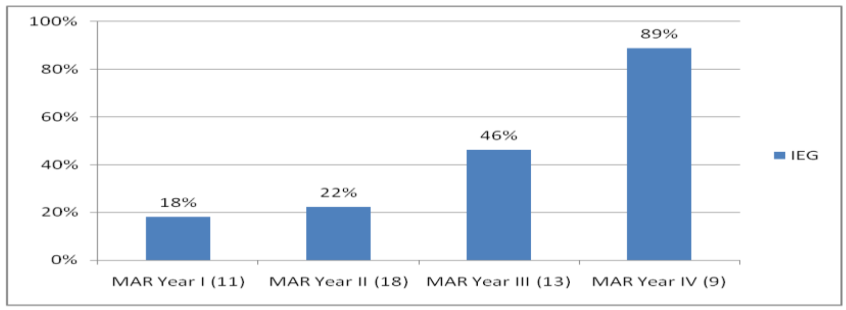
### *Recommendations to MIGA*

**MIGA's adoption of IEG recommendations increases by the fourth year.** Of a total of 20 IEG recommendations to MIGA between 2007 and 2010, adoption was rated high/substantial by IEG for 68 percent; and medium for 32 percent. However, adoption ratings increased to 89 percent for evaluations tracked in their fourth year (Figure 7.12).[19]

**IEG made a significant effort to streamline recommendations to MIGA in the 2011 MAR.** To ensure that only relevant and actionable recommendations remained in the MAR, IEG "retired" redundant or overlapping recommendations as well as those that were no longer relevant. As a result, only 13 recommendations remained outstanding that are tracked in the 2011 MAR. Nine of these active recommendations show substantial progress toward implementation or have already been marked for retirement because of completion, and only four are rated as medium in adoption.

**IEG's recommendations have been consistent with MIGA's challenges.** In the recent past, a series of IEG reports addressed institutional effectiveness issues and several recurring themes have emerged. They can be grouped into three broad categories: enhancing strategy design and MIGA's implementation capacity, improving project development outcomes, and operational issues. Strategy-focused recommendations suggest the articulation of an explicit value proposition for MIGA's new FY12–14 strategy as well as alignment of business development and incentives systems with strategic goals. They also suggested a special "game plan" for conflict-affected countries. Improving project development outcomes has been an ongoing challenge for MIGA, and recommendations in this respect call for assessing and monitoring development impact, introducing self-evaluation, and enhancing institutional learning through applying lessons from both IEG and self-evaluations. Recommendations on operational issues called for improving client relationship management, measuring project-level financial results, and formalizing underwriting systems and standards.

**Figure 7.12. MIGA Adoption of IEG Recommendations—IEG Ratings over Time, 2007–11 (percent high or substantial)**




*Source:* IEG.
*Note:* MIGA management did not provide self-ratings consistently. Therefore, the disconnect between MIGA management and IEG ratings cannot be shown.

**Progress in adopting IEG recommendations has been notable.** MIGA has made important progress in adopting several IEG recommendations, including those related to underpinning its engagement in conflict-affected countries; institutional learning (in particular through the introduction of self-evaluation); business development and client relationship management; and developing a new strategy with an explicit value proposition. MIGA has made some progress in development impact and outcome monitoring (other than through self-evaluation), strengthening and formalizing its underwriting systems and standards, and addressing internal weaknesses that reduce efficiency and slow responsiveness. Differences of opinion between MIGA and IEG exist with regard to three recommendations, which are not included in the analysis of ratings. These recommendations were issued in previous IEG Annual Reports and relate to strengthening and aligning staff incentives with strategic and operational goals; improving the quality and documentation of the development impact analysis of Small Investment Program projects; and measuring project-level financial results.

