IEG ANNUAL REPORT 2011

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

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

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 shock 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.

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.
Summary

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

<table>
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<tr>
<th>Definition of Outcome Ratings of WBG Operations</th>
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<tr>
<td><strong>Country Program Outcome</strong>: This rating captures the extent to which the WBG’s assistance strategy in a country achieved its relevant stated objectives efficiently.</td>
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<tr>
<td><strong>World Bank Project Outcome</strong>: 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).</td>
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<tr>
<td><strong>IFC Project Development Outcome</strong>: 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.</td>
</tr>
<tr>
<td><strong>MIGA Project Development Outcome</strong>: 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.</td>
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</table>

*Source: IEG.*
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 WB 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 (SWAs). 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 SWAs in health has contributed to greater government leadership, capacity, coordination, and harmonization, but not necessarily to better results. SWAs 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 SWAs could not point to links between the approach and improved outcomes from national health strategies. The national programs that the SWAs 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 not to 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 sub-pillar 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-
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 co-
pany); 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

**Development Effectiveness of WBG Interventions**

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

<table>
<thead>
<tr>
<th>Institutional performance rating</th>
<th>World Bank FY08-10</th>
<th>IFC CY08-10</th>
<th>MIGA FY09-11</th>
</tr>
</thead>
<tbody>
<tr>
<td>Satisfactory</td>
<td>93 (n = 400)</td>
<td>82 (n = 170)</td>
<td>77 (n = 13)</td>
</tr>
<tr>
<td>Unsatisfactory</td>
<td>17 (n = 117)</td>
<td>40 (n = 47)</td>
<td>50 (n = 4)</td>
</tr>
</tbody>
</table>

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 2011). 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. 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

<table>
<thead>
<tr>
<th>WBG Operations (percent of total, unless in bold)</th>
<th>2005–07</th>
<th>2008–10</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>World Bank operations</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>World Bank lending projects total</td>
<td>1,096</td>
<td>1,258</td>
</tr>
<tr>
<td>Expanding economic opportunities</td>
<td>52</td>
<td>48</td>
</tr>
<tr>
<td>Enhancing human development</td>
<td>21</td>
<td>19</td>
</tr>
<tr>
<td>Reducing vulnerability</td>
<td>14</td>
<td>20</td>
</tr>
<tr>
<td>Improving public sector effectiveness</td>
<td>13</td>
<td>13</td>
</tr>
<tr>
<td>World Bank Nonlending Services total</td>
<td>2,913</td>
<td>3,075</td>
</tr>
<tr>
<td>Expanding economic opportunities</td>
<td>46</td>
<td>48</td>
</tr>
<tr>
<td>Enhancing human development</td>
<td>15</td>
<td>14</td>
</tr>
<tr>
<td>Reducing vulnerability</td>
<td>14</td>
<td>15</td>
</tr>
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<td>Improving public sector effectiveness</td>
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<td>23</td>
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<tr>
<td><strong>IFC operations</strong></td>
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</tr>
<tr>
<td>IFC investment projects total</td>
<td>841</td>
<td>1,173</td>
</tr>
<tr>
<td>Expanding economic opportunities</td>
<td>95</td>
<td>96</td>
</tr>
<tr>
<td>Enhancing human development</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>Reducing vulnerability</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>Improving public sector effectiveness</td>
<td></td>
<td></td>
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<tr>
<td>IFC advisory projects total</td>
<td>295</td>
<td>523</td>
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<tr>
<td>Expanding economic opportunities</td>
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<td>Enhancing human development</td>
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<td>Reducing vulnerability</td>
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<tr>
<td>Improving public sector effectiveness</td>
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<tr>
<td><strong>MIGA operations</strong></td>
<td></td>
<td></td>
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<tr>
<td>MIGA projects total</td>
<td>95</td>
<td>59</td>
</tr>
<tr>
<td>Expanding economic opportunities</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

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.
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

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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.
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 (Cre-
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 contri-
but 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.


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 an 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 socioe-
economic 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 of the 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. 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 de-
development goals. 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. 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 sup-
port 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. 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 per-
cent, 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**

<table>
<thead>
<tr>
<th>Year Range</th>
<th>Including China and India</th>
<th>Excluding China and India</th>
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<tbody>
<tr>
<td>1999-2005</td>
<td>2.2</td>
<td>0.2</td>
</tr>
<tr>
<td>2002-2005</td>
<td>2.3</td>
<td>0.3</td>
</tr>
<tr>
<td>2002-2005</td>
<td>3.3</td>
<td>3.3</td>
</tr>
</tbody>
</table>


**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

![Average Annual GDP Growth Rate in Developing Countries](image)


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 Co-
operation 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. Ma-
ternal 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. 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.

**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. 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.

**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. 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 re-
ducing 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.\textsuperscript{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.\textsuperscript{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.

\textbf{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.\textsuperscript{24} However, CPIA indicators for public financial management and public administration do not show significant improvement across countries.\textsuperscript{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.\textsuperscript{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.\textsuperscript{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. 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

<table>
<thead>
<tr>
<th>Share of total (%)</th>
<th>2005–07</th>
<th>2008–10</th>
</tr>
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<tbody>
<tr>
<td>MIGA guarantees</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>IFC investments</td>
<td>98</td>
<td>97</td>
</tr>
<tr>
<td>IFC advisory</td>
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<td>80</td>
</tr>
<tr>
<td>World Bank lending</td>
<td>61</td>
<td>58</td>
</tr>
<tr>
<td>World Bank analytic and advisory activities</td>
<td>47</td>
<td>45</td>
</tr>
</tbody>
</table>

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 sec-
tor 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. 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
Expanding Economic Opportunities

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 (SWAs), 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). 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 concen-
trated 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. 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 re-
liability of the host country’s power supply by contributing additional capacity. 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. 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. 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. 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. 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 (exclud-
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. 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. 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. MIGA guarantees in the real sectors predominately supported projects in Sub-Saharan Africa and
EXPANDING ECONOMIC OPPORTUNITIES

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. 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. 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 in-
formed 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 out-
come 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. 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.
Chapter 3
ENHANCING HUMAN DEVELOPMENT

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. 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. 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.
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**

<table>
<thead>
<tr>
<th>Objective</th>
<th>Percentage Achieved</th>
</tr>
</thead>
<tbody>
<tr>
<td>Access/enrollments (n=33)</td>
<td>82</td>
</tr>
<tr>
<td>Equity (n=28)</td>
<td>61</td>
</tr>
<tr>
<td>Quality of education (n=42)</td>
<td>45</td>
</tr>
<tr>
<td>Employment/labor force (n=9)</td>
<td>44</td>
</tr>
<tr>
<td>Efficiency (n=23)</td>
<td>39</td>
</tr>
<tr>
<td>Learning outcomes (n=14)</td>
<td>36</td>
</tr>
<tr>
<td>Piloting (n=9)</td>
<td>33</td>
</tr>
<tr>
<td>Management/capacity (n=17)</td>
<td>29</td>
</tr>
</tbody>
</table>

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. 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 invest-
ments 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. 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 institu-
tion 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. 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.
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. 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 SSN 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). 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: (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.

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. 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. 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 own-
ership 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. De-
ficiencies 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**

![Graph showing trends in success rates](image)

Source: IEG.

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**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-
CHAPTER 4
INCREASING RESILIENCE TO SOCIOECONOMIC AND ENVIRONMENTAL RISKS

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 crisis 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. 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. 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.
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. 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 multi-purpose 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). 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

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 revis-
ing 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 efficiency. 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 expend-
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. 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.

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 develop-
ing 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 IFC’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...
CHAPTER 5
IMPROVING PUBLIC SECTOR MANAGEMENT

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

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<td>EVALUATED</td>
<td>SATISFACTORY</td>
</tr>
<tr>
<td>Countries with low CPIA (&lt; or = 3.2)</td>
<td>201</td>
<td>71%</td>
</tr>
<tr>
<td>Countries with medium or high CPIA (&gt;3.2)</td>
<td>592</td>
<td>82%</td>
</tr>
</tbody>
</table>

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). 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 ex-
amining 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.

Table 6.2. Summary of World Bank Group Development Outcome Ratings

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

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. 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. 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. 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). 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**

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 pre-
maturely; 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**

<table>
<thead>
<tr>
<th>Strategic Management</th>
<th>Program and Project Cycle Management</th>
<th>Organization and Incentives</th>
<th>Resources and Support Processes</th>
<th>Coordination and Partnerships</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Mission and Vision</td>
<td>• Additional, Role and Contribution Planning, Assessing, Due Diligence, Underwriting Implementation and Monitoring of Programs and Projects</td>
<td>• Organizational Structure and Governance • Incentives / Rewards • Efficiency</td>
<td>• Human Resources Management • Financial Management • Infrastructure • Management of Support Processes</td>
<td>• Internal WBG Coordination • External Linkages and Partnerships</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Institutional performance rating</th>
<th>Development outcome rating (percent satisfactory/successful)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>World Bank (FY08-10)</td>
</tr>
<tr>
<td>Satisfactory</td>
<td>93</td>
</tr>
<tr>
<td>(n = 400)</td>
<td>(n = 170)</td>
</tr>
<tr>
<td>Unsatisfactory</td>
<td>17</td>
</tr>
<tr>
<td>(n = 117)</td>
<td>(n = 47)</td>
</tr>
</tbody>
</table>

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 non-lending 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

<table>
<thead>
<tr>
<th></th>
<th>FY05–07</th>
<th>FY08–10</th>
<th>AFR</th>
<th>EAP</th>
<th>ECA</th>
<th>LAC</th>
<th>MNA</th>
<th>SAR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lending projects</td>
<td>Number</td>
<td>US$M</td>
<td>Number</td>
<td>US$M</td>
<td>USD$M</td>
<td>USD$M</td>
<td>USD$M</td>
<td>USD$M</td>
</tr>
<tr>
<td>total</td>
<td>1,096</td>
<td>72,912</td>
<td>1,258</td>
<td>133,103</td>
<td>26,118</td>
<td>20,496</td>
<td>24,378</td>
<td>32,789</td>
</tr>
<tr>
<td>Expanding economic opportunities</td>
<td>52</td>
<td>61</td>
<td>48</td>
<td>58</td>
<td>65</td>
<td>54</td>
<td>59</td>
<td>44</td>
</tr>
<tr>
<td>Enhancing human development</td>
<td>21</td>
<td>17</td>
<td>19</td>
<td>16</td>
<td>15</td>
<td>17</td>
<td>16</td>
<td>17</td>
</tr>
<tr>
<td>Reducing vulnerability</td>
<td>14</td>
<td>13</td>
<td>20</td>
<td>14</td>
<td>9</td>
<td>15</td>
<td>14</td>
<td>21</td>
</tr>
<tr>
<td>Improving public sector effectiveness</td>
<td>13</td>
<td>9</td>
<td>13</td>
<td>12</td>
<td>12</td>
<td>14</td>
<td>12</td>
<td>18</td>
</tr>
<tr>
<td>Nonlending projects total</td>
<td>2,913</td>
<td>588</td>
<td>3,075</td>
<td>671</td>
<td>160</td>
<td>113</td>
<td>95</td>
<td>65</td>
</tr>
<tr>
<td>Expanding economic opportunities</td>
<td>46</td>
<td>47</td>
<td>48</td>
<td>45</td>
<td>55</td>
<td>37</td>
<td>44</td>
<td>52</td>
</tr>
<tr>
<td>Enhancing human development</td>
<td>15</td>
<td>16</td>
<td>14</td>
<td>18</td>
<td>15</td>
<td>17</td>
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<tr>
<td>Reducing vulnerability</td>
<td>14</td>
<td>15</td>
<td>15</td>
<td>14</td>
<td>9</td>
<td>25</td>
<td>13</td>
<td>13</td>
</tr>
<tr>
<td>Improving public sector effectiveness</td>
<td>25</td>
<td>23</td>
<td>23</td>
<td>23</td>
<td>21</td>
<td>21</td>
<td>33</td>
<td>25</td>
</tr>
</tbody>
</table>


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 un-
certainty 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

<table>
<thead>
<tr>
<th>IFC investment projects total</th>
<th>FY05–07</th>
<th>FY08–10</th>
<th>AFR</th>
<th>EAP</th>
<th>ECA</th>
<th>LAC</th>
<th>MENA</th>
<th>SAR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number</td>
<td>US$M</td>
<td>Number</td>
<td>US$M</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>841</td>
<td>17,295</td>
<td>1173</td>
<td>31,490</td>
<td>5,227</td>
<td>3,655</td>
<td>6,811</td>
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<tr>
<td>Expanding economic opportunities</td>
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<td>96</td>
<td>97</td>
<td>98</td>
<td>97</td>
<td>99</td>
<td>97</td>
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<td>65</td>
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<td>Infrastructure</td>
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<td>17</td>
<td>34</td>
<td>19</td>
<td>31</td>
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<td>IFC advisory projects total</td>
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<td>0.1</td>
<td>0.2</td>
<td>0.3</td>
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<td>Reducing vulnerability</td>
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<td>2</td>
<td>3</td>
<td>13</td>
<td>1</td>
<td>11</td>
<td>2</td>
</tr>
</tbody>
</table>

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

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 vo-
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

<table>
<thead>
<tr>
<th></th>
<th>FY05–07</th>
<th>FY08–10</th>
<th>AFR</th>
<th>EAP</th>
<th>ECA</th>
<th>LAC</th>
<th>MENA</th>
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<tbody>
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<td>4,939</td>
<td>605</td>
<td>138</td>
<td>3,555</td>
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<td>100</td>
<td>100</td>
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<tr>
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<tr>
<td>Infrastructure</td>
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<tr>
<td>Real sector</td>
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<td>9</td>
<td>52</td>
<td>1</td>
<td>4</td>
<td>1</td>
</tr>
</tbody>
</table>

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 Baçýlar-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. 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 2011) 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 alterna-
tive. 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. 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

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 re-
views 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**

![Graph showing the percentage of projects classified by type of additionality from 1991 to 2009.](image)

*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. 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. Moreover, 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 additio-
nality 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

<table>
<thead>
<tr>
<th>(No. of projects)</th>
<th>Satisfactory</th>
<th>Unsatisfactory</th>
</tr>
</thead>
<tbody>
<tr>
<td>MIGA effectiveness</td>
<td>13</td>
<td>4</td>
</tr>
<tr>
<td>Strategic relevance</td>
<td>16</td>
<td>1</td>
</tr>
<tr>
<td>Role and contribution</td>
<td>16</td>
<td>1</td>
</tr>
<tr>
<td>Assessment, Underwriting, and Monitoring</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Projects underwritten prior to FY06 (10 PERs)</td>
<td>4</td>
<td>6</td>
</tr>
<tr>
<td>Projects underwritten since FY06 (7 PERs)</td>
<td>2</td>
<td>5</td>
</tr>
</tbody>
</table>

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. 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 offtaker. 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.
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 indica-
tutors” 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 “increas-
ing 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, unsus-
tainable 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.


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.” 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. 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. 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.

There is a disconnect between Bank management and IEG ratings on the level of adoption. Figure 7.10 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.

**Figure 7.10. Bank Adoption of Recommendations—IEG and Bank Management Ratings over Time, 2007–11 (percent high or substantial)**

![Bar chart](chart.png)

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 the-
matic 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. 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. 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).

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 op-
erational 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)**

![Graph showing MIGA adoption of IEG recommendations over time](image)

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.
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 exter-
nal stakeholders thought that IEG was making at least a moderate contribution to the development effectiveness of the broader development community (Table 7.6).

<table>
<thead>
<tr>
<th>Table 7.6. Perceived Impact of Evaluations on Development Effectiveness</th>
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<tbody>
<tr>
<td><strong>Impact on the Bank Group’s development effectiveness</strong></td>
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<tr>
<td></td>
</tr>
<tr>
<td><strong>Board members</strong></td>
</tr>
<tr>
<td>Percent rating impact as moderate, great, or very great</td>
</tr>
<tr>
<td>Percent rating impact as great or very great</td>
</tr>
<tr>
<td>Number of responses</td>
</tr>
<tr>
<td><strong>World Bank Group staff</strong></td>
</tr>
<tr>
<td>Percent rating impact as moderate, great, or very great</td>
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<tr>
<td>Percent rating impact as great or very great</td>
</tr>
<tr>
<td>Number of responses</td>
</tr>
<tr>
<td><strong>External stakeholders</strong></td>
</tr>
<tr>
<td>Percent rating impact as moderate, great, or very great</td>
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<tr>
<td>Percent rating impact as great or very great</td>
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<tr>
<td>Number of responses</td>
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</table>

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.

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

<table>
<thead>
<tr>
<th>Factor</th>
<th>Assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Extent and means of interaction with IEG evaluators</td>
<td>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.</td>
</tr>
<tr>
<td>Sense of ownership</td>
<td>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).</td>
</tr>
<tr>
<td>Credibility of evaluation results</td>
<td>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.</td>
</tr>
<tr>
<td>Quality of recommendations</td>
<td>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.</td>
</tr>
<tr>
<td>Timeliness of evaluation relative to decision point</td>
<td>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.</td>
</tr>
<tr>
<td>Institutional incentives and accountability</td>
<td>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).</td>
</tr>
<tr>
<td>Champion for reform</td>
<td>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.</td>
</tr>
</tbody>
</table>

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 interven-
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.
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.
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.
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.
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.
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 (2010). 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.
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.

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

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.


IEG CASCR Reviews and Implementation Completion Report Reviews.