### REFORM OF THE CURRENT MANAGEMENT ACTION RECORD SYSTEM

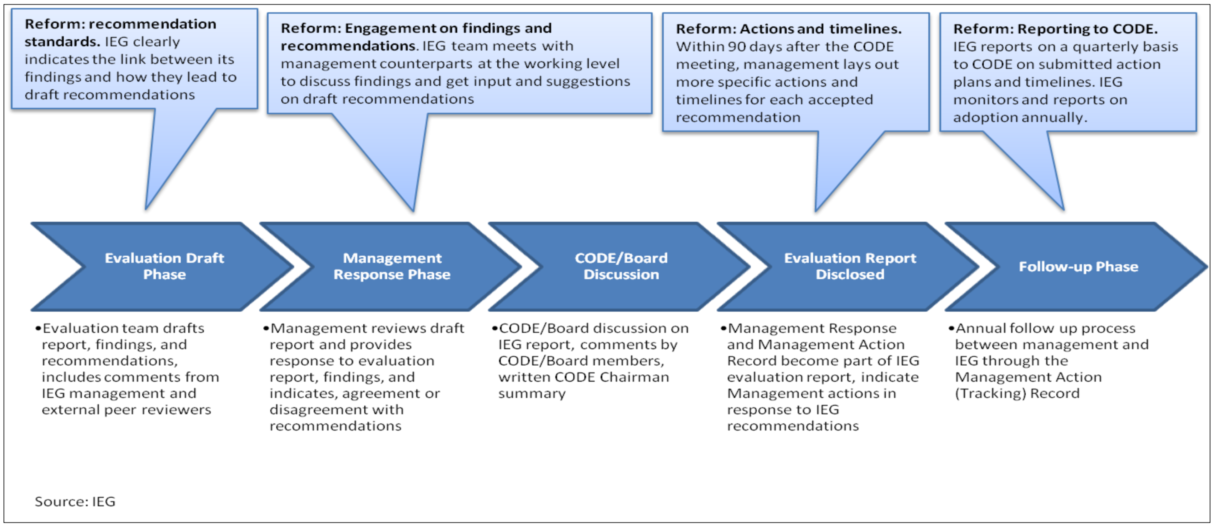
**There have been significant weaknesses in the MAR process in the past.** IEG's 2010 Results and Performance report identified several shortcomings in the MAR process. A main weakness, particularly in the case of the World Bank and MIGA, was the lack of common understanding between IEG and WBG management about what constituted adoption of a recommendation. The broad nature of some IEG recommendations contributed to this lack of understanding, especially when the recommendations were not actionable. The MAR process also did not apply to some of IEG's evaluations, most notably its country evaluations.

**IEG and WBG management have agreed on measures to improve the MAR.** In response to the Board's request for an improved MAR process, the managements of the three WBG institutions and IEG submitted a joint proposal for reform of the MAR process to the Committee on Development Effectiveness in November 2010. The proposal sought to strengthen the quality of IEG recommendations as well as their implementation by WBG management. The flow chart in Figure 7.13 provides an overview of the revised process and highlights the most important changes. These are:

- IEG will prioritize recommendations, consider their feasibility and cost effectiveness, and reduce their number and complexity. The links between the evaluation findings and the recommendations will be made clear.
- Management will define specific actions and timelines to respond to IEG's recommendations that will provide clearer benchmarks against which to assess progress in implementing IEG's recommendations.
- More upstream discussion will take place between IEG and management during the drafting of recommendations.
- The MAR tracking form will be revised to indicate progress by including monitorable actions and timelines and allowing for adjustments and drops, retirement after four years, and a time dimension in the scale that reflects adoption (for example, too early to assess).
- A user-friendly system for tracking and analysis will be developed in FY11.

**These reforms are expected to enhance both accountability and learning.** The reforms to the MAR process are expected to enhance accountability to the Board and strengthen its oversight capacities. They are also expected to help to create an environment that better contributes to the use of evaluations and thus to their effectiveness. These reforms are also expected to promote greater consistency in following up on recommendations across the WBG. As the reforms are piloted, it will be necessary to ensure that the process does not become unduly burdensome, complex, or opaque, and that it results in improved quality and prioritization of recommendations. The new system is being piloted in three evaluations in FY11 and will be implemented in full in FY12.

**Figure 7.13. Improved Follow-Up Process to IEG Recommendations**




*Source:* IEG.

**Early results from the MAR pilots demonstrate improvements in MAR process.** To roll out the MAR reform, IEG and management are piloting the approach in three evaluations—poverty (IFC), SSNs (World Bank), and ICT (WBG). Early results from these pilots have demonstrated the benefits from increased engagement between IEG and management, without compromising IEG's independence. There has been clearer demonstration of the link between the main findings and recommendations in the evaluations; increased clarity in the recommendations, which are more actionable; and increased ownership of recommendations by management. During these pilots, IEG strengthened its quality control review procedures, with an increased focus on findings and recommendations. It has also had more interactions with management while drafting recommendations. Management has also played a positive role and made significant contributions to the interactions and the process.

### EVALUATION INFLUENCE

**Surveys of clients and stakeholders suggest that evaluations can have a broad impact on the development effectiveness of the WBG.** The rate of adoption of IEG recommendations through the MAR, though important, is only one measure of IEG's influence on improving the development effectiveness of the WBG. In surveys of clients and stakeholders conducted for a recent IEG self-evaluation, 86 percent of Board members were of the opinion that IEG had a moderate or greater impact on the WBG's development effectiveness. Seventy-five percent of external stakeholders and 67 percent of WBG staff thought that IEG had at least a moderate influence. Moreover, about half of the Board members, half of WBG staff, and 72 percent of external stakeholders thought that IEG was making at least a moderate contribution to the development effectiveness of the broader development community (Table 7.6).