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.”

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

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.

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.

Excluding infrastructure.

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.

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

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).

Evidence on the effectiveness of Bank support for education comes from IEG’s 2011, which reviewed results over the last decade.

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).


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.

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

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

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.

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.

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.

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 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.
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).

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.

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.

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

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.

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

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).

DGE mandate.

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.

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

Four IEG recommendations were not accepted by Bank management. These were (i) clarifying the role of the World Bank Institute and re-engineering 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.
Appendix A: Methodology

The 2011 Report on Results and Performance (RAP) provides a corporate-level review of recent results and performance of the World Bank Group (WBG). Evaluative evidence produced by the Independent Evaluation Group (IEG) between FY09 and FY11 has been synthesized, together with WBG data and external studies, to form an overview of the WBG’s development effectiveness. The report presents development outcomes in an integrated manner across the three institutions. At the same time, given differing organizational and business models, the report also identifies institutional performance issues specific to each institution.

Approach and Scope

Chapter 1 identifies the four core development goals that have been consistent over time: (i) generating inclusive growth; (ii) enhancing human development; (iii) reducing socioeconomic and environmental risks; and (iv) ensuring good governance and public sector management. It then describes recent progress toward them by developing countries. Chapters 2–5 provide an overview of the effectiveness of the WBG in contributing to each of the core development goals. Chapter 6 provides an overview of development effectiveness by WBG Institution. Chapter 7 identifies institutional performance factors affecting WBG outcomes; discusses recent progress on the managing-for-results agenda in the WBG; and discusses Management use of IEG findings and lessons. The presentation of country progress as well as of development effectiveness in Chapters 1–6 are organized around the four core goals of the WBG that have been consistently part of WBG’s strategic focus.

The introduction of the four core development goals as the leading 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 anyone goal. The exercise was treated as a pilot and IEG plans to further fine-tune the clustering for future RAP work in coordination with WBG Management. Details on the approaches taken to map Bank and IFC activities to the four core goals are provided in parts I and II of Appendix C below. The approach taken to align country level activities and adjust subsequent ratings of Country Assistance Strategy Completion Review Reports (CASCR-Rs) with this framework is outlined in part C of the same appendix. All MIGA’s guarantee projects were mapped into the first cluster “generating inclusive growth.”

The report addresses all three WBG entities—The Bank (IDA/IBRD), the International Finance Corporation (IFC), and the Multilateral Investment Guarantee Agency (MIGA) — and covers all types of interventions: (i) financial services such as Bank policy and investment lending; IFC lending, equity investments, and guarantees; and MIGA political risk insurance; (ii) non-lending services, including Bank analytical and advisory activities (AAA), IFC Advisory Services, and WBG policy dialogue; and (iii) the WBG’s convening power.
Evaluation Evidence

The report synthesizes findings of evaluations conducted by IEG in FY09–11, complemented by information from WBG documents and external literature. The report uses several methodological approaches. In addition to the list of sources of evaluative evidence, all chapters also build on trend and pattern analyses of the relevant WBG portfolios and advisory services, as needed, based on the relevant databases.

Chapter 1 is based on WBG and external data including major publications on development progress and effectiveness, by academics, and other multilateral and bilateral development agencies.

Chapters 2–6 provide an overview assessment of the effectiveness of the WBГ in supporting progress toward the four core goals and their intermediate objectives. In addition to assessing outcomes by core goals across the WBГ, outcomes are also presented by each WBГ institution (Chapter 6). The assessment of effectiveness toward each core goal and their intermediate objectives comprises several steps: First, the report identifies the WBГ’s approach and interventions in support of each strategic objective, based on WBГ policy and strategy documents. Second, the assessment of WBГ effectiveness then draws on three constituent elements: (i) the outcome ratings of projects in each institution that supported this objective; (ii) the outcome assessment of WBГ support toward this objective in country evaluations; and (iii) assessments of WBГ’s effectiveness toward the objective drawn from sector and thematic evaluations where available. Third, the report identifies factors which, according to IEG evaluations, help explain different degrees of effectiveness. Some key methodological issues include:

- **The assessment is based on IEG evaluations that were conducted (or validated) over the last three fiscal years.** These include (i) project level assessments such as Implementation Completion Report Reviews (ICR-Rs); Project Performance Assessment Reports (PPARs); IFC Expanded Project Completion Reports (XPSRs); MIGA Project Evaluation Reports (PERs); and IFC Project Completion Reports (PCR); (ii) country-level evaluations, including both CASCR-Rs and more detailed Country Program Evaluations; and (iii) sector and thematic studies produced by IEG.

- **The assessment of effectiveness does not imply attribution to country results.** Instead, it is a self-standing assessment of WBГ development outcomes based on IEG’s relevance, effectiveness, and efficiency criteria: Have WBГ interventions been relevant and have they been achieving their objectives efficiently? The WBГ may thus have played a small but effective role in a given country by undertaking relevant and successful interventions. Although the country’s development results may not be attributable to the WBГ, the WBГ may have made an effective contribution toward these goals.

- **The assessment of the effectiveness of the development contribution also does not apply to a certain period of WBГ operations.** Instead, it is an assessment of effectiveness as informed by IEG evaluations prepared over the last three years. Hence, the operational periods of the underlying WBГ interventions vary substantially.
Chapter 7 identifies selected issues pertaining to the performance of WBG institutions in managing factors within their control - arising out of recent evaluations for each institution. The chapter examines recent trends in allocation and use of resources in each institution; identifies other institutional performance issues; reviews the WBG’s recent initiatives to strengthen corporate development results monitoring and reporting; and assesses WBG Management’s use of IEG evaluation findings and lessons based on a quantitative and qualitative analysis of the Management Action Record. Sources of information for each institution are:

- Bank performance issues were drawn from three sources: (i) ICR-Rs and PPARs that explicitly rate Bank Performance. These ratings cover the Bank’s performance during a project’s design and supervision stages; (ii) CASCR-Rs that have a formal rating for Bank Performance that includes factors such as the Bank’s role in strategic priority setting, its responsiveness, instrument mix, design and supervision of interventions; and (iii) qualitative assessments of Bank Performance in sector, country, and thematic evaluations.

- IFC performance issues were drawn from: (i) investment project evaluations (XPSRs) that have a formal rating for IFC Work Quality. This assessment covers IFC’s performance in project screening, appraisal, and structuring; project supervision and administration; and IFC’s role and contribution; (ii) IFC-Advisory Services project evaluations that have a formal rating for IFC role and contribution; (iii) CASCR-Rs that assess IFC performance in the country based on its strategic relevance, project appraisal and supervision (and recently introduced formal ratings for IFC Performance); and (iv) assessments of IFC performance in country, sector, and thematic evaluations.

- For MIGA, performance issues were drawn from: (i) 17 ex post guarantee project evaluations, which have a formal rating for MIGA effectiveness as well as MIGA self-evaluation reports and (ii) assessments of MIGA institutional effectiveness in IEG-MIGA Annual Reports and thematic evaluations produced by IEG in FY09-11.

Limitations

As this report relies on the availability of recent evaluative evidence, coverage of issues has been more in-depth in areas where IEG had recent evaluative material available and lighter in areas where IEG has not undertaken studies in the recent past. The 64 CASCR-Rs represent the full cohort of country programs that were completed in FY08-11 and had a CASCR that was reviewed IEG. The schedule of CASCR-Rs is triggered by the Bank’s country program cycle for each country. IFC’s contribution was taken into account in 29 of the 64 CASCR-Rs and MIGA’s contribution was generally not covered in the CASCR-Rs. Hence findings and conclusions apply only to those WBG entities involved in the respective CAS.

Some findings and conclusions on MIGA in this report are based on 17 ex post evaluations (PERs) of MIGA projects carried out by IEG in FY09-11. The sample of 17 evaluated MIGA guarantee projects cannot be extrapolated to MIGA’s portfolio as a whole. About half (53 percent) of these projects were underwritten by MIGA in or after FY05 (that is, more recent projects) and the rest in FY98-04. A complete list of these 17 MIGA guarantee projects, including when they were issued and when the evaluations were completed, is given below.
under “MIGA Evaluated Projects.” These 17 PERs, which were randomly sampled from the population of MIGA guarantee projects, also contain two purposively sampled projects. These projects were purposively sampled due to their unique characteristics (crisis response) for the 2011 evaluation of MIGA’s financial sector guarantees. It is therefore important to note that these performance ratings cannot be extrapolated to MIGA’s portfolio as a whole, since MIGA’s project evaluation database covers too narrow a range of projects to make statistical inferences at the portfolio level. Therefore, the findings presented on MIGA only strive to find “common patterns” and “success factors” amongst the evaluated MIGA projects cited.

With regard to the age of MIGA PERs, ex post project evaluation is by definition a backward looking exercise and in IEG’s methodology, projects can only be evaluated when they are operationally mature. Thus in FY11, the most recent projects that can be evaluated are those underwritten in FY08. Evaluation findings should therefore be interpreted within the context of the prevailing underwriting procedures and practices at the time. Nonetheless, the relevance of the project findings and lessons are relevant to the present and even where underwriting practices have evolved since then, the lessons learned may be useful for MIGA as it strives to increase its institutional and developmental effectiveness.

**Project Evaluations Used in this Report**

- **World Bank:** The report drew on both ICR-Reviews and IEG PPARs. For each completed Bank operation, the Bank prepares an ICR. IEG reviews all ICRs (100 percent coverage) and validates the ICR ratings. Among the ICRs, IEG selects some projects for more in depth PPARs. PPARs typically involve a field visit to interview stakeholders and rate projects in terms of their outcome (taking into account relevance, efficacy, and efficiency), and risk to development outcome.

- **IFC:** For IFC projects, the report draws on project evaluations reviewed by IEG between 2009 and 2011. These form the FY08-10 evaluation sample cohorts. For investment projects, there are 231 projects covered by XPSRs, randomly selected from 454 projects approved between 2003 and 2005, representing a 50 percent coverage rate. For advisory services projects, 252 PCRs reviewed by IEG between 2009 and 2011 were used. They were non-knowledge management projects closed between 2008 and 2010. All 160 PCRs for projects closed in 2008 and 2009 were reviewed by IEG (100 percent coverage). For project closed in 2010, IEG reviewed 102 PCRs randomly selected out of a population of 145 PCRs (71 percent coverage rate). These projects were approved between 2005 and 2010.
## Representativeness of the CY2008-10 Net Approvals Population

<table>
<thead>
<tr>
<th>Number of Investments</th>
<th>Value of Investments ($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CY2008-10 XPSRs (a)</td>
<td>CY2003-5 NAP (b)</td>
</tr>
<tr>
<td>No. %</td>
<td>(c) = (a)/(b)</td>
</tr>
<tr>
<td>CY2008-10 XPSRs (a)</td>
<td>CY2003-5 NAP (b)</td>
</tr>
<tr>
<td>No. %</td>
<td>(c) = (a)/(b)</td>
</tr>
</tbody>
</table>

### Net IFC:
- Mean: 24.2% 25.3%
- Median: 15.0% 16.1%

### Investment Size:
- X<6.77:
  - 46%: 20% 20% 138% 3% 258% 3% 54%
  - 6.77<X<43.63:
    - 145%: 63% 62% 2515% 50% 4863% 48% 52%
  - X>43.63:
    - 40%: 17% 18% 2384% 47% 5028% 50% 47%

### Instruments:
- Equity only:
  - 51%: 22% 103% 50% 709 14 1301 13% 54%
- Other:
  - 180%: 78% 351% 57% 4330 86 8848 87% 49%

### Sectors:
- Financial markets:
  - 104%: 45% 206% 50% 2016 40 4080 40% 49%
- Non-financial markets:
  - 127%: 55% 240% 55% 3023 60 6069 60% 50%

### Departments:
- Agribusiness:
  - 17%: 7% 33% 52% 393 8 726 7% 54%
- Global Financial Markets Group:
  - 83%: 36% 165% 50% 1708 34 3449 34% 50%
- Global Inform. & Comm. Tech.:
  - 14%: 6% 26% 54% 208 4 475 5% 44%
- Global Manufacturing & Services:
  - 44%: 19% 88% 50% 1322 26 2265 22% 58%
- Health and Education:
  - 8%: 3% 15% 53% 74 1 144 1% 52%
- Infrastructure:
  - 26%: 11% 51% 51% 580 12 1368 13% 42%
- Oil, Gas, Mining And Chemicals:
  - 18%: 8% 35% 51% 461 9 1106 11% 42%
- Private Equity and Investment Funds:
  - 21%: 41% 292 615
- Equity only:
  - 51%: 9% 9% 51% 6 6 6%

### Regions:
- Africa:
  - 22%: 10% 45% 49% 298.6 6 605 6% 49%
- Asia:
  - 59%: 26% 117% 50% 1259.3 25 2287 23% 55%
- Europe & Central Asia:
  - 68%: 29% 133% 51% 1645.6 33 3271 32% 50%
- LAC:
  - 61%: 26% 117% 52% 1521.5 30 3330 33% 46%
- MENA:
  - 16%: 7% 31% 52% 229.2 5 472 5% 49%
- World:
  - 5%: 2% 11% 45% 84.3 2 184 2% 46%

### Indicative Performance:
- (as of 06/30/2007)
  - (i) all investments:
    - With loss reserves:
      - 4%: 2% 7% 2% 57% 26 1 155 2% 17%
      - Without loss reserves:
        - 227%: 98% 447% 98% 5012 99 9994 98% 50%
        - 231%: 100% 454% 100% 5038 100 10148 100% 50%
  - (ii) equity only:
    - With loss reserves:
      - 0%: 0% 0% 0% -
      - Without loss reserves:
        - 123%: 100% 240% 100% 2164 100 4126 100% 52%
        - 123%: 100% 240% 100% 2164 100 4126 100% 52%
  - (iii) all investments:
    - With write-offs:
      - 31%: 13% 59% 13% 53% 439 9 849 8% 52%
      - Without write-offs:
        - 200%: 87% 395% 87% 4590 91 9300 92% 49%
        - 231%: 100% 454% 100% 5038 100 10148 100% 50%

### Status:
- Active:
  - 126%: 55% 246% 54% 2559 51 4961 49% 52%
- Closed:
  - 105%: 45% 208% 46% 50% 2479 49 5188 51% 48%

### Countries (incl. regional):
- 75% 91%
- **MIGA**: For MIGA, the project level evidence comprises 17 ex post evaluations (PERs) of MIGA projects carried out by IEG in FY09–11 (see list in Table A.1). Findings on financial sector projects are based on a slightly more comprehensive database, used in the 2011 IEG report *MIGA’s Financial Sector Guarantees in a Strategic Context*. This comprised the financial sector PERs contained in these 17 PERs plus three additional ex-post evaluations of MIGA guarantee projects in the financial sector (ABN AMRO Bank NV Istanbul Branch, Banco WestLB do Brasil, and Westdeutsche Landesbank Girozentrale Istanbul Branch). All PERs follow IEG’s CODE-endorsed methodology for ex-post project evaluation (see Appendix D).

### Table A.1. MIGA Evaluated Projects for RAP 2011, by FY Issued and FY Evaluated

<table>
<thead>
<tr>
<th>FY ISSUED</th>
<th>Count</th>
<th>FY EVALUATED</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY98</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Inertes de Cabo Verde, Lda.</td>
<td></td>
<td>FY10</td>
</tr>
<tr>
<td>FY00</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Ormat Momotombo Power Company</td>
<td></td>
<td>FY10</td>
</tr>
<tr>
<td>OrPower 4 Inc. (Olkaria III)</td>
<td></td>
<td>FY10</td>
</tr>
<tr>
<td>FY01</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>JSBC Raiffeisen Bank Ukraine</td>
<td></td>
<td>FY10</td>
</tr>
<tr>
<td>FY02</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>HVB Bank Romania</td>
<td></td>
<td>FY10</td>
</tr>
<tr>
<td>Hydelec BPA</td>
<td></td>
<td>FY10</td>
</tr>
<tr>
<td>Manila North Tollways Corporation</td>
<td></td>
<td>FY10</td>
</tr>
<tr>
<td>FY03</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Cotecna Destination Inspection Ltd</td>
<td></td>
<td>FY10</td>
</tr>
<tr>
<td>FY05</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>MINL Ltd</td>
<td></td>
<td>FY10</td>
</tr>
<tr>
<td>Anvil Mining Company</td>
<td></td>
<td>FY11</td>
</tr>
<tr>
<td>FY06</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>Barclays Bank of Ghana Limited</td>
<td></td>
<td>FY10</td>
</tr>
<tr>
<td>Meridian Development Limited</td>
<td></td>
<td>FY10</td>
</tr>
<tr>
<td>SGS Scanning Nigeria Limited</td>
<td></td>
<td>FY10</td>
</tr>
<tr>
<td>Shenzhen Water Company Ltd</td>
<td></td>
<td>FY10</td>
</tr>
<tr>
<td>FY07</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Commercial DeltaCredit Bank</td>
<td></td>
<td>FY11</td>
</tr>
<tr>
<td>PT MTU Detroit Diesel Indonesia</td>
<td></td>
<td>FY11</td>
</tr>
<tr>
<td>FY09</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>ZAO Unicredit Bank</td>
<td></td>
<td>FY11</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>17</strong></td>
<td></td>
</tr>
</tbody>
</table>
Appendix B: IEG Evaluation Frameworks

This appendix describes select elements of the evaluation systems in the World Bank, IFC, and MIGA that are the basis for this report. They illustrate commonalities as well as intrinsic differences in evaluation practices for the Bank, IFC, and MIGA.