**Table 7.6. Perceived Impact of Evaluations on Development Effectiveness**

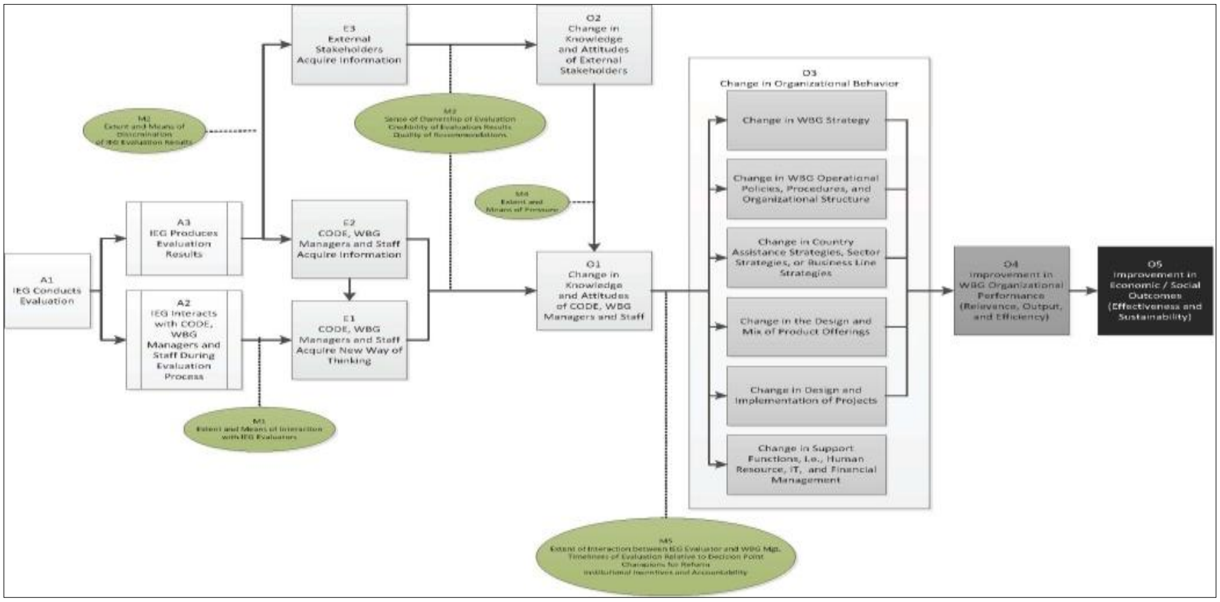
| | *Impact on the Bank Group's development effectiveness* | *Impact on the broader development community's development effectiveness* |
|---|---|---|
| | **Board members** | |
| Percent rating impact as moderate, great, or very great | 86 | 46 |
| Percent rating impact as great or very great | 36 | 32 |
| Number of responses | 28 | 28 |
| | **World Bank Group staff** | |
| Percent rating impact as moderate, great, or very great | 67 | 54 |
| Percent rating impact as great or very great | 34 | 21 |
| Number of responses | 805 | 789 |
| | **External stakeholders** | |
| Percent rating impact as moderate, great, or very great | 75 | 72 |
| Percent rating impact as great or very great | 47 | 39 |
| Number of responses | 962 | 944 |

*Source:* 2010 IEG client survey.

### *A Framework to Understand Evaluation Influence on the World Bank Group*

**The MAR process provides little insight into the processes that make an evaluation influential.** It is a static tool as it rates the WBG's progress on recommendations made at the time an evaluation was completed. As such, it does not provide the opportunity to review WBG progress against changing events or new evidence that might have become available subsequent to the evaluation. In addition, the MAR cannot provide any information on improvements in development effectiveness following the implementation of recommendations. To better understand IEG's influence on improving the development effectiveness of WBG operations, IEG developed a framework for its influence (Figure 7.14) and tested the framework with case studies. The framework illustrates the causal chain from evaluation activities to improvements in development effectiveness, calling attention to the factors that mediate the strength of the links in the chain. These factors include the extent of interaction between IEG evaluators and WBG management, timeliness of the evaluation relative to a decision point, champions for reform, and institutional incentives and accountability. Changes in organizational behavior are expected to lead to improvements in the organizational performance of the WBG with respect to relevance, efficiency, and output. In the medium and long term, it is expected that improvements in WBG organizational performance will lead to greater development effectiveness.

**Figure 7.14. IEG's Influence Framework**




*Source:* IEG.