The Bank, IFC, and MIGA differ in their business. The Bank’s financial instruments involve investment and policy-based lending to governments in support of economic and social development. It also offers analytical and advisory services, policy advice, and technical support to help shape development agendas and build capacity in member countries. The Bank works largely with governments and public sector entities. IFC supports private sector investment by providing lending, equity investments, and guarantees to private companies. It also provides advisory services to businesses and governments. MIGA promotes foreign direct investment by providing political risk insurance for foreign investments.

Table B.1. World Bank Group: Self-Evaluation and Independent Evaluation

<table>
<thead>
<tr>
<th>Management systems</th>
<th>World Bank</th>
<th>IFC</th>
<th>MIGA</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Self Evaluation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Results-based monitoring system and Supervision Status reports for WBG operations</td>
<td>Yes (ISR)</td>
<td>Yes, DOTS</td>
<td>No</td>
</tr>
<tr>
<td>Self-evaluation of Projects</td>
<td>Yes, ICRs</td>
<td>Yes, XPSRs (managed by IEG)</td>
<td>Yes, (PERs), currently being mainstreamed</td>
</tr>
<tr>
<td>Results-based monitoring system for advisory services/AAA</td>
<td>No</td>
<td>Yes</td>
<td>NA</td>
</tr>
<tr>
<td>Requirement for supervision reports for advisory services/AAA</td>
<td>Yes (ACS)</td>
<td>Yes</td>
<td>NA</td>
</tr>
<tr>
<td>b) Quality Assurance of WBG’s Portfolio</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Quality Assessment of Lending Portfolio</td>
<td>Yes, OPCS</td>
<td>Yes, credit review</td>
<td>Yes, Project Review Committee</td>
</tr>
</tbody>
</table>

Independent evaluations

| System for reviewing self-evaluations of WBG operations                             | Yes, ICR Reviews | Yes, EvNotes | Yes (one validation to date underway) |
| System for reviewing self-evaluations of country evaluations                        | Yes, CASCR Reviews | Yes, CASCR Reviews | Yes, CASCR Reviews |
| System for reviewing self-evaluations of advisory services/AAA                      | No, Underdevelopment | Yes, PCR EvNotes | NA |
| Independent Projects Evaluations                                                   | Yes, PPARs     | Yes, PES    | Yes, PERs  |
| Independent Country Evaluations                                                    | Yes, CPEs      | Yes, CPEs   | Yes, CPEs  |

Source: IEG review.

Note: AAA = analytic and advisory activities; ACS = Activity Completion Summary; DOTS = Development Outcome Tracking System; ISR=Implementation Status Report; ICR = Implementation Completion and Results Report; NA = not applicable; PCR = project completion report; PPAR = Project Performance Assessment Review; CAE= Country Assistance Evaluations; OPCS= Operations Policy and Country Services; XPSR = Expanded Project Supervision Report; EvNote = Evaluative Note.

Each institution has an evaluation system tailored to its different foci, clients, and services. In each organization, the evaluation system comprises different components — self-
evaluation, independent evaluation, and validation of self-evaluation (table B.1.) The independent evaluation function for each institution was established at different times—1973 for the Bank; 1996 for IFC; and 2002 for MIGA. The independent evaluation functions have evolved over time to respond to changes the respective institutions and the interests of the Committee on Development Effectiveness. Independent evaluation work is broadly scaled to each institution. For example, for MIGA, IEG focuses on evaluation of guarantee projects, as MIGA just began to mainstream self-evaluation of its guarantees in 2010. In contrast, for the Bank and IFC, IEG concentrates more on validation of self-evaluations, given the mature self-evaluation systems in those institutions.

The project evaluation methodologies and frameworks in the Bank, IFC, and MIGA are consistent with the Good Practice Standards established by the Evaluation Cooperation Group Working Groups for Public Sector Evaluation and Private Sector Evaluation, respectively, which aim to harmonize evaluation standards of multilateral development institutions’ public and private sector operations. In the private sector, each of the independent evaluation systems is regularly benchmarked against these standards. The most recent benchmarking exercise of private sector evaluation was just concluded. IFC and MIGA were benchmarked at 93 percent and 73 percent compliance with the standards, respectively.

**Project Evaluation Frameworks across IEG**

Projects (including guarantee projects) are a main WBG vehicle for helping achieve development results. Accordingly, IEG focuses in large part on performance at the project level. Project evaluations serve as the building blocks for higher-level sector, thematic, country, global, and corporate evaluations. Increasingly, and in response to Board requests, IEG evaluation reports on these higher-level topics reflect findings and lessons across the WBG.

**Project-level completion reporting**

The Bank self-evaluates 100 percent of completed investment and Development Policy operations, with some 250 ICRs prepared per year. IEG conducts desk reviews of all ICRs, primarily to validate ratings, and prepares an ICR-R for each based mainly on the evidence presented in the ICR.

IFC self-evaluates a representative sample of around 50 percent of its projects that are reaching early operating maturity, 80 a year on average. IEG independently desk reviews all self-evaluations (XPSRs), producing an Evaluation Note on each. In 2005, IFC management introduced the Development Outcome Tracking System, a monitoring system for investment operations, outcome information and self-review for all IFC projects.

Since 2002, IEG has drawn a random sample of 50 percent of MIGA guarantee projects underwritten three years earlier for evaluation. It conducts select field validations of sampled projects, producing a PER on each. MIGA began to pilot self-evaluation of its guarantee projects in 2010 and IEG has recently developed a validation methodology and system similar to IFC’s to do an independent desk review of these.
All three WBG organizations review projects that fail to fully implement or are cancelled early. This is important, as the respective project samples would otherwise suffer from systemic bias. In the Bank, these are separate shorter self-reviews, known as Notes on Cancelled Operations. For MIGA, IEG includes all guarantees, including early cancellations, in the population to be sampled, and evaluates any that are selected.

IFC and MIGA evaluate projects at early operating maturity, defined as generating 18 months of revenues for the company and having one set of audited financial statements. Financial projects are selected from those that are at least 30 months from final IFC disbursement. These comprise the sampling population. The average age of XPSR projects, therefore, is not very different in age from Bank projects at evaluation, which are evaluated after closure—on an average at five years.

**Comparisons of WBG’s project rating systems at IEG**

As noted earlier, each institution has an evaluation system tailored to its specific foci, clients, and services. The Bank uses an objectives-based system. IFC and MIGA project rating systems are based on quantitative and qualitative benchmarks rather than on achievement of specific objectives. Given that IFC and MIGA both evaluate private sector projects and are both consistent with the harmonized Good Practice Standards of the Evaluation Cooperation Group, these two systems are comparable, although MIGA still relies primarily on independent evaluation rather than on self-evaluation. The Bank’s evaluation system differs in key ways, consistent with its public sector orientation (projects’ business performance, and their financial profitability to the institution are not measured, for example).

In each case, the overall project development outcome is a synthesis rather than a numerical average of ratings. The Bank and IFC use a six-point scale; MIGA uses a four-point scale. Elements of the aggregate rating systems differ across the three institutions. IFC summary development outcome ratings exclude project investment returns to IFC as well as IFC performance (see box B.2). IFC views the relevance of project objectives as the responsibility of its staff, and relevance is thus a measure of IFC’s own performance or effectiveness. In the World Bank system, however, project relevance is rated separately from Bank performance, as the outcome rating considers whether, and how efficiently, the operation’s major relevant objectives were achieved. In each case, IEG looks on all available measures of efficiency, including cost-effectiveness analysis, evidence of implementation at least cost, and other indicators of “value for money”. For IFC and MIGA projects, the benchmark for a satisfactory rating is equal to or greater than 10 percent.

In the IFC and MIGA rating frameworks, IEG gives prominence to environmental and social (E&S) effects of projects as a separate rating dimension. For IFC and MIGA, an unsatisfactory rating on this dimension would generally result in a less-than-satisfactory synthesis rating for the development outcome. However, in IEG’s rating framework for the Bank, environmental and social performance is not a separate dimension, but one of many factors to be taken under consideration. However, since 2006 IEG has begun to rate the Bank on the quality of project monitoring and evaluation, based on such factors as design, utilization, and dissemination.
APPENDIX B

Box B.1. IEG’s Ex Post Project Evaluation Methodology for MIGA Projects

IEG uses a standard benchmark-based methodology for its evaluation of MIGA guarantee projects. It rates projects in three dimensions:

**Development outcome** aims to capture the project’s overall impact on a country’s economic and social development and is thus important as an implicit proxy for how well the project has contributed to MIGA’s purpose and mission. It is evaluated across four sub-dimensions:

- **Business performance** measures the guarantee project’s actual and projected financial impact on the project financiers—its lenders and equity investors.
- **Economic sustainability** measures whether the project has contributed to the country’s development.
- **E&S effects** measures a project’s performance in meeting MIGA’s environmental and social requirements, as well as its actual E&S.
- **Private sector development** aims to capture the effects of the guarantee project on the development of productive private enterprise beyond the project and relates to MIGA’s mandate to enhance the flow of private foreign investment to developing countries.

**MIGA’s effectiveness** captures MIGA’s work quality in assessing, underwriting, and monitoring its guarantee projects and the added value MIGA brings to the client or project. It is assessed across three sub-dimensions:

- **Strategic relevance** refers to the degree of consistency of the guaranteed project with the development priorities of the host country and the Bank’s country strategy.
- **MIGA’s role and contribution** relates to the benefits or value added that MIGA brings as a development institution. The contribution may be catalytic (in facilitating FDI in economically sound and sustainable businesses) in encouraging the development of the political risk industry or in conveying additionality.
- **MIGA’s quality of assessment, underwriting, and monitoring** assesses the extent to which the project’s expected development outcomes were adequately assessed, key material risks were identified and mitigated, and whether MIGA’s underwriting policies and guidelines were adhered to, and whether MIGA took adequate remedial action if country or project conditions changed subsequent to issuing the guarantee.

**Contribution to MIGA’s financial results** relates to the financial contribution by MIGA of guarantee projects it underwrites.

A four-point rating scale is used: excellent, satisfactory, partly unsatisfactory, and unsatisfactory.

Source: IEG.

For the Bank, borrower performance is rated separately. The borrower is asked to contribute to the completion reports. In addition, the performance of cofinanciers and other partners are also assessed. Comments on the draft completion report are sought from the borrower, cofinanciers, and other partners, and the final completion report is publicly disclosed. Consistent with the proprietary information on which they are based (client data are subject to confidentiality restrictions), IFC and MIGA do not disclose XPSRs, PERs, or Evaluation Notes nor do they share the self-evaluations outside IFC or MIGA. However, the perspectives of investors and other financial stakeholders are routinely gathered as input to the evaluation.
Overall lessons learned are a common feature of the ICRs, XPSRs, and MIGA PERs. Formats for the lessons are the same in IFC and MIGA, whereas the Bank reports on different aspects. IEG also provides ratings of the quality of the self-evaluation completion report. The ratings are based on factors such as quality of the analysis and strength of the evidence.

### Box B.2. How IFC Assesses Project Outcomes

**Project Development Performance** ratings are assigned in the following dimensions:

**Project Business Success**: Returns relative to a company’s cost of capital (real sector); associated sub-portfolios or asset growth contribution to an intermediary’s profitability, financial condition, and business objectives (financial sector).

**Economic Sustainability**: Economic rate of return (real sector). This indicator also takes into account job creation, net gains or losses by nonfinanciers, nonquantifiable indicators, and contributions to widely held development objectives; economic viability of the financial institution and its sub-projects, and contribution to improving living standards (financial sector).

**Environmental and Social Effects**: Consistency with IFC requirements; net impact, of the project or subprojects, in terms of pollution loads, conservation of biodiversity and natural resources, and, in a broader context, social, cultural, and community health aspects, as well as labor and working conditions and workers’ health and safety.

**Private Sector Development Impacts** (beyond the project): Demonstration effect in creating sustainable enterprises capable of attracting finance, increasing competition and linkages, and bringing about improvements in regulation.

These ratings are then synthesized (not averaged) into a single development outcome rating on a six-point scale from highly successful to highly unsuccessful.

**IFC Investment Outcome**: Assessments are based on the following:

- **IFC investment return ratings**: These are based on the gross profit contribution quality of an IFC loan and/or equity investment (without taking into account transaction costs or the cost of equity capital).
- **Loans**: These are considered satisfactory provided they are expected to be repaid in full, with interest and fees as scheduled (or prepaid or rescheduled without loss).
- **Equity**: This is considered satisfactory if the investment yields an appropriate premium on the return of a loan to the same company (a nominal internal rate of return greater than or equal to the fixed loan interest rate, plus an instrument risk premium).

*Source: IEG.*

### Non-Lending Services

Only IFC has a self-evaluation system for all non-lending Advisory Services operations that are then independently reviewed by IEG. IEG’s review of IFC Advisory Services self-evaluations focus on the evaluative substance of Project Completion Reports, the sufficiency of the evidence produced, and the correctness of ratings assigned, largely via desk review. Selective field-based validations have also been conducted. This remains a young system for IFC and noteworthy in that it reflects a results-based approach. IFC has supplementary external reviews and impact evaluations of specific projects and programs. The Bank requires an Activity Completion Summary to be prepared for all analytic and advisory activi-
ties, within six months of delivery to the client. The information therein is largely mechanical and does not lend itself to evaluation, and the rate of non-completion is significant. IEG has not routinely reviewed the Activity Completion Summary. It is piloting the review of technical assistance components of projects as part of Project Performance Assessment Reviews.

Comparison of Field-based Project-Level Evaluations

IEG’s core business regarding MIGA is direct evaluation of projects randomly selected for independent evaluation. Almost all these evaluations involve a field visit. Although MIGA is expected to self-evaluate a growing number of guarantee projects, mainstreaming the pilot—with MIGA self-evaluating all sampled guarantee projects—will take a number of years. Until then, IEG expects to undertake direct project evaluations, in parallel with validating MIGA’s self-evaluations.

For the Bank and IFC, IEG selects about 20–30 percent of evaluated and reviewed projects for field reassessments (PPARs for the World Bank). PPARs are typically conducted three years after program completion. IEG criteria for identifying projects for project-level field reviews include those that offer good potential for further learning because of particularly good or bad performance and those related to sectors, thematic areas, or countries that are soon to be covered in evaluations, where PPARs can be inputs for those evaluation tools.

PPARs are increasingly clustered by issue or topic to reduce their cost and increase their learning impact. PPARs rate projects in terms of their outcome (taking into account relevance, efficacy, and efficiency) and risk to development outcome. Beyond this, an established field methodology has not been developed. IEG field reviews of IFC projects do not have clearly defined criteria, but in practice they frequently are undertaken to validate the environmental and social performance of projects selected for IEG studies and/or where there are major disagreements on these or other ratings between IFC investment staff and IEG.

Higher-Level Evaluations

Project evaluations serve as the building blocks for higher-level evaluations—sector, thematic, country, global, and corporate. Increasingly, and in response to Board requests, such IEG reports reflect findings and lessons across the WBG.

Country-level evaluations

All Country Assistance Strategies (CASs) are now required to include a self-evaluation of the Bank’s previous program in the country, called a CAS Completion Report (CASCER). IEG conducts a desk review of the CAS Completion Report to validate the self-evaluation and makes its assessment available to the Board before the presentation of the next CAS. If the CAS is a joint Bank-IFC document, IEG also reviews IFC’s contributions to CAS objectives and IFC performance. Given the increased attention to CASCERs, IEG has decreased the number of more expensive field-based evaluations of country programs, or Country Program Evaluations. More recently, expanded CASCER-Rs have been introduced that include
an IEG visit to the country to interview stakeholders. Country performance is not the focus of strategy and accountability for IFC. The client is not the country, but rather private companies. IEG reflected on this issue in its Biennial Report on Evaluation 2008 (IEG-IFC 2008).

Other areas of evaluation

Sector and thematic reviews examine performance and experience in a sector, such as agriculture or transport, or a thematic area, such as investment climate or gender. More often, IEG seeks to review and assess the experience of the WBG as a whole in the sector and thematic studies. Evaluations of global partnership programs have grown in prevalence and importance in IEG’s evaluations. Global partnership programs represent collective actions to achieve common development objectives. The evaluations correspondingly address global or regional issues that cross national boundaries. IEG also conducts evaluations of Bank, IFC, and MIGA instruments. Finally, efforts are being made to pay more attention to the “theory of change,” or to give midstream attention to implementation, for example, moving away from an exclusively ex post, downstream strategy. Management’s use of real-time systems such as IFC’s Development Outcome Tracking System and appreciation of ongoing real-time evaluations at the Bank (for example, on crisis response) confirm the value of this direction. IEG plans to determine how to engage more in prospective and implementation evaluations without compromising its independence.
Appendix C: Methodology Used to Map Portfolio Data and Rating Information to the Four Core Development Goal Structure

The first two parts of this appendix set out the approaches taken by IEG to map the Bank’s (Part I) and IFC’s (Part II) portfolios of activities against the leading structure used in this report, i.e. the four core development goals. Part III explains how country level activities were clustered against these four core development goals and how associated CASCR-Rs’ ratings were adjusted, as a result.

I. Mapping of Bank Approvals, Evaluations, and AAA databases according to Four Core Development Goals

This appendix explains the methodology used in constructing the project level databases for Bank approvals, evaluations, and analytic and advisory assistance (AAA) data to reflect the four core development goals set out in the RAP. The approvals’ database includes all projects that were approved during the period July 01, 2000 and June 30, 2010. The evaluations’ database comprises those projects that closed during the period July 01, 2000 and June 30, 2010 and were evaluated by IEG as of April 12, 2011. The AAA database includes all Bank economic sector work and nonlending technical assistance tasks that were delivered during the period July 01, 2000, and June 30, 2010. Each of the above databases has the following three columns:

- **Primary Core Goal** --- For a given project, the primary core goal column specifies the name of the core goal that has the largest sector/thematic allocation within the project. [Core Goals = Inclusive Growth, Human Development, Vulnerability and Governance]. The sector/thematic allocation for each project are based on the information from an internal Bank’s database system, which in turn picks up the information from the project appraisal document.

- **Primary Intermediate Objective** --- For a given project, the primary intermediate objective column specifies the name of the intermediate objective that has the largest allocation within the primary core goal. [Examples of primary intermediate goals: education under the human development core goal; the financial sector under the inclusive growth core goal].

- **Secondary Intermediate Objective** --- For a given project, the secondary intermediate objective column specifies the name of the secondary intermediate objective that has the largest allocation within the primary core goal. [Examples of secondary intermediate objectives include health system performance within the health primary intermediate objective; and the banking sector within finance sector primary intermediate objective].
ASSIGNING PRIMARY CORE GOALS TO PROJECTS IN THE DATABASES

If a project in a database has sectors/themes that are related to more than one pillar, say, inclusive growth and public sector management, then the primary core goal for the project will be the core goal that has the largest sector/thematic allocation within the project. This was followed by a manual review and reclassification as needed. For example, if a project had a sector/thematic allocation of say 30 percent for inclusive growth and the remaining 70 percent for public sector management, then the primary core goal for this project would be public sector management and not inclusive growth because the sector/thematic allocation for public sector management was greater than that of the inclusive growth. In assigning primary core goals to each project there were cases where two or more pillars had equal allocations within a project. For such cases, a manual decision was made as to where to classify the project. Judgment was used to manually re-categorize projects for close to 15 percent of projects in the approvals database and about 36 percent of projects in the evaluations database.

II. Mapping of IFC Approvals and Evaluation Databases According to Four Core Development Goals

This part of the appendix explains the methodology used in constructing the project level databases for approvals and evaluations data pertaining to IFC investment and advisory services.

The approvals’ database includes

- Investment: All projects that were approved and committed during the period July 1, 2000 and June 30, 2010.
- Advisory Services: all projects that were approved during the period July 01, 2006 and June 30, 2010.

The evaluation database includes

- Investment: All projects that were evaluated during CY00 and CY10.
- Advisory Services: All projects that were evaluated during CY08–10.

Each of the above databases contains core goal and intermediate objectives designations based on categorization criteria as described below:

ASSIGNING PROJECTS IN A DATABASE TO CORE GOALS AND INTERMEDIATE OBJECTIVES

For IFC investment projects, sector assignment (based on IFC’s industrial sector classification) was used to assign them to core goals and intermediate objectives. In some sectors, IEG identified some overlaps. In these cases, the IEG database assigns secondary core goals to record the overlap. Table C.1 shows the primary core goal and primary intermediate objective that was assigned to each sector and theme.
## Table C.1. Assignment of Projects in Database

<table>
<thead>
<tr>
<th>Primary Core Goal</th>
<th>Primary Intermediate Goal</th>
<th>Secondary Intermediate Goal</th>
<th>Investment sectors</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>INCLUSIVE GROWTH</strong></td>
<td>Infrastructure</td>
<td>Projects under Infrastructure Crisis Facility duplicate with Vulnerability</td>
<td>Energy: Power; energy efficiency and renewable energy duplicate with Vulnerability</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Transport: Transport, warehousing in infrastructure cluster</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Water: Water/sanitation (some duplicate with HD)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>ICT: Information, etc</td>
</tr>
<tr>
<td></td>
<td>PSD Regulatory Environment</td>
<td>All Financial market projects</td>
<td>Financial market projects: Microfinance, housing finance, insurance etc.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Commercial Banks</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Access to finance</td>
<td>Microfinance, housing finance, insurance etc.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Funds</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Securities markets</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Trade finance</td>
<td>GTFP during Sept 2008-June 2010, GTLP, other trade finance and projects under relevant crisis initiatives duplicate with Vulnerability</td>
</tr>
<tr>
<td>Macro Management</td>
<td>No projects for IFC</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Real Sector Investment</td>
<td>Agribusiness/forestry</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Manufacturing</td>
<td>Food/beverages, industrial &amp; consumer, plastic, metals,</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Industrial &amp; consumer, non energy mining, pulp, textiles, warehousing in MAS cluster, printing &amp; publications</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Consumer and social services</td>
<td>Accommodation/tourism, professional, retails</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Consumer and social services</td>
<td>Accommodation/tourism, professional, retails</td>
<td></td>
</tr>
<tr>
<td><strong>HUMAN DEVELOPMENT</strong></td>
<td>Health</td>
<td>Pharmaceuticals</td>
<td>Chemicals-Pharmaceuticals</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Other medical sectors</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Hospital &amp; clinics</td>
<td>Health care</td>
</tr>
<tr>
<td></td>
<td>Education</td>
<td>Primary &amp; secondary post secondary, professional Education services</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Other education sectors</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Water Supply and Sanitation</td>
<td>Water/sanitation (May double count with Infrastructure)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Rural Electrification</td>
<td>Small hydro, rural electrification (May double count with Infrastructure)</td>
<td></td>
</tr>
<tr>
<td><strong>VULNERABILITIES</strong></td>
<td>Social Safety Net</td>
<td>No projects for IFC</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Financial crisis</td>
<td>GTFP during Sept 2008-June 2010, GTLP, other trade finance and projects under relevant crisis initiatives. May double count with growth</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Natural Disasters</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Climate change</td>
<td>Energy efficiency and renewable energy under energy (may double count with growth)</td>
<td></td>
</tr>
<tr>
<td><strong>GOVERNANCE</strong></td>
<td>Anti-corruption</td>
<td>No projects for IFC</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Civil service reform</td>
<td>No projects for IFC</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Public financial management</td>
<td>No projects for IFC</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Judicial reform</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
ADVISORY SERVICES

For advisory services projects, classification was done according to projects’ sector and business lines. For those with ambiguous sector or business lines, project objectives and activities were used to assign core goals and intermediate objectives. Some projects had multiple assignments.

Table C.2. Advisory Services Classification

<table>
<thead>
<tr>
<th>Core Goal</th>
<th>Intermediate Objective</th>
<th>Business lines/ sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth</td>
<td>Infrastructure</td>
<td>Infrastructure</td>
</tr>
<tr>
<td></td>
<td>PSD Regulatory Environment</td>
<td>Business Enabling Environment, Investment climate projects</td>
</tr>
<tr>
<td></td>
<td>Financial</td>
<td>Access to Finance</td>
</tr>
<tr>
<td></td>
<td>Macro management</td>
<td>(No project for IFC)</td>
</tr>
<tr>
<td></td>
<td>Real sector</td>
<td>Corporate Advice</td>
</tr>
<tr>
<td>Human Development</td>
<td>Health and education</td>
<td>Health and education sector projects and IFC Against AIDS</td>
</tr>
<tr>
<td></td>
<td>Water supply and sanitation</td>
<td>Water supply projects (may double count with infrastructure)</td>
</tr>
<tr>
<td></td>
<td>Rural electrification</td>
<td>Rural electrification (may double count with infrastructure)</td>
</tr>
<tr>
<td>Vulnerabilities</td>
<td>Social protection</td>
<td>(No project for IFC)</td>
</tr>
<tr>
<td></td>
<td>Financial crisis</td>
<td>Financial sector projects specifically targeted to crisis response</td>
</tr>
<tr>
<td></td>
<td>(may double count with growth)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Natural disasters</td>
<td>(No project for IFC)</td>
</tr>
<tr>
<td></td>
<td>Climate change</td>
<td>Climate change related activities (including energy efficiency, emission reduction, carbon finance)</td>
</tr>
<tr>
<td></td>
<td>Environment</td>
<td>Environment and social</td>
</tr>
<tr>
<td>Governance</td>
<td>Anti-corruption</td>
<td>Corporate governance as product</td>
</tr>
<tr>
<td></td>
<td>Civil service reform</td>
<td>Not applicable</td>
</tr>
<tr>
<td></td>
<td>Public financial management</td>
<td>Not applicable</td>
</tr>
<tr>
<td></td>
<td>Judicial reform</td>
<td>Alternative Dispute Resolution as product</td>
</tr>
</tbody>
</table>

III. Adjusting IEG CASCR Review Subpillar Ratings (FY08–11) According to Core Development Goals Structure

OBJECTIVE

This exercise aimed at mapping the pillars and respective outcomes and indicators of the 64 CASCR-Rs completed during FY08–11 under the primary core objectives identified in the context of the RAP FY11. The core objectives are (i) promoting inclusive growth, (ii) enhancing human development, (iii) reducing socioeconomic and environmental vulnerability, and (iv) improving public sector management. The purpose of this appendix is to ex-

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1 Country CASCR Reviews per fiscal year were: **FY08-(18):** Belarus, Bosnia Herzegovina, Brazil, Colombia, Ethiopia, Maldives, Mali, Mauritania, Mexico, Nicaragua, Niger, Serbia, South Africa, Sri Lanka, The Gambia, Turkey, Ukraine, Zambia; **FY9-(17):** Argentina, Armenia, Benin, Cape Verde, Costa Rica, Croatia, Djibouti, Guatemala, Guyana, India, Indonesia, Moldova, Paraguay, Philippines, Poland, Rwanda, the Republic of Yemen; **FY10-(18):** Bangladesh, Burkina, Cameroon, Dominican Republic, El Salvador, Georgia, Jamaica, Kenya, Lesotho, Morocco, Nigeria, OECS, Pakistan, Romania, Sierra Leone, Tajikistan, Tunisia, Uganda; **FY 11-(11):** Algeria, Albania, Azerbaijan, Bhutan, Chile, Macedonia, Lebanon, Montenegro, Panama, Thailand, Uruguay.
plain the process by which IEG adjusted the ratings for of the subpillars within the CASCR-R, after having remapped some subpillar components to match the RAP FY11 core objectives as well as the contribution of both Bank and IFC interventions during CAS implementation.

**METHODOLOGY**

The exercise aimed to classify the major CAS interventions under each of the four core development goals as well as integrate IFC contributions to the achievement of CAS objectives. Two phases of adjustment were undertaken: (i) reclassification of the CAS objectives and indicators under the four core objectives and (ii) integration of IFC contribution to the CAS/CPS pillars ratings and overall outcome.

**Remapping and adjusting CAS Sub-pillars and Ratings**

Outcomes for CASCRs reviewed by IEG during FY08-11 were mapped under the RAP core objectives making sure that there was consistency among initial CAS outcomes and indicators and the content of the RAP FY11 pillars. If the pillars of the CAS were consistent with the core goals, then there was no change in the classification and in the ratings. In contrast, if there were reclassifications, then outcome ratings were revised accordingly. The results of the remapping and the retrofitting of the CASCR-R ratings are summarized in Table II below. This exercise did not modify the integrity of the CASCR-Rs ratings of pillars and overall outcomes agreed upon between IEG and Bank Management. For analytical purposes, CAS pillar objectives, outcomes and indicators were mapped under the four core objectives identified in the RAP. The reclassification resulted mainly in transferring some objectives to the Reduced Vulnerability and Risks pillar from other CAS pillars. The impact was a higher number of countries with new ratings (55 percent) under this core goal. Changes pertaining to other core goals were limited to between 10 and 20 percent of the total ratings of each pillar.

<table>
<thead>
<tr>
<th>FY08-11 core objectives</th>
<th>Promoting Inclusive Growth</th>
<th>Enhanced Human Development</th>
<th>Reduced Vulnerability and Risks</th>
<th>Improved Public Sector Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of countries having the subpillar in the CAS</td>
<td>64</td>
<td>64</td>
<td>58</td>
<td>58</td>
</tr>
<tr>
<td>Countries with new subpillar ratings following reclassification</td>
<td>7</td>
<td>8</td>
<td>32</td>
<td>11</td>
</tr>
<tr>
<td>New ratings/Total Ratings per Subpillar (%)</td>
<td>11</td>
<td>11</td>
<td>55</td>
<td>19</td>
</tr>
</tbody>
</table>

**Incorporation of IFC and MIGA contribution in the achievement of overall outcomes**

Only eight CASCR-Rs completed during FY11 were jointly evaluated and rated by the World Bank and IFC ratings and there was no need to retrofit them so as to incorporate IFC contribution in achieving CAS outcomes. IFC’s performance was also rated in these CASCR-Rs. Adjustments consisted in incorporating IFC contributions into the 21 remaining
CASCR-Rs, which were evaluated jointly, but did not have ratings of IFC results or performance. Retrofitting of IFC contribution is summarized in the Table III below. None of the 64 reviewed CASs were joint with MIGA and MIGA’s contributions were therefore not factored into the retrofitting exercise.

Table C.4. Results after Incorporation of IFC Contribution in the CAS Outcomes Classified under the RAP FY11 Pillars

<table>
<thead>
<tr>
<th>FY08-11 core objectives</th>
<th>Promoting Inclusive Growth</th>
<th>Enhanced Human Development</th>
<th>Reduced Vulnerability and Risks</th>
<th>Improved Public Sector Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of countries having the subpillar in the CAS</td>
<td>64</td>
<td>64</td>
<td>58</td>
<td>58</td>
</tr>
<tr>
<td>Joint Evaluation without IFC rating of results and performance.</td>
<td>21</td>
<td>21</td>
<td>21</td>
<td>21</td>
</tr>
<tr>
<td>Change in ratings triggered by IFC contributiona</td>
<td>10</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>New ratings/Total Ratings per subpillar in %</td>
<td>16</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

a. Countries for which there were changes in ratings following the incorporation of IFC contribution were: Belarus, Colombia, Serbia, Argentina, India, Philippines, Dominican Republic, Georgia, Pakistan and Romania.

RESULTS

Reclassification of CAS outcomes and indicators, and inclusion of the IFC results led to a retrofitting of the pillar outcome ratings of some CAS as summarized in tables C.2 and C.3. The final results in achieving the overall outcome after mapping CAS pillar outcomes and indicators across the RAP FY11 pillars are summarized in Table C.5.

Table C.5. CAS Outcomes after Reclassification and Retrofitting

<table>
<thead>
<tr>
<th>RAP FY11 core objectives</th>
<th>Number of countries having the pillar in the CAS/CPS</th>
<th>% of countries with a rating of Moderately Satisfactory, Satisfactory or above</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pillar I: Sustainable and Inclusive growth</td>
<td>64</td>
<td>69</td>
</tr>
<tr>
<td>Pillar II: Enhanced Human Development</td>
<td>64</td>
<td>67</td>
</tr>
<tr>
<td>Pillar III: Reduced Vulnerability and Risks</td>
<td>58</td>
<td>60</td>
</tr>
<tr>
<td>Pillar IV: Improved Governance and Public Sector Management</td>
<td>58</td>
<td>47</td>
</tr>
</tbody>
</table>
Appendix D: IEG’s Ex Post Project Evaluation Methodology for MIGA Projects

IEG uses a standard benchmark-based methodology for its evaluation of MIGA guarantee projects. It rates projects on three dimensions: Development Outcome, MIGA’s Effectiveness, and the Project Contribution to MIGA’s financial results. The methodology is consistent with Good Practice Standards established by the Evaluation Cooperation Group (ECG) Working Group for Private Sector Evaluation, established by the Development Committee in the 1980’s to harmonize evaluation standards for private sector operations across multilateral development institutions.

Development Outcome aims to capture the project’s overall impact on a country’s economic and social development, and is thus important as an implicit proxy for how well the project has contributed to MIGA’s purpose and mission. Development Outcome is evaluated for each project across four dimensions: (i) project business performance; (ii) economic sustainability; (iii) environmental and social effects, and (iv) private sector development impact. Each of these measures rates a distinct aspect of the guarantee project’s performance.

a. Business Performance measures the guarantee project’s actual and projected financial impact on the project financiers—its lenders and equity investors.

b. Economic Sustainability measures whether the project has contributed to the country’s development.

c. Environmental and Social Effects measures a project’s performance in meeting MIGA’s environmental and social requirements, as well as its actual environmental and social impact.

d. Private Sector Development aims to capture the effects of the guarantee project on the development of productive private enterprise beyond the project, and relates to MIGA’s mandate to enhance the flow of private foreign investment to developing countries.

MIGA’s Effectiveness aims to capture MIGA’s work quality in assessing, underwriting and monitoring of its guarantee projects, and the value added MIGA brings to the client or project. IEG assesses MIGA’s effectiveness across three dimensions of MIGA’s operational performance: (i) Strategic Relevance; (ii) MIGA’s Role and Contribution; and (iii) Quality of MIGA’s Assessment, Underwriting, and Monitoring.

a. Strategic Relevance refers to the degree of consistency of the guaranteed project with the development priorities of the host country and the Bank’s country strategy.

b. MIGA’s Role and Contribution relates to the benefits or value added that MIGA brings as a development institution. The contribution may be catalytic (in facilitating foreign direct investment in economically sound and sustainable businesses) in encouraging the development of the political risk industry or in conveying additionality.

c. Quality of MIGA’s Assessment, Underwriting, and Monitoring assesses (i) the extent to which the project’s expected Development Outcomes were adequately
assessed, key material risks were identified and mitigated, and whether MIGA’s underwriting policies and guidelines were adhered to; and (ii) whether MIGA took adequate remedial action if country or project conditions changed subsequent to issuing the guarantee.