**Two case studies on completed evaluations demonstrate broader influence of evaluation on the WBG.** IEG undertook in-depth tracking studies to assess the influence of the *Hazards of Nature, Risks to Development* evaluation (IEG 2006) and the *World Bank Group Guarantee Instruments: 1990–2007* (IEG 2009d). The Hazards of Nature evaluation contributed to the establishment of the Global Facility for Disaster Reduction and Recovery, revisions to the Bank's operating policy for emergency response, the establishment of a quick response team, and greater focus on disaster risk mitigation measures in high-risk countries. These changes led to increased funding for disaster reduction activities, faster approval times for disaster-related projects, and quicker deployment of experts in the immediate aftermath of natural disasters. Ultimately, these actions are expected to help reduce loss of life and property stemming from natural disasters. The guarantees evaluation also influenced WBG strategy and operations, particularly by contributing to the establishment of a joint MIGA/IFC marketing unit and reinforcing the need for changes to MIGA's Convention and Operating Policies that were subsequently adopted.

**Several factors can enhance the influence of an evaluation.** Factors that contributed to the increased influence of these evaluations included a sense of shared ownership of the evaluation; credibility of evaluation results; methodological rigor; the quality of recommendations in terms of coherence, clarity, and cost effectiveness; the extent of interaction between evaluators and management; the timeliness of the evaluation; the presence of advocates for reform and adoption of IEG recommendations; and institutional incentives and accountability for adopting recommendations (Table 7.7).

**Table 7.7. Factors Affecting the Influence in the Natural Disasters Evaluation**

| *Factor* | *Assessment* |
|---|---|
| Extent and means of interaction with IEG evaluators | IEG and managers interacted on a regular basis throughout the evaluation, with meetings held every one to two months. The lead evaluator participated in the working group to revise the Bank's operating policy on emergency response. IEG stayed engaged with management after the evaluation report was completed. |
| Sense of ownership | Senior decision makers within the Bank were actively seeking ways to improve the Bank's response to natural disasters. In this regard, the IEG evaluation was welcomed as an important input. The IEG evaluators invited the Hazard Risk Management Team to propose lines of inquiry for the evaluation. Managers felt that the evaluation addressed issues that were important to them and in which they played a direct role (for example, OP 8.00; GFDRR). |
| Credibility of evaluation results | The IEG task manager was regarded as an expert in natural disasters. The evaluation was based, in part, on an analysis of all of the Bank's disaster-related projects from 1984–2005. By considering all projects, the evaluation team ensured that the report fully reflected the Bank's work in this area. CODE and management viewed the methodology as sound. |
| Quality of recommendations | For the most part, the recommendations were anchored in the analysis and flowed logically from valid conclusions. Recommendations provided a clear sense of direction for managers to follow. The recommendations were agreed by management and endorsed by CODE. |
| Timeliness of evaluation relative to decision point | Recent events—the earthquake and tsunami in the Indian Ocean, flooding and mudslides in Guatemala, and the earthquake in Kashmir—had raised the profile of natural disasters inside and outside the Bank. There was significant pressure within the Bank, and from external stakeholders, to improve the effectiveness of the Bank's disaster-related assistance. The Bank was in the process of establishing the GFDRR and revising its operating policy (OP 8.50) when the evaluation was being carried out, and it was looking for guidance to inform these efforts. The evaluators provided preliminary findings in a timely manner, for example, when the Bank was responding to a specific disaster. Also, according to the GFDRR program manager, the evaluation process was useful in thinking through the establishment of the GFDRR. |
| Institutional incentives and accountability | Senior decision makers within the Bank had made it a priority to improve the Bank's disaster-related assistance. CODE agreed on the need for mainstreaming hazard risk management in the Bank's operations, supported a review of OP 8.50, and set a deadline for completing the revision (December 2006). |
| Champion for reform | Senior managers within the Bank advocated for reforms that were recommended in the IEG evaluation. In particular, the program manager who helped set up GFDRR welcomed the evaluator's input and pushed for the establishment of the GFDRR facility. |

*Source:* IEG.
*Note*: CODE = Committee on Development Effectiveness; GFDRR = Global Facility for Disaster Reduction and Recovery.

**A constructive feedback loop with evaluation can enhance the effectiveness of the WBG.** IEG studies indicate under given conditions—such as IEG providing relevant and realistic recommendations and management open to change—that the feedback process between evaluation and management can effectively enhance the contribution of the WBG to development. Independent evaluation seeks to provide objective assessments of the results of WBG development interventions. The recommendations of evaluations aim to improve institutional determinants of the WBG's effectiveness—factors within the control of the WBG. By improving factors within their control, WGB institutions can increase the likelihood that their interventions will succeed.

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# Endnotes

## Chapter 1

[1] The World Bank Group consists of five institutions—the International Bank for Reconstruction and Development (IBRD), the International Finance Corporation (IFC), the International Development Association (IDA), the Multilateral Investment Guarantee Agency (MIGA), and the International Centre for the Settlement of Investment Disputes. In this report, "the Bank" refers to IDA and IBRD, and "WBG" refers to the Bank, IFC, and MIGA.