*Contribution to MIGA’s financial results* relates to a guarantee’s impact on MIGA.

*Project Ratings.* IEG rates Development Outcome and MIGA’s effectiveness and each of their dimensions using a four-point rating scale: excellent, satisfactory, partly unsatisfactory, and unsatisfactory.

*Harmonization.* The methodology and framework are consistent with the Good Practice Standards established by the ECG Working Group for Private Sector Evaluation, which aims to harmonize evaluation standards for private sector operations of multilateral development institutions.
Appendix E: Risk Adjusted Expected Development Outcome Regression: Model Specification, Analysis, and Performance Benchmarks

In the world of finance, risk and return has a trade-off relationship. In this regard, any performance measurements, such as return on investment, are viewed in relation to the associated risk. Adjusting performance by risk is essential in making business decisions and assessing the investment portfolio. Banks are increasingly conducting risk assessments for business units as well as allocating capital. Furthermore, this can serve as a basis of a scorecard to measure contributions to shareholder value and of performance-based incentives.

Risk-taking is an important part of the operations of international finance institutions that are mandated to promote development. This is particularly true for IFC, the private sector arm of the World Bank Group. IFC invests more than $12 billion per year in private sector projects in developing countries worldwide. IFC is designed to share the same commercial risks facing other private investors, thus it has developed a rigorous risk measurement system for its financial performance. However, measuring its performance against meeting its development objective has not been straightforward.

There is an established practice for assessing the development outcome of private sector investments. Each year, IFC conducts and an evaluation of a sample of projects that are mature enough to assess performance and assign ratings. The overall development outcome score is a synthesis of four performance categories that are informed by the achievement of industry-specific indicators. To obtain a positive rating, a project must be at least satisfactory based on the following criteria: project business success (financial returns at or above weighted-average cost of capital), economic sustainability (return to society through economic returns at or above 10 percent), environmental and social effects (project meets or exceeds IFC Performance Standards) and private sector development impact (project contributes to improvements in the private sector beyond the project company). A “success” rating indicates a project contributed to the host country’s development. The evaluation system also assesses IFC’s work quality during the project cycle (appraisal and supervision), as well as whether IFC played any unique roles in the project.

However, this measurement of “success” is not always adequate for making judgments on performance. For example, there is no differentiation between a repeat project with a client with an excellent track record in a stable middle-income country, and a project in a challenging situation such as a conflict-affected part of the world, without a functioning regulatory regime. Other factors could be a “first-of-a-kind” intervention (greenfield) or a project with project sponsors that do not have particularly strong financial or operational background. The rating may even discourage risk taking because there is no way to reflect these risks.

This appendix summarizes an initial model to provide views of projects’ development performance that better consider risks of achieving development outcome and thereby enhance our understanding of the quality of IFC’s efforts in meeting different development chal-
lenges. First, it presents a model that differentiates two factors: those external to IFC and those internal to IFC. The model indicates the sensitivity of each of the factors related to the project’s development outcome and proposes a risk-adjusted expected development outcomes (RAEDO) benchmark. Second, it presents the application of the RAEDO benchmark as a basis of the results matrix that identifies areas that the institution can focus on to mitigate the specific risks. Third, the model is applied to project future outcomes by applying the model to projects approved in recent years, based on their risks and various work quality scenarios.

Model Specification

An initial model was developed to provide views of project performance that better consider country, sector and product risk context, and thereby enhance the understanding of the quality of IFC’s efforts in meeting different development challenges. The conceptual framework views the development outcome of a project as a function of two sets of factors: external and internal to IFC (again noting possible interactions among them).

\[
\text{Development Outcome}_i = f (\text{External Factors}_i, \text{IFC-controllable factors}_i) + \epsilon_i
\]

The model includes the following external factors:

1. **Changes in country business climate** -- Changes in the Institutional Investor Country Credit Risk score between approval and evaluation. A higher value indicates a larger improvement in the business environment. An improving business environment creates more and distributes better investment and growth opportunities, rewards entrepreneurial efforts, facilitates business growth, and therefore is expected to translate into more jobs, higher community impacts, and greater tax revenues. Trends in the business environment appear to be more important than starting levels.

2. **Sponsor/partner quality** -- The variable captures the sponsor’s experience, financial capacity, commitment to the project, and governance/business reputation. If the sponsor is rated low in these dimensions, sponsor quality is deemed to be low. This factor is rated on a binary scale, with 1 as high risk/low quality and 0 low risk/high quality, based largely on assessment of project documentation and, where available, public information and field visits/interviews. IFC is delivering development impact through partners, typically private enterprises, and therefore their capacity, integrity and commitment are an important factor of development impact. However, IFC’s additionality may be higher when sponsor’s quality is not very high, in which case IFC’s additionality may mitigate the risks arising from low sponsor quality. The variable is measured as of the time of approval.

3. **Market risks** -- Captures the project’s underlying competitiveness in the market in which it is operating and any market distortions such as high tariff protection, degree of presence of State-owned Enterprises in the sector, artificial monopoly positions and other distortions that typically result in low competitiveness. Rated on a binary scale with 1 as high risk/low competitiveness and 0 otherwise. Clearly demonstrated market competitiveness improves a venture’s ability to meet business adversity and survive in its early years so that it may reach its development potential.
Economic rates of return and development impact in general tend to be lower in distorted market environments. Distortions drive a wedge between market and economic prices, and financial and economic returns of a project, resulting in a divergence between private and social returns. Distortions are normally unsustainable over the long term creating also financial risks if a particular enterprise benefits financially from market distortions. The variable is measured as of the time of approval.

4. **Project type** -- Rated on a binary scale with 1 for a greenfield project and 0 otherwise. Greenfield projects involve new plant construction and new operations and thus pose a higher risk compared to expansions of existing plants and operations. They pose “the greatest challenge to structuring and risk sharing” (IFC 1999b, p. 29).

The model excludes some possible factors, such as whether the client is a new client or a repeat client, IFC sector experience, and project size, that are in some way highly correlated with factors which are already included in the model.

The set of IFC-controllable factors considered in the model are as follows:

1. **Screening, appraisal and structuring quality** -- Rated on a binary scale with 1 as satisfactory or better, and 0 as less than satisfactory.
2. **Supervision and administration quality** -- Rated on a binary scale with 1 as satisfactory or better, and 0 as less than satisfactory.
3. **IFC additionality** – proxied by IFC’s role and contribution rated on a binary scale with 1 as satisfactory and 0 as less than satisfactory.

Table 1 presents summary statistics.


<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Development outcome success (%)</td>
<td>0.57</td>
<td>0.72</td>
<td>0.74</td>
<td>0.73</td>
<td>Higher</td>
</tr>
<tr>
<td>Changes in country business climate</td>
<td>3.13</td>
<td>13.6</td>
<td>12.67</td>
<td>10.42</td>
<td>Higher (improvement in business climate)</td>
</tr>
<tr>
<td>Sponsor risk</td>
<td>0.4</td>
<td>0.37</td>
<td>0.36</td>
<td>0.34</td>
<td>Lower (improvement)</td>
</tr>
<tr>
<td>Market competitiveness</td>
<td>0.68</td>
<td>0.60</td>
<td>0.55</td>
<td>0.63</td>
<td>Lower (but small change)</td>
</tr>
<tr>
<td>Project type</td>
<td>0.41</td>
<td>0.42</td>
<td>0.48</td>
<td>0.46</td>
<td>Higher (more risk)</td>
</tr>
<tr>
<td>Screening, Appraisal &amp; Structuring Work Quality</td>
<td>0.51</td>
<td>0.74</td>
<td>0.74</td>
<td>0.79</td>
<td>Higher</td>
</tr>
<tr>
<td>Supervision &amp; Administration Work Quality</td>
<td>0.69</td>
<td>0.86</td>
<td>0.83</td>
<td>0.83</td>
<td>Higher</td>
</tr>
<tr>
<td>IFC Role and Contribution</td>
<td>0.79</td>
<td>0.82</td>
<td>0.84</td>
<td>0.81</td>
<td>Higher</td>
</tr>
<tr>
<td>No. of observations</td>
<td>361</td>
<td>173</td>
<td>210</td>
<td>228</td>
<td></td>
</tr>
</tbody>
</table>

Source: IEG.
The external variables in the model are consistent with consideration of risk in both the financial and development worlds. Financial theorists and practitioners distinguish between the following main types of risks: (i) country risk: the risk of loss on cross-border exposure due to government actions; (ii) credit risk: the risk of loss due to borrower’s default; (iii) business risks: uncertainties in the revenues and expenses of a business associated with general industry trends, technological or regulatory changes; and (iv) market risks: risk of possible losses arising from changes in the market due to fluctuating or changing interest rates, foreign exchange rates, share prices and prices in general. In the development field, risks to development outcome are commonly considered in World Bank approval and evaluation documents. The risks most often identified in Bank project documents are similar to the risk factors included in the model: unfavorable changes in policies, or law and order situation; technical capacity and commitment of government partners and/or the implementing agency.

Regression results are presented in Table E.2. All coefficients except project type have the expected signs and are significant at the 5 percent or 10 percent level. It is clear from the results that factors controllable by IFC tend to dominate the external factors both in terms of statistical significance and in terms of statistical impact.

| Table E.2. Determinants of Development Outcome-Probit Regression summary, 2000-2010 |
|---------------------------------|-----------------|
| **2000-10**                     |                 |
| Changes in country business climate | 0.005**        |
| Sponsor risk                    | -0.11**         |
| Market competitiveness          | -0.12**         |
| Project type                    | -0.07           |
| Screening, Appraisal & Structuring Work Quality | 0.33**       |
| Supervision & Administration Work Quality | 0.28**      |
| IFC Role and Contribution       | 0.46**          |
| # Observation                   | 652             |
| Pseudo R2                       | 0.368           |

Source: IEG

*Note: Coefficients displayed represent marginal changes in probability of successful development outcome due to unit change in explanatory variable, which for a discrete change of dummy variable is from 0 to 1; P-values are in the second column; * significant at 10%; ** significant at 5%.

We next use the results in Table E.2 to estimate the impacts of risk and IFC-controllable factors on development outcomes by regional and industry departments. We then simulate the probability of success by regional and industry departments with actual risk parameters and various scenarios of IFC-controllable factors (work quality). They will be compared against the actual development outcome success rates to assess performance of each business unit adjusted by the risks of each portfolio.

The first dimension is the actual results against the “potential” outcome. If we assume perfect work quality, (high work quality for appraisal, supervision and roles) and substitute the variable in the model using actual project risks, the estimated Development Outcome Success rates are the highest possible ones. We call this as "maximum potential RAEDO" because it indicates what could be achieved with the highest work quality, given the actual risk profile of projects undertaken by the respective departments, that is, Max. Potential
DO=f (actual risks, perfect work quality). The gap between potential and actual is an indication of any shortcomings due to work quality.

The second dimension is the actual results against the “benchmark RAEDO.” We simulate the probability of success with actual project risks with evaluated work quality of previous periods (2005–07). This is to assume the expected development outcome success if there was no changes in the work quality. We call this the “benchmark expected development outcome” or “benchmark RAEDO” because this is the expected success rate that the departments should expected to outperform, adjusted by the embedded project risk factors. The difference between the benchmark and actual results are due to the changes in work quality, while adjusted by the differences in risks. The results are presented in Table E.3.

Table E.3. IFC’s Project Development Outcomes and Factor Attribution

<table>
<thead>
<tr>
<th>Development Outcome</th>
<th>Max. Potential RAEDO(^a) (a)</th>
<th>Benchmark RAEDO(^b) (b)</th>
<th>Actual (c)</th>
<th>Actual vs potential (a)-(c)</th>
<th>Actual vs Benchmark (b)-(c)</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>IFC 2008</td>
<td>91%</td>
<td>74</td>
<td>75%</td>
<td>-16</td>
<td>-1</td>
<td></td>
</tr>
<tr>
<td>IFC 2009</td>
<td>90%</td>
<td>72</td>
<td>74%</td>
<td>-16</td>
<td>+2</td>
<td></td>
</tr>
<tr>
<td>IFC 2010</td>
<td>89%</td>
<td>70</td>
<td>70%</td>
<td>-19</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>IFC 08-10</td>
<td>89%</td>
<td>72</td>
<td>73%</td>
<td>-16</td>
<td>+1</td>
<td></td>
</tr>
<tr>
<td>FM cluster</td>
<td>89</td>
<td>72</td>
<td>69</td>
<td>-20</td>
<td>-3</td>
<td>Far from potential and  Close to benchmark</td>
</tr>
<tr>
<td>INFRA cluster</td>
<td>91</td>
<td>73</td>
<td>80</td>
<td>-9</td>
<td>+7</td>
<td>Close to potential and Exceed benchmark</td>
</tr>
<tr>
<td>MAS cluster</td>
<td>90</td>
<td>72</td>
<td>74</td>
<td>-16</td>
<td>+2</td>
<td>Close to potential and Close to benchmark</td>
</tr>
<tr>
<td>CF1</td>
<td>88</td>
<td>55</td>
<td>62</td>
<td>-26</td>
<td>-7</td>
<td>Far from potential and Lower than benchmark</td>
</tr>
<tr>
<td>CF2</td>
<td>90</td>
<td>73</td>
<td>74</td>
<td>-16</td>
<td>+1</td>
<td>Far from potential and Close to benchmark</td>
</tr>
<tr>
<td>CF3</td>
<td>89</td>
<td>79</td>
<td>67</td>
<td>-22</td>
<td>-12</td>
<td>Far from potential and Lower than benchmark</td>
</tr>
<tr>
<td>CM1</td>
<td>90</td>
<td>58</td>
<td>68</td>
<td>-22</td>
<td>+10</td>
<td>Far from potential and Exceed benchmark</td>
</tr>
<tr>
<td>CM2</td>
<td>91</td>
<td>79</td>
<td>71</td>
<td>-20</td>
<td>-8</td>
<td>Far from potential and Lower than benchmark</td>
</tr>
<tr>
<td>CM3</td>
<td>90</td>
<td>81</td>
<td>83</td>
<td>-7</td>
<td>-2</td>
<td>Close to potential and Close to benchmark</td>
</tr>
</tbody>
</table>
## Development Outcome

<table>
<thead>
<tr>
<th>Services</th>
<th>Max. Potential RAEDO&lt;sup&gt;a&lt;/sup&gt; (a)</th>
<th>Benchmark RAEDO&lt;sup&gt;b&lt;/sup&gt; (b)</th>
<th>Actual (c)</th>
<th>Actual vs potential (a)-(c)</th>
<th>Actual vs Benchmark (b)-(c)</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>CN1 Infrastructure &amp; Natural Resources Asia</td>
<td>89</td>
<td>57</td>
<td>64</td>
<td>-25</td>
<td>+7</td>
<td>Far from potential</td>
</tr>
<tr>
<td>CN2 Infrastructure &amp; Natural Resources CAF/CLA</td>
<td>93</td>
<td>82</td>
<td>94</td>
<td>+1</td>
<td>+12</td>
<td>Close to potential</td>
</tr>
<tr>
<td>CN3 Infrastructure &amp; Natural Resources EMENA</td>
<td>89</td>
<td>75</td>
<td>81</td>
<td>-8</td>
<td>+6</td>
<td>Close to potential</td>
</tr>
<tr>
<td>Central and Eastern Europe</td>
<td>90</td>
<td>83</td>
<td>60</td>
<td>-30</td>
<td>-23</td>
<td>Far from potential</td>
</tr>
<tr>
<td>East Asia and Pacific</td>
<td>89</td>
<td>55</td>
<td>62</td>
<td>-27</td>
<td>+7</td>
<td>Far from potential</td>
</tr>
<tr>
<td>Latin America &amp; Caribbean</td>
<td>92</td>
<td>83</td>
<td>79</td>
<td>-13</td>
<td>-4</td>
<td>Close to potential</td>
</tr>
<tr>
<td>Middle East and North Africa</td>
<td>86</td>
<td>59</td>
<td>80</td>
<td>-6</td>
<td>+21</td>
<td>Close to potential</td>
</tr>
<tr>
<td>South Asia</td>
<td>90</td>
<td>62</td>
<td>72</td>
<td>-18</td>
<td>+10</td>
<td>Far from potential</td>
</tr>
<tr>
<td>Southern Europe and Central Asia</td>
<td>90</td>
<td>85</td>
<td>87</td>
<td>-3</td>
<td>+2</td>
<td>Close to potential</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>88</td>
<td>56</td>
<td>74</td>
<td>-14</td>
<td>+18</td>
<td>Close to potential</td>
</tr>
</tbody>
</table>

Source: IEG.

<sup>a</sup> Potential is model-generated projection with assumption of perfect work quality.

<sup>b</sup> Benchmark risk adjusted expected development outcome (RAEDO) is a model-generated projection with actual risk profile and work quality of previous periods.

The above analysis illustrates improvements in the Middle East and North Africa and Sub-Saharan Africa as they display a positive gap between the actual and benchmark performance. At the same time, the chart also illustrates a high degree of realization of potential in SECA as there is a relatively small gap between the potential performance and it has also exceeded the benchmark. The department of infrastructure & natural resources in Africa and Latin America and the Caribbean had the best performance as its outcome exceeded the potential performance and exceeded the benchmark. It is important to note that the comparison of success rates often cannot highlight the clear high performer: Sub-Saharan Africa’s success rate was 74 percent as was the overall MAS cluster results. However, the comparison against potential performance and the benchmark can make it possible to conclude that Sub-Saharan Africa results are better than the MAS cluster as adjusted for risk.
Prospective Views on Future Outcomes

Looking forward, newer projects (those approved between CY2006 and CY2009) had comparable risk factors to the 2008–10 XPSR projects. The newer projects had similar sponsor risk, but tend to have higher risk relating to project type, reflecting a growing trend in increasing exposure to greenfield or early stage businesses. Increased competition, liquidity and high valuations before the crisis also contributed to project type risk. Market risk, although recently trending downward, remains high. Country business climate improvement has been slower for 2006–09 approvals.

Table E.4. Changes in Risk Factors in Projects Approved in 2006–09

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Changes in country business climate</td>
<td>3.13</td>
<td>10.42</td>
<td>5.43</td>
<td>3.76</td>
<td>1.29</td>
<td>-0.47</td>
<td>deteriorating</td>
</tr>
<tr>
<td>Sponsor risk</td>
<td>0.4</td>
<td>0.34</td>
<td>0.31</td>
<td>0.32</td>
<td>0.32</td>
<td>0.26</td>
<td>stable</td>
</tr>
<tr>
<td>Market competitiveness</td>
<td>0.68</td>
<td>0.63</td>
<td>0.77</td>
<td>0.68</td>
<td>0.45</td>
<td>0.59</td>
<td>Lower (but small change)</td>
</tr>
<tr>
<td>Project type</td>
<td>0.41</td>
<td>0.46</td>
<td>0.55</td>
<td>0.57</td>
<td>0.48</td>
<td>0.54</td>
<td>Higher (more risk)</td>
</tr>
<tr>
<td>Screening, Appraisal &amp; Structuring Work Quality</td>
<td>0.51</td>
<td>0.79</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td></td>
</tr>
<tr>
<td>Supervision &amp; Administration Work Quality</td>
<td>0.69</td>
<td>0.83</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td></td>
</tr>
<tr>
<td>IFC Role and Contribution</td>
<td>0.79</td>
<td>0.81</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td></td>
</tr>
<tr>
<td>No. of observations</td>
<td>361</td>
<td>228</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Considering the above dynamics in risk factors, the expected development outcome will be stable. The potential development outcome will not exceed 89 percent for 2011–14 evaluations (evaluation of 2006–09 approvals). If we assume the average work quality of 2007–09 will continue in the future the predicted development outcome will be around 73 percent—similar to the current level.

By department and regions, the shifts in risks significantly influenced CM2 (Manufacturing, agribusiness and services, CAF/CLA) and Central and Eastern Europe, where significant improvements are predicted in expected development outcome performance by considering the risks and constant work quality assumptions. On the other hand, a significant deterioration is expected in CN2 (infrastructure and natural resources, CAF/CLA) as well as Southern Europe and Central Asia based on the risks and constant work quality. Work quality
will need to improve over that of the past or the outcome will be still lower than past periods.

Table E.5. Potential and Predicted Development Outcome by Department and Regions

<table>
<thead>
<tr>
<th>Department or Region</th>
<th>Max. Potential RAEDOa</th>
<th>Benchmark RAEDO for 06-09 approvalsb</th>
<th>Actual XPSR08-10</th>
<th>XPSR Actual vs benchmark for 06-09 approvals</th>
<th>Work Quality simulation</th>
</tr>
</thead>
<tbody>
<tr>
<td>IFC 2011</td>
<td>88</td>
<td>72</td>
<td></td>
<td></td>
<td>68</td>
</tr>
<tr>
<td>IFC 2012</td>
<td>88</td>
<td>73</td>
<td></td>
<td></td>
<td>68</td>
</tr>
<tr>
<td>IFC 2013</td>
<td>89</td>
<td>74</td>
<td></td>
<td></td>
<td>69</td>
</tr>
<tr>
<td>IFC 2014</td>
<td>88</td>
<td>73</td>
<td></td>
<td></td>
<td>68</td>
</tr>
<tr>
<td>IFC 2011-14</td>
<td>88</td>
<td>73</td>
<td></td>
<td></td>
<td>68</td>
</tr>
<tr>
<td>FM cluster</td>
<td>88</td>
<td>72</td>
<td>69</td>
<td>+3</td>
<td>67</td>
</tr>
<tr>
<td>INFRA cluster</td>
<td>88</td>
<td>73</td>
<td>80</td>
<td>-7</td>
<td>68</td>
</tr>
<tr>
<td>MAS cluster</td>
<td>89</td>
<td>74</td>
<td>74</td>
<td>0</td>
<td>70</td>
</tr>
<tr>
<td>CF1 Financial markets - Asia</td>
<td>88</td>
<td>63</td>
<td>62</td>
<td>+1</td>
<td>58</td>
</tr>
<tr>
<td>CF2 Financial markets – CAF/CLA</td>
<td>88</td>
<td>76</td>
<td>74</td>
<td>+2</td>
<td>72</td>
</tr>
<tr>
<td>CF3 Financial markets – EMENA</td>
<td>88</td>
<td>74</td>
<td>67</td>
<td>+7</td>
<td>69</td>
</tr>
<tr>
<td>CM1 Manufacturing, Agribusiness and Services – Asia</td>
<td>90</td>
<td>68</td>
<td>68</td>
<td>0</td>
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APPENDIX E

Source: IEG.
a. Potential is model-generated projection with assumption of perfect work quality.
b. Benchmark risk adjusted expected development outcome (RAEDO) is a model-generated projection with actual risk profile and work quality of previous periods.

The outcome prospects are most influenced by different work quality scenarios, the factors for which IFC is directly responsible. If work quality declined by 5 or improved by 5 percent across the three elements, the outcome success rates can go change in similar magnitude after three to five years.

Figure E.1. Development Outcome Outlook Based on Work Quality Scenarios

Source: IEG.
* Projects are to be evaluated in the future years (based on approval years: 2011 evaluation = 2006 approvals, for example). Work quality scenarios are based on changes from 2008-10 work quality ratings on three performance areas.
Conclusion

Including risks into an evaluation of private sector development outcome is challenging. The initial model of RAEDO focused on key development results drivers. By separating projects’ underlying risk and institutions’ controllable factors, the model showed the dominant influence of controllable factors (work quality and roles) compared to the risks. This illustrates the areas of focus for the institution so that they may improve results. Furthermore, the predicted success rate can be used as a benchmark for ex post assessment or scorecards in order to measure performance of business units by making adjustments for the projects’ risk. The performance can be assessed along two dimensions: the gap between potential results, given the project risks, and between the benchmarks derived from constant work quality assumptions. The analysis also enables the estimation of future potential results and benchmarks, and the areas of focus in work quality so that IFC may achieve higher outcome ratings going forward.
IEG Annual Report 2011: Results and Performance of the World Bank Group

Volume 3: Management Action Record
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**List of Recommendations**

1.1 Design PSR projects and allocate Bank resources to them with recognition that PSR has especially complex political and sequencing issues.
   - Be realistic about the time it takes to get significant results, understand the political context, identify prerequisites to achieve the objectives, and focus first on the basic reforms that a country needs in its initial situation.
   - Reconsider the balance between development policy and investment lending, because institutional change usually needs the sustained support of investment projects, although development policy lending can help secure the enabling policy changes.

1.2 Within country PSR strategies, set priorities for anticorruption efforts based on assessments of which types of corruption are most harmful to poverty reduction and growth.
   - Only when the country has both strong political will and an adequate judiciary system should the Bank put primary emphasis on support for anticorruption laws and commissions. Given that reducing corruption will be a long-term effort, the Bank should emphasize (i) building country systems that reduce the opportunities for corruption that is most costly to development and (ii) making information public in ways that stimulate popular demand for more efficient and less corrupt service delivery.
   - Provide operational clarification to the country team about how the Bank’s anticorruption efforts fit within the overall country strategy.

1.3 Strengthen the CSA components of PSR, providing them with a better framework and indicator set, and give more attention to the budget execution phases of financial management.
   - This will require PEFA-like actionable indicators for civil service and administrative performance and more linkage between the implementation of reforms for civil service and for financial management.

**Status of Implementation**

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<td><strong>Strengthen the CSA components of PSR, providing them with a better framework and indicator set, and give more attention to the budget execution phases of financial management.</strong></td>
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**Management Response 2011**

**Original Response:**

1.1 Ongoing/Agreed. Bank management agrees in principle with this recommendation, noting that it points to the importance of intensifying AAA upstream of PSR operations—which can have significant budget implications. How the recommendation can best be implemented will require learning by doing and will depend on country context. To implement the GAC strategy, the Bank’s regional Vice Presidential units have identified 26 countries that currently are initiating country-specific country GAC strategy processes—including, in some of these countries, intensified governance assessments that aim to, among others,
identify political obstacles to reform and feasible approaches to sequencing. At the conclusion of this learning process, Bank management is committed to reporting to the Board whether and how it intends to systematize and scale up its GAC work, including AAA. Reporting on the agreed actions will be done in the context of overall GAC reporting.

1.2 Mostly agreed. Management agrees with the recommendation that the most effective way in which PSR can support anticorruption efforts is by giving priority to work on country systems and on information flows to the public. As the recommendation suggests, the more complex challenge (which goes beyond the scope of PSR operational work) has to do with the relationship between country strategies and operations more broadly and anticorruption efforts. Management’s response to this broader challenge has been laid out in the strategy, “Strengthening World Bank Group Engagement on Governance and Anti-corruption” (World Bank 2007c). Three ways in which GAC strategy implementation addresses this broader challenge are (i) by signaling that GAC is not only a PSR concern but “is everybody’s business”; (ii) by intensifying efforts to manage fiduciary and other GAC risks in Bank operations; and (iii) by underscoring that approaches to addressing GAC are country specific and should be derived from poverty-reduction priorities. With regard to IEG’s request for operational clarification, this last point implies that attention to GAC issues generally will be most intensive in those sectors that are given priority for poverty reduction in country strategies. The GAC implementation progress report to the Board, to be presented in 2008, will report on experience.

1.3 Ongoing/Agreed. Bank management agrees with the recommendation that a better framework is needed for the civil service and administrative components of PSR work. A strategic staffing exercise, being undertaken as part of GAC strategy implementation, will help implement this recommendation. The Poverty Reduction and Economic Management anchor already has begun recruiting to strengthen its staffing on civil service and administrative reform. Under the GAC strategy and implementation plan, intensified work is under way within that anchor to develop a new generation of “actionable indicators,” with indicators for civil service and administrative a top priority. However, as is evident from the seven-year experience of developing the PEFA indicators—cited as a success in the IEG evaluation—the development of new and better indicators is a challenging task that will take time. For the budget execution phases of financial management, Bank management notes that both the PEFA indicators and the CFAAs give them strong attention. An earlier, narrower focus on budget formulation has already has been incorporated in the Bank’s operational work. Management will monitor and report on progress on these actions in reports to Executive Directors on the implementation of the GAC initiative.

MAR 2011: Following the endorsement of the GAC Strategy in March 2007 management has taken a series of steps to mainstream the governance agenda in the Bank and ensure greater aid effectiveness. Public sector governance initiatives have been central in this effort. In particular, the Bank has focused on (i) leading by example and mainstreaming the GAC approach in Bank’s operations; (ii) strengthening country system and building capacity at the local level, (iii) monitoring progress and results; and (iv) promoting global cooperation and knowledge sharing.

There have been steady gains in both the development of GAC tools and their mainstreaming in the work of the WBG – from upstream CAS strategies to downstream design and implementation of lending operations and technical assistance initiatives. A central focus of the first two years of implementation of the WBG’s Governance and Anticorruption Strategy implementation has been on enhancing development effectiveness and poverty reduction while managing risk (responding to the poverty focus of governance and anticorruption work recommended by IEG). From July 1, 2010, the Bank required all investment lending projects to incorporate the new Operational Risk Assessment Framework (ORAF) that systematically looks at stakeholder, implementation and overall risks and how these risks are directly linked to a project’s development outcomes. Further, Management has undertaken a review of the entire PSG portfolio, including focused attention on 27 specific problem projects, implementation of (almost) quarterly reviews of the PSG portfolio, decentralization of some senior technical staff to country offices as ‘mini-hubs’ to better implement PSG projects, and reviewed the skill mix of PSG staff. Management is currently preparing a Public Sector Management strategy as part of the overall GAC Phase II Strategy and as part of this work is completing analysis of PSR components of all Bank financed projects, both DPL and IL, to better assess the qualitative assessments of instrument mix to support PSG interventions. Finally, Management established a new Preventive Services Unit within the Department of Institutional Integrity that proactively works with Bank’s teams to identify and address risks of corruption ex ante.

At the country level, this approach has translated in promoting a deeper understanding of local challenges and incorporating into CASs and operations the governance, institutional and political drivers of decision making in specific country settings—recognizing the complex political sequencing and time frame issues raised by IEG. The Bank has increasingly focused on im-
proving core country systems, including through strengthening country procurement systems and helping build country capacity and investing more systematically in public sector reform approaches tailored to different types of countries. Since the spring of 2009, the Governance Partnership Facility (GPF) has supported country-level governance programs in 18 countries. Innovative initiatives, such as building capacity to manage Ghana’s oil resources by involving civil society, have been implemented through the GPF work. A GAC Portal was launched to all staff in mid-May that brings together GAC knowledge, learning and guidance from all the regions and networks and provides access to online GAC Essentials and Ethics training courses that had deep participation levels.

Further, the Bank has supported the integration of political economy analysis in Bank operations and programs to ensure greater impact and sustainability of the reform process. This has been especially relevant for the Bank’s work in the areas of public financial management and anticorruption. In particular, with the support of the GPF, the Bank has made significant resources available to country, sector and selected anchor teams to undertake governance and political economy analyses. Currently, the Bank is maintaining an ongoing list of political economy analytic work that is being undertaken. The list includes about 50 pieces of such work across regions and sectors as of Q2 FY11.

In the areas of Public Financial Management (PFM) activities and the reforms for civil service, the Bank is taking action to strengthen the empirical basis of its work, for instance, as reflected in the creation of Financial Management Information System (FMIS) Database. The FMIS database has supported a review of all completed and active FMIS projects since 1984. The report is expected to be publicly available in Q1 2011. The FMIS Report identifies project characteristics, scope and cost of systems, information and communication technology solutions, project preparation approaches, regional differences in the design and implementation of FMIS solutions, and importantly the operational status of the information systems, in addition to the duration, cost and performance ratings. Based on the findings of the report, 80% of the completed FMIS projects were extended and 82% were completed within budget and resulted in a sustainable and useful solution as a basis for further PFM reforms. Among 55 completed projects, 49 systems (89%) are fully or partially operational, which suggests that from the perspective of obtaining results and sustainability, many of these projects achieved their technical and operational targets. The Report also presents the trends in the design and implementation of FMIS solutions since 1984, and shares observed/reported achievements, challenges and lessons learned with interested parties to assist in improving the performance of related PFM reform programs, and where applicable, human resource management reforms. In fact, HRMIS solutions were visible as an additional component of FMISs in 17 out of 55 completed projects (14 of these HRMIS solutions were fully or partially operational). There seems to be a growing interest in the inclusion of HRMIS modules as a part of integrated FMIS solutions in new projects; this has implications for the ongoing advice and operational streams in the Bank.

The Bank is also supporting the strengthening of institutions of accountability at the country level, focusing on access to information and transparency. As part of this work, the Bank has launched an initiative to build capacity and promote effectiveness of anti-corruption authorities (ACAs) in collaboration with UNODC, the US State Dept. and the European Commission. To this end, the Bank organized a Workshop with heads of ACAs in March 2010. The Workshop highlighted a set of factors that influence the effectiveness of ACAs. As a follow up the Bank is gathering detailed information from ACAs around the world on lessons learnt, and is creating a web portal to share the results of this effort. In addition, the Bank has launched in 2008 the Public Accountability Mechanisms (PAM) Initiative. This initiative is a part of the Actionable Governance Indicators (AGI) work described below and brings forward detailed and regularly updated data on countries’ efforts to enhance transparency and the accountability of public officials (income & asset disclosure, conflict of interest, freedom of information/right to information, immunity protections, ethics training), and has been applied in a total of 87 countries.

Measuring progress and impact of the governance and anti-corruption agenda on the ground has also been a critical component in the strategy moving forward. In October 2009, the Bank formally launched the Actionable Governance Indicators (AGI) Portal that includes data from 13 separate sources (including Global Integrity Index, Public Expenditure and Financial Accountability (PEFA), CPIA, Afrobarometer, Governance in Social Sectors, Open Budget Index, International Budget Practices and Procedures Survey, Polity IV Project, Press Freedom Index, Public Accountability Mechanisms, Statistical Capacity, Enterprise Surveys, and Doing Business). The data Portal, publicly accessible and regularly updated, provides data and tools on different areas of public sector governance reform.

Over 200 PEFA Performance Measurement Framework assessments (led by a range of donor partners and countries) have been...
completed in over 110 countries and some 40 are completed annually. These assessments cover all phases of the budget process, from budget formulation, through execution and reporting. In addition, the Bank has been promoting the use of AGIs at the country level supporting the development of local initiatives, such as the “Data Tracking Mechanism” in Uganda. Here, by using existing data, and at no direct cost to the government, the Bank in collaboration with other donors has supported the Government to identify a set of corruption performance data that could be used to systematically monitor progress. In this case, the Ugandan Government has taken ownership and is moving forward to monitor corruption performance on an ongoing basis.