[2] The introduction of the four core development goals as the conceptual framework for this evaluation necessitated a mapping of WBG activities and associated ratings to this structure. IEG mapped WBG activities to each core goal, acknowledging that there was significant overlap and that not every WBG intervention fit clearly under any one goal. The exercise was treated as a pilot and IEG plans to further calibrate the clustering for future annual reports in coordination with WBG management. See Appendix A. As IEG classifications differ from the standard thematic and sector themes in the Bank's database, the lending amounts in Bank "sectors" and RAP "core goals or intermediate goals" may not fully match.

[3] These themes were overcoming poverty and spurring sustainable growth in the poorest countries, especially in Africa; addressing the special challenges of states coming out of conflict; contributing solutions to growth and development in middle-income countries; playing a more active role in regional and global public goods; strengthening development and opportunity in the Arab world; and becoming a learning organization that leverages the best global knowledge to support development.

[4] Given the WBG's current focus on targeted programs for the poor, this evaluation separates the discussion of WBG support for infrastructure specifically targeted at the poor from broader infrastructure development programs.

[5] Indian poverty estimates for the 1990s have been debated and evidence presented that the estimation for the period was too optimistic (Deaton and Kozel 2004; Sen and Himanshu 2004). The World Development Indicators data cited here are also more optimistic than estimates by Sen and Himanshu.

[6] 2011 World Development Indicators. The World Bank and IFC both have administrative units known as Regions (capitalized to distinguish them from common geographic regions). In the World Bank these units are called regional vice presidencies; in IFC they are called regional departments. Although both institutions use similar names for these Regions, the countries in those Regions are not necessarily the same. This report uses the terminology of the relevant institution when the discussion relates specifically to those units. In all other cases, including when discussing MIGA, which does not have such units, the report uses standard geographical names of regions.

[7] 2011 World Development Indicators.

[8] Thirty-eight countries are off track and about half of them are within 10 percent of the trajectory of being on track. However, data are insufficient to track progress for the remaining 59 countries. See World Bank (2011). Many of the on-track countries are in Europe and Central Asia and the Latin America and the Caribbean Regions (World Bank 2011).

[9] 2011 World Development Indicators.

[10] World Bank World Development Indicators database.

[11] World Bank World Development Indicators database.

[12] World Bank database.

[13] World Bank World Development Indicators data.

[14] World Bank/International Monetary Fund Global Monitoring Report 2010 and World Bank estimates at http://go.worldbank.org/BHCW4QILD0.

[15] World Bank World Development Indicators data. Despite the progress, low income countries and Sub-Saharan Africa still lag behind other country groups because of low starting points.

[16] See World Bank and International Monetary Fund (2011). Despite the overall progress, there are still considerable variances among countries on whether they are on-track to reach the MDG of full primary completion.

[17] World Bank database. All enrollments here refer to gross rates.

[18] World Bank. *Food Price Watch*. February 2011. http://www.worldbank.org/foodcrisis/food_price_watch_report_feb2011.html.

[19] Based on data from EM-DAT, the Office of Foreign Disaster Assistance/Centre for Research on the Epidemiology of Disasters international Emergency Events Database (http://www.emdat.be). The rising trends discussed here might be partially from increased media coverage over time. However, no rising trends are observed for earthquakes.

[20] Energy-related carbon dioxide emissions consist of emissions from the burning of fossil fuels and the manufacture of cement and exclude greenhouse gas emissions from land-use change and forestry. Source: World Bank World Development Indicators database and World Resources Institute, Climate Analysis Indicators Tool version 8.0, http://cait.wri.org.

[21] World Bank World Development Indicators data.

[22] http://www.theclimategroup.org/_assets/files/Post-Cancun-Analysis_1.pdf.

[23] World Bank CPIA data.

[24] Rating on Efficiency of Revenue Mobilization, World Bank CPIA database.

[25] Ratings on Quality of Budgetary and Financial Management and Quality of Public Administration, World Bank CPIA database.

[26] For the CPIA, this is the Property Rights and Rule-Based Governance rating.

[27] Transparency International indicators are used here for cross-check and comparison purpose. There are criticisms on the limitations of these indicators.

## Chapter 2

[1] IFC advisory services project expenditures usually account for about 65 percent of the total advisory services expenditures. Other expenses include new business development, program management and support, product development, monitoring and evaluation, public relations, knowledge management and staff development, fund raising and donor relations, and general and administration expenditures.

[2] This includes Bank development policy operations that typically have multiple objectives, beyond economic policies to support market-based growth, including public sector management, public expenditure reform, and human development policies.

[3] As discussed in Box 1.1 and in Appendix A, unless otherwise noted, "outcomes" refers to the "outcome" of Bank-financed projects, which comprises an assessment of the project's relevance, effectiveness, and efficiency; the "development outcome" of IFC and MIGA-supported projects as rated by IEG; and the "outcome" of country programs as rated by the CASCR Review. Throughout the report, the percentage satisfactory is based on the number of projects and not volume unless otherwise noted.