In light of the IEG’s highlighting the need for PEFA-like actionable indicators for Human Resource Management (HRM), the Bank has developed an instrument for capturing systematic evidence on the design, implementation and performance of HRM systems in client countries – the HRM AGI Instrument. The instrument has been applied in eleven pilot countries. Moreover, in an effort to establish an “industry standard” for capturing such evidence, the Bank has met with and achieved agreement on the HRM system performance indicators from a number of donors active in supporting civil service reforms (OECD, European Commission, DFID). In addition, the Bank has developed or is now in the process of developing a number of sector-specific instruments for AGIs (Health, Education, and Forestry) which have been piloted in several countries. The challenge moving forward is to ensure widespread use of such instruments in our support for institutional and governance reforms addressing HRM issues in our client countries.

In parallel to the AGI Data Portal development and launch, the Bank has continued to support the implementation of detailed Governance and Anti-corruption Diagnostic Surveys aimed at identifying priorities for anti-corruption efforts. Since 2007 the Bank has carried out country specific initiatives in several countries in Africa and MENA (Mauritania, Cameroon, Senegal, Cote d’Ivoire, Yemen, Morocco, among the others).

Finally, the Bank has focused on promoting global cooperation and knowledge sharing. The Bank has actively supported new initiatives that are emerging at the global level, including through partnerships among donor agencies, civil society groups, and governments for better development outcomes – such as the Extractive Industries Transparency Initiative (EITI), and the Construction Sector Transparency Initiative (CoST). A key global effort for the Bank has been the Stolen Assets Recovery (StAR) initiative, launched in partnership with the United Nations Office on Drugs and Crime. StAR which supports international efforts to deter illicit flows of the proceeds of corruption and facilitate asset recovery. In addition, the Bank has focused on promoting knowledge management and sharing on these key issues. This has led to the creation of the new GAC web-portal, which includes good practice cases, a good practice framework, e-learning module and other useful information -- and the establishment of the Bank’s Political Economy Community of Practice (PE CoP), which first convened in October 2009.

**IEG Response 2011**

Over the past year, significant resources and time have been devoted to the implementation of the wide-ranging Governance and Anti-Corruption strategy. These include several of the initiatives noted above including the launch of the Operational Risk Assessment Framework as well as various global GAC efforts such as STAR, CoST, and EITI. However, the key issue is whether these activities are impacting the Bank’s public sector reform portfolio. As noted in IEG’s comments to the MAR2010, Management’s response and ratings should distinguish between (i) Bank-wide GAC efforts and those that have specific relevance to the PSR portfolio; and (ii) Network guidance and analytical activities (such as reviews, guidance notes, Communities of Practice, etc.) and their actual impact on PSR operations.

Comments on the specific IEG recommendations and management responses are provided below:

1.1 Management does not provide any evidence that PSR operations benefitted from additional resources and more intensive upstream analysis. Rather, it references the more generic CGACs (launched in Year 1 of GAC implementation), which were focused on cross-cutting country level strategies rather than the design of specific PSR operations. Incidentally, an internal review, conducted in 2010, found that only 7 of the 26 CGACs were successful in improving selectivity of Bank engagement but did not comment on their impact on PSR in particular. Similarly, the Management response to IEG recommendations (on political economy analysis) notes that almost 50 such analytical pieces were supported by the GPF. Yet, here too, Management does not clarify whether these were PEAs were linked to the design of PSR operations per se; the latest tally suggests that many of these analyses focused on sectoral issues. Management could usefully provide an update of the 2009 QAG Benchmarking GAC Survey to demonstrate whether PSR operations continued to fare better-than-average in terms of its use of PE analysis. It could also explain whether PREM public sector units in Regions have increased their AAA, lending, and supervision budgets relative to the past.
As in the MAR2010, Management’s response does not cover the second element of IEG’s recommendation, i.e., striking the right balance between DPLs and investment lending in support for PSRs. Aggregate data on the share of DPL and IL-based commitments alone may not help in evaluating the instrument mix for PSR in part due to the increased use of DPLs in middle income countries as part of the Bank’s crisis response. Experience suggests that some of these operations tend to be tagged as supporting “law and public administration” even when their reform content is more specific to other sectors. Therefore, country-specific data on the mix of instruments supporting PSG would be necessary to monitor progress in implementation IEG’s recommendation. Also, Management should clarify whether the Results Based Investment Lending instrument would address issues raised by IEG (i.e., the need for an instrument that accommodates the longer time horizon of complex public sector reforms).

Since recommendation 18.1 relates to actual impact on Bank PSR operations (rather than the provision of guidance), IEG rates the current level of adoption as medium.

1.2 Overall, there has been significant effort to provide guidance on how the Bank’s anticorruption efforts fit within country strategies. The bulk of these efforts relate to anticorruption efforts on Bank projects, as reflected in guidelines issued by LEG in 2006 and recently updated in 2011. Other GAC-in-projects guidance on preventing fraud and corruption risks as well as the use of demand-side measures (such as complaints handling, third party monitoring, and transparency) have been provided by OPCS, INT, and Network Anchors. There is some anecdotal evidence that these efforts have raised awareness of fiduciary risks in Bank operations, however, Management has not provided an update of the results of the 2009 QAG Benchmarking Survey on incorporation of F&C safeguards in projects.

More generally, it is not clear whether GAC-in-projects efforts have contributed to a more coherent approach to building anti-corruption capacities within countries. The ACA initiative as well as the global efforts to prevent corruption (for instance, StAR, AML, EITI, COsT, etc.) bode well for the Bank’s objectives if it can fit global initiatives to country needs. In its response, Management should provide more evidence of how these corporate initiatives are being adopted at the country level, and whether they are helping the Bank and its clients avoid the pitfalls of earlier approaches to strengthening ACAs (which was the spirit of IEG’s recommendation). In particular, it is not clear whether the role of the judiciary and other enforcement mechanisms are being considered.

An area that continues to be of concern is the lack of progress on the use of country systems (UCS). Over the past year, reports to the Board indicate that the Bank has fallen far short of its goals in piloting of UCS, particularly in the area of procurement. This seems at odds with the Management’s response in the MAR2011. In the coming year, it remains to be seen whether attempts to build a more graduated approach in step with improvements in country capacity show more promise. Benchmarking of UCS (of FM and procurement systems) at the country level should be collected by Management in its GAC Phase II report.

Compared with MAR2010, the rating for level of adoption for 1.2 does not warrant change and should be medium.

1.3 Management has invested considerable resources in the launch of the AGI platform, and in particular, indicators on HR systems. Progress on sectoral AGIs also bode well for Bank efforts to ensure that cross cutting reforms begin to positively impact sectoral performance. The Management response (and the upcoming Public Sector Reform Strategy update) could usefully include a stocktaking of Bank operations that incorporate HRM AGIs into their results frameworks. This evidence is critical to determining level of adoption going forward. Progress on the second round of PEFA assessments, with particular focus on budget execution, is noteworthy.

IEG agrees with Management that recommendation 18.3 should be rated as medium for level of adoption.

**List of Recommendations**

2.1 **To improve the credibility and quality of the rankings, the DB team should:**

(a) Take a strategic approach to selecting and increasing the number of informants:

- Establish and disclose selection criteria for informants.
- Focus on the indicators with fewest informants and countries with the least reliable information.
- Formalize the contributions of the supplemental informants by having them fill out the questionnaire.
- Involve Bank Group staff more actively to help identify informants.

(b) Be more transparent on the following issues of process:

- **Informant base:** Disclose the number of informants for each indicator at the country level, differentiating between those who complete questionnaires and those who provide “supplemental” information.
- **Changes in data:** Disclose all data corrections and changes as they are made. Explain their effect on the rankings, and, to facilitate research, make available all previously published data sets.
- **Use of the indicators:** Be clear about the limitations in the use of the indicators for a broader policy dialogue on a country’s development priorities.

(c) Revise the paying taxes indicator to include only measures of administrative burden. Since the tax rate is an important part of the business climate, DB should continue to collect and present simple information on corporate tax rates, but exclude it from the rankings (as it does for information on non-wage labor costs in the employing workers indicator). A wider range of informants should also be engaged for the paying taxes indicator.

2.2 **To make its reform analysis more meaningful, the DB team should:**

(a) Make clear that DB measures improvements to regulatory costs and burdens, which is only one dimension of any overall reform of the investment climate.

(b) Trace the impact of DB reforms at the country level. The DB team should work with country units to analyze the effects of implementing the reforms measured by the DB indicators (such as revised legislation or streamlined process) on: (i) firm performance, (ii) perceptions of businessmen on related regulatory burdens, and (iii) the efficiency of the regulatory environment in the country.

2.3 **To plan future additions to or modifications of the indicators, the DB team should:**

(a) Use Bank analyses to drive the choice of DB indicators. Business Enterprise Surveys, Investment Climate Assessments, and other work can help determine stakeholders’ priorities for domestic private sector growth. The DB team should use such analyses to determine the choice of new indicators, and periodically assess its current set of indicators.

(b) Pilot and stabilize the methodology before including new indicators in rankings. Frequent changes in methodology make comparison across time less meaningful. New indicators should be piloted (that is, data collected and published for comment, but not factored into the rankings) until the methodology is validated and stabilized.
STATUS OF IMPLEMENTATION

<table>
<thead>
<tr>
<th>Recommendations</th>
<th>Level of Adoption</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.1 To improve the credibility and quality of the rankings.</td>
<td>High, Medium</td>
</tr>
<tr>
<td>2.2 To make its reform analysis more meaningful.</td>
<td>Substantial, Medium</td>
</tr>
<tr>
<td>2.3 To plan future additions to or modifications of the indicators.</td>
<td>High, High</td>
</tr>
</tbody>
</table>

MANAGEMENT RESPONSE 2011

2.1 To improve the credibility and quality of the rankings, the DB team should:

2.1.a. Take a strategic approach to selecting and increasing the number of contributors:

*Note: From DB08 to DB11 the sample of countries increased from 178 to 183 economies.*

<table>
<thead>
<tr>
<th>Topic</th>
<th>DB08</th>
<th>DB11 (excluding new countries added*)</th>
<th>% increase</th>
<th>DB11 (including new countries added*)</th>
<th>% increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Starting a Business</td>
<td>968</td>
<td>1379</td>
<td>42%</td>
<td>1406</td>
<td>45%</td>
</tr>
<tr>
<td>Dealing with Construction Permits</td>
<td>492</td>
<td>580</td>
<td>18%</td>
<td>605</td>
<td>23%</td>
</tr>
<tr>
<td>Registering Property</td>
<td>749</td>
<td>1107</td>
<td>48%</td>
<td>1128</td>
<td>51%</td>
</tr>
<tr>
<td>Getting Credit</td>
<td>701</td>
<td>1111</td>
<td>58%</td>
<td>1127</td>
<td>61%</td>
</tr>
<tr>
<td>Protecting Investors</td>
<td>486</td>
<td>856</td>
<td>76%</td>
<td>874</td>
<td>80%</td>
</tr>
<tr>
<td>Paying taxes</td>
<td>708</td>
<td>859</td>
<td>21%</td>
<td>891</td>
<td>26%</td>
</tr>
<tr>
<td>Trading across borders</td>
<td>913</td>
<td>1266</td>
<td>39%</td>
<td>1279</td>
<td>40%</td>
</tr>
<tr>
<td>Enforcing contracts</td>
<td>687</td>
<td>975</td>
<td>42%</td>
<td>984</td>
<td>43%</td>
</tr>
<tr>
<td>Closing a business</td>
<td>661</td>
<td>845</td>
<td>28%</td>
<td>852</td>
<td>29%</td>
</tr>
<tr>
<td>Employing workers</td>
<td>663</td>
<td>854</td>
<td>29%</td>
<td>862</td>
<td>30%</td>
</tr>
</tbody>
</table>
tions underlying the indicators. Doing Business 2011 also benefited from input received during the June 2010 update review in collaboration with WBG country offices and Executive Directors’ offices regarding changes in business regulations or institutions that impact the indicators. The team received updates from 65 governments and additional input related to 80 economies through WBG colleagues.

Given the finite pool of possible recruits, several actions have been taken to improve retention rates of contributors. A periodic newsletter is sent out regularly, keeping contributors up-to-date on the latest project news. New online surveys were introduced for the Doing Business 2011 cycle to facilitate the collaboration of the contributors. Over 25% of responses received were completed online. A Client Relationship Management system was introduced to accurately manage the contact database. Contributors are also invited to participate in project related events. Among others, contributors participated at events in Afghanistan, Chile, Georgia, Kazakhstan and Vietnam.

Establish and disclose selection criteria for contributors: To ensure accurate interpretation of regulations and reliable time estimates, Doing Business works with local experts who routinely administer or advise on legal and regulatory requirements. Given the nature of the DB methodology, the objective is to find the most knowledgeable and experienced contributors in each area of business regulation. DB targets professionals in various areas of expertise in line with the topics covered by DB and ensures that they are fully familiar with DB methodology and relevant case study assumptions. Accordingly, DB contributors are selected based on specific criteria such as their area of expertise and practice specialty in the case of lawyers. DB encourages stakeholders including governments to nominate local contributors and invites local experts to contribute to the project through its website. Once nominations are received, selection is finalized once this criterion is ascertained to the best of the team’s ability and available information. The selection criteria and profile of contributors are the following:

- Commercial Lawyers
- Notaries
- Judges
- Architects
- Trade logistics specialists
- Accountants
- Electricians

In addition, government agencies or institutions directly related to an area covered by Doing Business are also selected and invited as contributors (e.g. company registrars, public credit registries, private credit bureaus, land registry officials, tax authority officials, utility companies)

The selection criteria and method to nominate contributors are included on the website:
http://www.doingbusiness.org/contributors/doing-business/become-partner

Focus on economies and indicators with fewest contributors:

Special efforts and attention continue to be accorded to economies and indicators with the lowest numbers of contributors. Contributor recruitment and data collection missions were conducted in 33 countries for DB2011.

New contributors were recruited in all countries visited in 2010, including in economies in which contributor recruitment was a challenge, such as Bhutan, Chad, Congo (Rep), Dem. Rep. of Congo, Fiji, Kiribati, Lesotho, Papua New Guinea, Samoa, Swaziland, Vanuatu, Venezuela and Zimbabwe.

The number of contributors per indicator in DB2011 ranged from 852 globally (for Closing a Business) to 1,406 globally (for Starting a Business). For the Registering property indicator, for example, the number of contributors increased from 1,010 in DB10 to 1,128 in DB2011, or about a 12 percent increase. The contributor base for the Paying Taxes indicator was further diversified. In DB2011 the number of economies with contributors other than PricewaterhouseCoopers for the Paying Taxes indicator increased to 142. On average, each indicator increased its contributor base by 43% compared to DB08 (as presented in the contributors table above).

Formalize contributions of supplemental contributors: Management maintains a database of contributor responses in the form of self-filled surveys for the great majority of contributors. On relatively limited occasions,
these surveys are elaborated or supplemented by team-filled surveys after conference calls and country visits, usually because of language barriers or technological constraints (such as lack of access to computers or facsimile machines). Moreover, DB consults contributors who have knowledge or expertise in a particular area of a survey and thus offer partial survey responses, for example consulting utility companies to respond to the relevant section of the “dealing with construction permits” survey. In these cases, DB maintains either the self-filled relevant portion of the survey or other formal documentation of the interaction. All people who provide a substantial contribution are included and recognized in the contributor list, both in the published report and on the DB website: http://www.doingbusiness.org/contributors/doing-business.

**Involve Bank Group staff to help identify contributors:** For DB2011, the DB team and its Management have continued to consistently invite World Bank Group staff, as well as Executive Directors and their staff, to nominate contributors. Special effort has been made to encourage staff (both WB and IFC) based in country offices to nominate contributors. These invitations and efforts have continued to be made in meetings, country visits, and other communications, and they continue to be a source of new contributors. As a result, for the DB 2011 report, country staff in Algeria, Belarus, Bhutan, Cameroon, Chad, Rep. of Congo, Japan, Laos, Mali, Malawi, Montenegro, Nepal, Nigeria, Saudi Arabia, Trinidad and Tobago, and Uzbekistan have assisted the DB team in identifying new contributors.

2.1 Original Response: Mostly Agreed. Bank Group management mostly agrees with this recommendation, noting that it primarily points to the importance of intensifying the rigor of recruiting and maintaining a large pool of expert respondents.

– To implement the first part (point a) of this recommendation, management has hired a respondents’ manager on the DB team. The task of the respondents’ manager is to select and increase the number of respondents, focusing in particular on the poorest countries and other economies with the fewest number of respondents. In addition, management commits to increase the involvement of Bank Group staff in recruiting respondents and to conduct annual data collection visits to the 50 economies with the fewest number of respondents. Thirdly, management will expand the piloted practice of giving out awards to the respondents who have contributed high-quality data over a sustained period of time. Such awards serve to express gratitude for the respondents’ efforts and to maintain the pool of respondents.