[4] CASCR Reviews; Africa Action Plan Evaluation.

[5] IEG (2010o). Note a common feature of the countries selected was application of the Roderik, Hausmann, Velasco growth diagnostics framework.

[6] A project receives a rating of satisfactory for PSD when the company, at a minimum, has developed into a positive role model with good financial and economic performance, irrespective of whether it has major impact on the sector.

[7] Based on the XPSRs and Evaluation Notes, IEG identified the projects that had "beyond the project" effects in their sectors or markets. There may be projects where the impact on markets is not yet discernable (for example, new private sector entrants in the sector) at the time of evaluation. Therefore, the percentage of IFC-supported projects with market impact can increase over time.

[8] As noted above, because of classification of projects under the four core goals in the RAP, the amount of Bank lending in infrastructure reported in the RAP may not coincide with those reported by the Bank elsewhere. These numbers are based on classifications in the lending database and include the transport, power, ICT, and water supply and sanitation sectors. They exclude infrastructure programs specifically targeted at the poor (such as social fund-type operations, rural electrification, and household water supply), which are discussed elsewhere in the report. They do not include financing of infrastructure that forms part of interventions in other sectors.

[9] This includes IFC investments in the power, transport, water, and ICT sectors. It excludes investments in oil, gas, and mining, which are classified as real sectors.

[10] The recent drop in the relative share of infrastructure needs to be seen in the context of the current global financial crisis, which has heightened attention to MIGA's financial sector guarantees. Investors pulling back or delaying projects due to difficulties in arranging project finance, for example, also contributed to the decrease in issuance in infrastructure.

[11] Forthcoming IEG evaluations in FY12 and FY13 will cover infrastructure in detail.

[12] Because of the small sample size available, these paragraphs describe *qualitative* findings derived from the underlying PERs. See Appendix A for a list of PERs.

[13] IEG, Africa Action Plan Evaluation, 2011.

[14] IEG CASCR Reviews and Implementation Completion Report Reviews.

[15] The strategy states, "The traditional role of the Bank in the financial sector—to unlock development by relaxing funding constraints through lending operations to government—has become comparatively less relevant in many countries and middle-income countries in particular. At the same time, the processes of financial liberalization and globalization have accelerated the growth of private financial markets where the IFC balance sheet can be put to use. "

[16] The $1.4 billion FY10 DPL to Hungary closed in FY11 without any amount being disbursed.

[17] These data are derived from the sample of PERs used for the IEG evaluation *MIGA's Financial Sector Guarantees in a Strategic Context*, which is different from the list of MIGA PERs in Appendix A. Recent evaluations support these finding. Eighty percent of financial sector projects evaluated had successful development outcome ratings, compared to 60 percent for infrastructure projects and 71 percent for real sector projects.

[18] In this report, the "real sectors" are considered to be agriculture, agribusiness, industry, extractive industries, manufacturing, and service industries excluding the financial sector, health, and education. Infrastructure is considered separately as part of creating the environment for economic growth and expanding economic opportunities.

[19] Excluding infrastructure.

[20] The agriculture and agribusiness evaluation (IEG 2011a)looked at projects focused on agricultural growth and productivity, a small subset of the broader agriculture and rural development portfolio. The proportion of satisfactory projects for these projects differs from that of the broader agriculture and rural development portfolio that includes more activities in rural space, such as community-driven development, education, health, and so forth.

[21] The CGIAR system has undergone a major reform since 2008 to improve its effectiveness and relevance. A relatively small number of high-impact CGIAR research programs are replacing the many, often fragmented, research programs of the past.

**Chapter 3**

[1] These projects include freestanding targeted interventions, such as social funds, community-driven development, rural electrification, and household water supply projects.

[2] Unlike the Bank's Middle East and North Africa Region, IFC's Region includes Afghanistan and Pakistan (which are in the South Asia Region in the Bank), but excludes Djibouti (which is IFC's Africa Region).

[3] Evidence on the effectiveness of Bank support for education comes from IEG's 2011x, which reviewed results over the last decade.

[4] As noted in chapter 1, the project outcome rating reflects three criteria, only one of which is efficacy (the other two being relevance and efficiency).

[5] Healthy Development: The World Bank Strategy for Health, Nutrition, and Population Results, was launched in 2007.

[6] Evidence on the effectiveness of Bank and IFC support for health comes from IEG's 2009 evaluation, *Improving Effectiveness and Outcomes for the Poor in Health, Nutrition, and Population*, which reviewed results since 1997, and the ratings of projects that more recently exited the portfolio.

[7] All 10 projects were approved before 2005 and were evaluated after reaching operational maturity.

[8] This includes infrastructure projects mainly aimed at low-income groups and rural areas and social fund interventions with basic infrastructure components. It excludes components of other projects targeted at low-income groups and rural areas.

## Chapter 4

[1] This amount includes Bank lending triggered by and classified as responding to recent crises, such as the food and financial crisis. However, it excludes substantial other lending that formed part of the crisis response but was classified under specific sectors, such the financial sector, the human development sectors, or infrastructure. The volume also does not capture all the WBG's efforts in environment, many of which are embedded as part of investment loans rather than as freestanding operations.

[2] See World Bank (2001). Although IFC and MIGA were not significant participants in the preparation of the strategy, their role and contribution were specifically incorporated.

[3] The WBG's Environment Strategy is currently being updated and revised, with the target of issuing a new strategy by late 2011. In the meantime, the objectives of the 2001 strategy remain relevant.

[4] The environmental portfolio includes all projects with the following primary sector or theme: biodiversity, environmental policies and institutions, land administration and management, pollution management and environmental health, and other environment and natural resources management. For the purposes of this report, it does not include climate change and water resources management projects.

[5] See GEF (2010). The study synthesized the findings of evaluations undertaken by the GEF's executing and implementing agencies, as well as GEF's own evaluations, for all phases of the GEF (1991–2010).

[6] Guarantees amounting to $156 million (gross) that became effective in December 2010 and related to several host countries are not considered crisis support and hence are not counted in these totals.

[7] The evaluations of these projects have not yet been finalized and are hence not part of the 17 projects listed in Appendix A.

[8] This IEG assessment of MIGA's crisis response offers a real-time evaluation, based on document review, staff interviews, four country case studies, visits to two host countries, one completed PER, and three preliminary draft PERs.

[9] A background review for IEG's climate change evaluation found that protected areas were, on average, effective in reducing deforestation. Multiple-use protected areas—those that permitted some forms of sustainable use by local populations—were at least as effective as strictly protected areas. Areas that had been returned to indigenous control were most effective of all.

### Chapter 5

[1] This sample was compiled using the same method as for IEG's 2008 evaluation of public sector reform. From the larger set of loans with at least 25 percent of the sector or theme rated as public sector or at least three prior actions pertaining to public sector, IEG selected those that supported strengthening of public financial management, the civil service, tax administration transparency and anticorruption institutions, or the legal and judicial system. Loans that focused on a single sector, such as education, were not included.

[2] In 2005–09, 93 percent of DPLs and 69 percent of investment loans had PFM components. The majority of those without PFM components were focused on tax administration.

[3] The Bank's definition of corruption is "the abuse of public office for private gain" (World Bank 1997). Although this does not include all kinds of corruption, it embodies corruption concerns in the core public sector, such as bribery, bureaucratic corruption, and state capture.

[4] An IEG evaluation of the governance and anticorruption process is forthcoming.

### Chapter 6

[1] The difference in overall Bank-supported project outcome ratings between FY05-07 (79 percent) and FY08-10 (76 percent) is not statistically significant at a 95 percent confidence interval.

[2] As measured by the CPIA score for the "public sector management and institutions cluster" below 3.2. This cluster is an average of five scores: property rights and rule-based government; quality of budget and financial man-

agement; efficiency of revenue mobilization; quality of public administration; and transparency, accountability, and corruption in the public sector.

[3] A relevant question is: to what extent do outcome targets in the CAS results framework reflect—with suitable timing adjustments—outcome targets in the projects that make up the underlying country portfolio? It is only when this question can be reliably answered that the comparison between the ratings at the country program level and at the project level becomes truly meaningful.

[4] There are differences in country classification between the World Bank and IFC with regard to the Middle East and North Africa Region. The IFC's region includes Pakistan and Afghanistan, which the Bank classifies as part of its South Asia Region. In addition, IFC has businesses in some high-income countries such as Saudi Arabia and Oman, whereas these the World Bank classifies these countries as graduated. When adjusting IFC's classification to align with that of the Bank, IFC's successful project outcome ratings improved from 36 percent high in 2005–07 to 100 percent in 2008–10.

[5] See Appendix D for a summary of IEG ex post project evaluation methodology.

[6] This is consistent with the findings in last year's IEG annual report *Results and Performance 2010 – The World Bank Group* (IEG 2010j).

[7] As also reported in *MIGA's Financial Sector Guarantees in a Strategic Context*, (IEG 2011f).

**Chapter 7**

[1] Of the Deferred Drawdown Option commitments, close to 50 percent remained undisbursed as of May 2011.

[2]http://www.ifc.org/ifcext/about.nsf/AttachmentsByTitle/SM11_AMC/$FILE/SM11_AMC.pdf.

[3] *MIGA's Financial Sector Guarantees in a Strategic Context.* MIGA guarantees are often cancelled before their expiration because of changes in investor risk perceptions relative to MIGA's pricing, improved country performance, or a change in ownership of the project or guarantee-holder among others. Such cancellations lead to the shrinking of MIGA's outstanding portfolio, that is, a "runoff," which is usually measured in terms of annual runoff of the outstanding portfolio (net exposure).

[4] The majority (21) of 30 Europe and Central Asia countries[4] are IBRD countries. Only nine countries in the Region are IDA or blend: Armenia, Azerbaijan, Bosnia and Herzegovina, Georgia, Kosovo, Kyrgyz Republic, Moldova, Tajikistan, and Uzbekistan.

[5] The Bank requires an Activity Completion Summary to be prepared for all AAA, within six months of delivery to the client. The information contained in the summary is largely mechanical and does not lend itself to evaluation, and the rate of noncompletion is significant. IEG has not routinely reviewed the Activity Completion Summaries.

[6] Unlike the Bank's Middle East and North Africa Region, IFC's region includes Afghanistan and Pakistan (which are in the Bank's South Asia Region), but excludes Djibouti (which is in IFC's Africa Region).

[7] As of the end of the third quarter of FY11, only 29 percent of FY11 projects had entered additionality appropriately at approval. After IFC's review of the problem, the completion rate has risen to 67 percent as of April 2011. DOTS administrators are trying to fill in the remaining 33 percent of FY11 new business by retroactively inserting the missing additionality information.

[8] Examples of lack of IFC additionality from evaluations include IFC's investment changed from the purchase of new equity to a purchase of existing shares in the secondary market. This actually replaced an existing private investor. The fact that there was an existing base of multiple foreign owners suggests that IFC may have potentially crowded out other interested investors. In another example, a company was raising funds from other private investors in the form of ordinary share capital. IFC's investment was in the form of redeemable (at IFC's option) preference shares. It is questionable, however, whether IFC provided funds on a more competitive basis than other investors. IFC did not participate in the mobilization of additional funds, and other investors were already engaged with the sponsor. In a third case, IFC's financing proved a burden on a start-up venture, and it is questionable whether IFC's investment was required at all. A better support mechanism would have been via a technical assistance grant.

[9] These mediated cases include projects that had been previously only monitored and later on mediated due to an aggravation of the situation.

[10] These examples are only illustrative and cannot be extrapolated to MIGA's mediation efforts overall, as the project evaluation database covers too narrow a range of projects to make statistical inferences.

[11] The MIGA FY12–14 Strategy: *Achieving Value Driven Volume* proposes these six indicators, without referring to DEIS explicitly.

[12] This section focuses only on the apex tools. All three WBG institutions have additional reporting mechanisms that also contain development effectiveness data, including the IDA Results Measurement System and MIGA's Executive Vice Presidency reports, which regularly contain indicators on operational and organizational effectiveness (for example, business volume, number of projects, guarantees in IDA countries, and return on operating capital).

[13] DGE mandate.

[14] Management has disagreed with IEG in the case of 14 recommendations that are currently tracked in the MAR. These disagreements are further explained in each organization's section.

[15] Currently, IEG does not track the recommendations of country evaluations.

[16] Four IEG recommendations were not accepted by Bank management. These were (i) clarifying the role of the World Bank Institute and reengineering the training process because management considered know-

ledge management and technical assistance, not just training, as the mandate of the World Bank Institute (from IEG 2008d); (ii) disclosing the CPIA of IBRD countries because management thought that IEG did not provide sufficient basis to justify why disclosure would enhance the quality of the rating and that the rating could affect market perceptions of the countries concerned (from IEG 2010m); and (iii) simplifying the language of conditionality for Poverty Reduction Strategy Credits/DPLs (from IEG 2010i) because management saw the thrust of the recommendation already embedded in its DPL framework.

[17] The need for better coordination within the WBG (across the Bank, IFC, and MIGA) was flagged in the sustainable environment, guarantee, and middle-income country evaluations (IEG 2008a, 2009d, 2007b); insufficient coordination between sectors was raised as an area for improvement in transport, Sub-Saharan agriculture, decentralization, the environment (in both in IEG 2008a and IEG 2009a), HNP, and fiduciary evaluations.

[18] The Bank has since then issued a guidance note on assessment of fiduciary risks in the use of country financial management systems and Bank-financed investment projects.

[19] MIGA management disagreed with IEG on three of the five 2010 recommendations, although they explicitly agreed with two of these and at least did not explicitly disagree with the remaining recommendation in the original management response to the evaluations. These recommended that MIGA measure project-level results, put in place a performance management system that aligns staff incentives to the achievement of MIGA's corporate goals and priorities, and strengthen MIGA's business development function. MIGA management responded that measuring project-level financial data would increase the pressure to focus on profitability in small IDA-related projects and held that MIGA's business should best be operated on a portfolio basis, so that collectively all the premium revenues received cover all the costs expended. On performance management, MIGA disagreed with IEG on revamping business development or launching any new business before having taken stock of its indicators.