– To implement the second part (point b) of this recommendation, management commits to disclosing the number of respondents for each indicator at the country level, starting with the launch of *Doing Business 2009*. Management is also making available details on data corrections/changes and methodology changes that have been made in the year following the launch of the previous report. Lastly, management commits to expanding the discussion on the limitations in the use of the DB indicators in the “Methodology” section of the report and on the Web site. However, management disagrees with the recommendation to make available all previously published data sets, not corrected for errors and methodology changes. This practice is unorthodox and is not followed by other major primary data providers. The data used in the background research for DB are already published on the “Research” page of the DB Web site. The full time series of DB data, corrected for errors and methodology changes, is also available at the “Get Full Data” page of the DB Web site. These two data sources have been widely used by researchers, with more than 800 academic papers utilizing the DB data.

– Management mostly disagrees with the last point (point c) of the recommendation. The tax rate is often identified as a major constraint to business activity in the World Bank Enterprise Surveys. Including a measure of overall tax burden Management Action Record Recommendation Management Response in the DB indicators provides a complete treatment for the topic of paying taxes. Focusing only on the administrative burden of paying taxes will take the DB methodology away from covering a broader spectrum of areas relevant to small domestic businesses. However, management commits to expand the range of respondents on the paying taxes’ survey by recruiting a larger set of accounting and tax experts.

**MAR 2011:**

2.1.b. Be more transparent on the following issues of process:

**Informant base:** Contributor lists are published in DB reports and on the website. (Contributors are only excluded from this list upon their own request.) Management makes available on the DB website the number of contributors by indicator at the country level. This information is available by selecting any country at: http://www.doingbusiness.org/contributors/doing-business. An electronic law library with links to relevant laws and legislations is also accessible at: http://www.doingbusiness.org/law-library.
Changes in data: Data correction rates are published annually, and, for DB11, are found on page 111. The approach to methodology changes and data corrections are described in the “About Doing Business” section of the DB 2011 report. In addition, a “Data challenges and revisions” section is included in the ‘Data Notes’, which complements that information.

In 2010, Management implemented a modernization of the DB website, enhancing the overall access to information. Following IEG recommendations, particular emphasis was put on the availability of information on methodology and revisions, and making the pages more user-friendly. A full page on ‘Methodology’ (http://www.doingbusiness.org/methodology) is now accessible from the main menu on the DB home page. In addition, a large ‘More Information’ box is included on that page with direct links to the following:

1) Changes to methodology this year (http://www.doingbusiness.org/Methodology/Methodology-Note)
2) Changes to methodology of previous years (http://www.doingbusiness.org/Methodology/Changes-to-the-Methodology)
3) Common misconceptions about Doing Business (http://www.doingbusiness.org/methodology/common-misconceptions)
4) Data Corrections to DB10 data (which includes both published and corrected data) http://www.doingbusiness.org/~media/FPDKM/Doing%20Business/Documents/Methodology/Others/DB11-corrections.xlsx
5) Data Corrections to DB09 data (which includes both published and corrected data) http://www.doingbusiness.org/~media/fpdkm/doing%20business/documents/methodology/others/db10-corrections.pdf
6) Economy characteristics that were used by the DB report http://www.doingbusiness.org/data/exploreeconomies/economycharacteristics

In response to follow-up discussions with IEG during 2010 regarding the Data Corrections file referenced in point 4 above, Management has now published a user-friendly Excel file (to replace the previous PDF file) which contains the details of corrections made to the last two years of Doing Business data. For example, the DB11 corrections sheet includes the DB10 corrected data, as well as the DB10 data as it was published. The DB10 corrections sheet which illustrates changes to DB09 data is also available on the website. Moving forward, the data corrections in in future years will be published in a similar fashion.

The publication of all historical data corrections beyond DB09 data remains a technical challenge due to the data-structure that was maintained in the past, which makes such visualization rather difficult. Further to the recommendations of the IEG and discussions that ensued, $1.8 million was obtained in an allocation from the WB IT Council to build a modern IT system to handle the continuous enlargement of DB database and will have the capacity to record and report on various elements, including corrections and methodology changes. The project is currently ongoing over FY11 and FY12, with an anticipated final delivery in FY13.

Use of the indicators: The IEG evaluation noted that, while effective in catalyzing reform debates and dialogue, the Doing Business indicators did not appear to have distorted policy priorities or encouraged policy makers to make superficial changes to improve rankings. DB reports have consistently noted that DB measures only a subset of the broader business environment.

For DB2011, Management added a new ‘Preface’ to the report (page v). In the fifth paragraph, it is explicitly states that “DB is limited in scope and does not consider the costs and benefits of regulation from the perspective of society as a whole. Nor does it measure all aspects of the business environment that matter to firms and investors or affect the competitiveness of an economy.” The new Preface also states that “World Bank Group dialogue with governments on the investment climate is designed to encourage critical use of the data, sharpening judgment, avoiding a narrow focus on improving Doing Business rankings and encouraging broad-based reforms that enhance investment climate.”

The Executive Summary (page 1) in the DB 2011 report describes the limitations of the DB indicators in the fourth paragraph. In addition, the “About Doing Business” chapter introduced in DB09 was maintained and up-
dated in DB10 and in DB 2011 (pp.12-17). The chapter transparently lays out for the user the scope and limitations of the project and clarifies the use of the indicators.

2.1.c. Revise the paying taxes indicator to include only measures of administrative burden

Management’s difference of opinion on this recommendation was noted in our original Management Response. We note that the IEG recommendation to revise the paying taxes indicator to include only measures of administrative burden, and excluding taxes and other mandatory payments to government, is at odds with the separate recommendation (see 2.3.a) on the use of the other World Bank analyses to determine the priorities for regulatory reform. In the World Bank Enterprise Surveys (www.enterprisesurveys.org), for example, tax rates are considered a top obstacle in twice as many countries as tax administration. Doing Business records the time and cost related to paying taxes and mandatory contributions from the perspective of a local SME, for whom tax and mandatory payment burdens are an important consideration.

In recognition of divergent perspectives on this point, and as part of its commitment to engage with key stakeholder groups, the DB team has been engaged in a consultation process with the International Tax Dialogue (ITD), which includes the OECD, IMF, IDB, EC and World Bank Group, for the last 2 years. As a result, several questions were added to the DB11 Paying Taxes surveys regarding tax administration to expand the data collected and inform the indicators. The new questions look into the time firms spend on post-filing interactions with the tax authorities as well as time spent on taxes other than consumption, labor and profit taxes (the current time sub-indicator only measures time spent on these 3 types of taxes). The survey also added more detailed questions on employment taxes and social security contributions paid by employees in addition to the employer to inform research on the labor tax wedge and see how many countries are affected by a greater burden placed on the employee versus the firm. For the Doing Business 2012 data collection cycle, the team will expand the consultative process beyond the ITD to include:

- Internal consultations with colleagues working on taxation within the World Bank and IFC
- Networks such as the OECD Informal Task Force on Tax and Development, International Centre for Taxation and Development (ICTD), and African Tax Administration Forum which consist of developing countries, non-governmental organizations, and other civil society organizations.

Consultations will focus on suggestions to improve the methodology of the Paying Taxes indicator. Upon completion of these consultations, management will decide whether additional modifications to this indicator are warranted.

2.2. Original Response: Agreed. Bank Group management agrees with this recommendation and will strive to make it even clearer in future DB reports and presentations that DB covers only some dimensions of the overall reform of the investment climate. Management also commits to a measurement and evaluation agenda, in partnership with WB country units and IFC regional facilities, to document the effect of DB reforms on a set of economic and social indicators. The World Bank Enterprise Surveys in particular will be used for this work.

MAR 2011:

2.2 To make its reform analysis more meaningful:

2.2.a Make clear what DB measures and what it does not:

DB reports have consistently noted that DB measures only a subset of the broader business environment.

In DB2011, Management included a new ‘Preface’ to the report (page v) providing background on the project. In the fifth paragraph, it is clearly stated that

- “DB is limited in scope and does not consider the costs and benefits of regulation from the perspective of society as a whole. Nor does it measure all aspects of the business environment that matter to firms and investors or affect the competitiveness of an economy.”

The Executive Summary (page 1) in the DB 2011 report also describes the limitations of the DB indicators in the
fourth paragraph.

- “Doing Business does not cover all factors relevant for business. For example, it does not evaluate macroeconomic conditions, infrastructure, workforce skills or security. Nor does it assess market regulation or the strength of financial systems, both key factors in understanding some of the causes of the financial crises.”

In addition, the “About Doing Business” section introduced in DB09 was maintained in DB10 and again in DB 2011 emphasizes that “World Bank Group dialogue with governments on the investment climate is designed to encourage critical use of the data, sharpening judgment, avoiding a narrow focus on improving Doing Business rankings and encouraging broad-based reforms that enhance investment climate.”

In response to follow-up discussions with IEG during 2010, in the DB2011 publication, additional changes were introduced to ensure precise use of language. For example, the previously named “Top 10 Reformers” are now described as “the 10 economies that improved the most in the ease of doing business”. Precise language is also used to describe and refer to changes in business regulations or institutions that are recorded through the indicators and reported on in the report (e.g. “introduction of a one-stop shop”, “passing of a new company law”, or “improvements in the area of starting a business”).

Appropriate phrasing was adopted in all relevant press materials supporting the launch of DB11.

2.2.b. Trace the impact of DB reforms at the country level:

A key aim of the DB project is to inform business regulatory policy decisions and policy advice where appropriate. Doing Business tracks and reports annually on regulatory changes implemented in the areas which it covers. A number of efforts have been undertaken to track the direct impact of such changes, and to trace the linkages to desired economic outcomes. They include statistical data obtained directly from governments, research from within the WBG, as well as external findings. For DB2011, the DB team established communication with governments that had improved their business regulations as measured by DB to impact data such as number of users of new registries. In particular, the governments of Burkina Faso, Colombia, the Arab Republic of Egypt, the Republic of Korea, the former Yugoslav Republic of Macedonia, Mexico, Portugal and Rwanda provided such information, which was presented in the DB11 report.

To show longitudinal change in business regulation over time and at the country level, a new metric was introduced in DB11 which illustrates improvements in business regulations as measured by the DB indicators---such as a reduction in the time to start a business thanks to a one-stop shop or an increase in the strength of investor protection index thanks to new stock exchange rules that tighten disclosure requirements for related-party transactions---over a period of 5 years. This measure of cumulative improvement allows economies to measure their progress relative to where they started---rather than to the performance of other economies. The findings are encouraging: in about 85% of the 174 economies, doing business is now easier for local firms (see figure below):
The dataset has enabled a growing body of empirical research. DB2011 reports on findings from recent research. Management also introduced a new ‘Research’ section to the DB website in 2010: http://www.doingbusiness.org/research, which cites peer-reviewed articles published in the top 50 economic journals. This new section, which will be updated yearly, highlights relevant research on the linkages of business regulations with business activity and economic outcomes. The information is searchable by Doing Business topic, and abstracts are available for quick reference. To encourage new research and information diffusion, the website also provides a mechanism for submission of publications.

1.1 The DB team is collaborating with other WBG departments, including the Enterprise Analysis unit in GIA, DEC and CIC to better understand the impact of business regulation reforms, and to trace the linkages to desired economic outcomes. In DB2011, a new sub-section was included to each chapter: “What are some results?” DB2011 presents some initial findings from such research supplemented by information on short-term results such as cost savings for firms or number of beneficiaries, New initial results are presented on the relationship of regulatory changes to simplify business start-up, dealing with construction permits, registering property and trading across borders in East Europe and Central Asia, the region most active in implementing policy changes in those areas, and labor productivity. FPD is also currently mobilizing funding for further research using those datasets as well as the subnational Doing Business project datasets and census data where available, to expand the analysis of the impact of regulations on a wider range of firm performance measures. In addition, a research competition will be held in 2011 to stimulate external research as part of preparations for a planned research conference in 2012 which will focus on the impact of DB reforms. This research conference will mark the 10th anniversary of the Doing Business project. A mix of researchers and policymakers will present their research and experience regarding Doing Business.

2.2. Original Response: Agreed. Bank Group management agrees with this recommendation and will direct the DB team toward using other Bank Group analyses, and in particular the Enterprise Surveys and Investment Climate Assessments, for both determining the choice of new indicators and periodically assessing the existing set of DB indicators. Management also commits to publishing new sets of indicators in future DB reports for comment, while not factoring those in the rankings until their methodology is validated by academic research.

MAR 2011:
2.3 To plan future additions to or modifications of the indicators, the DB team should:

2.3.a. Use Bank analyses to drive the choice of DB indicators:

Management agrees with the recommendation to use other World Bank analyses, most importantly the Enterprise Surveys and Investment Climate Assessments, to inform the choice of topics in Doing Business and enrich the analysis in future reports. The current work on the pilot indicator on getting electricity was derived from the results of Enterprise Surveys. In DB2011, the sample of economies for this indicator has been expanded from 140 economies to 176.

Prior to the publication of DB2011, an extensive process of consultation within the World Bank Group was carried out by the Doing Business team on all of its indicators. This consultation process included the six regions of the World Bank Group and other VPU's. These consultations continued after the DB2011 publication, in particular with the Legal department. The result of these initial consultations will feed into the questionnaires for the DB2012 data collection process.

2.3.b. Pilot and stabilize the methodology before including new indicators in rankings:

For new indicators, Management’s approach is to first publish new indicators for comment, not factoring them into rankings until their methodology is validated by academic research. The work on a new indicator on “getting electricity” illustrates this approach. In 2009, initial results and methodology of the pilot indicator on getting electricity were published in DB10, and further presented in a working paper. The results were again published in DB11, and management is now considering whether to incorporate the indicator into the rankings for DB12.

Management is also applying this approach to the revision of one of DB’s existing indicators: the Employing Workers Index (EWI). The EWI is undergoing a review to improve the indicator to allow it to better measure labor regulation within internationally accepted worker protection standards. The World Bank Group has been working with a consultative group - including experts from the ILO, employers’ and employees’ representatives, OECD, civil society, labor lawyers, and private sector - to discuss the employing workers methodology, as well as suggest future areas of research. Until this consultation process is complete, the EWI indicator has been removed from the Doing Business rankings, while the report continues to publish extensive data on labor regulation in 183 economies.

Starting this Fiscal Year, the mandate of the recently appointed FPD Chief Economist has expanded to include quality assurance of the indicators produced within FDP. Consequently the Doing Business team has engaged with the FPD Chief Economist Office to consult on the existing DB indicators and potential future indicators.

IEG RESPONSE 2011

2.1 To improve the credibility and quality of the ratings

There has been progress since the evaluation in improving the credibility of ratings and we especially appreciate management's openness during this past year to consider, discuss and follow up on the recommendations. These include recent enhancements to the Doing Business Website improve implementation of IEG’s recommendations in 2.1 (b) pertaining to transparency. The number of contributors to DB continues to increase gradually and is being disclosed, steps to stabilize the pool of contributors have been taken, and information on data changes is more accessible. Efforts have also been made to more transparently identify the limitations of what DB measures by adding a new preface to the report and relabeling the index to indicate it is not an index of overall reform.

However, there remain fundamental areas where the recommendations have not been implemented. The level of adoption is rated as ‘medium’ with respect to changes that have been made, but leaving clear IEG’s basic concern on “the credibility and quality of the ratings” as elaborated below:
To improve the credibility and transparency of country rankings IEG noted weaknesses in their use and construction that should at a minimum be transparently communicated to users. These include fundamentally the presumption for most of the indicators that less regulation is better, in a reform context, the difficulty of measuring confidence in indicator accuracy due to the small informant base, and the sensitivity of ranking to small changes in the indicators depending on where a country sits in the distribution. Clarity in communicating these weaknesses to users, particularly in understanding anomalies in the rankings, should be addressed.

While data corrections are provided, as noted in the 2010 MAR the reasons for data changes are still not disclosed (e.g. new data, entry error, changes in methodology, etc.) making it difficult for users to clearly understand why country rankings may shift.

As noted in the 2010 MAR, DB does not disclose its selection criteria for informants (other than occupational categories), as recommended in 2.1 (a). DB should explain its process for vetting prospective informants.

On the paying taxes indicator, IEG recommends that the indicator be revised to measure only administrative burden, and not the tax rate. The tax rate clearly has aspects that also contain social benefits. As in the 2010 MAR, management continues to report only an ongoing consultation process on this indicator. Management had indicated its disagreement with this portion of the recommendation in the original management response and the implementation on 2.1 (c) is therefore not rated. However, this is a crucial recommendation which reflects the broader concern under 2.1 that the content of DBI be credibly seen as only elements of the private cost to business.

2.2 To make reform analysis more meaningful

DB’s reports, website and public communications make clear that DB measures only selected aspects of business regulation and that changes in the indicators cannot be interpreted as ‘reforms’. DB should acknowledge that regulations have social benefits that are not captured by the DB exercise, and hence that improvement in the individual DB rankings is only about the private cost to business (recognizing that some of the benefits of lowering costs spill over to other businesses too) and does not necessarily indicate improvements in the regulatory environment from a public policy perspective.

DB is now planning to launch research into the connection between DB indicators on firm performance and other country-level impacts. For example, this work should, inter alia, address issues raised in recent research work that suggests the direction of change in de facto indicators of the quality of the investment climate (drawing on Investment Climate Assessments) are uncorrelated with changes in DB’s de jure indicators. The recommendation 2.2 (b) is now rated ‘medium’ on the basis of the improvements made but making clear the abovementioned fundamental gap in making “the reform analysis more meaningful”. Institutionally, at a time when attention to ‘good regulation’ is at an all time high and the cost of poor regulation that does not adequately address social consequences have become all too painfully clear, having a prominent WB publication focusing on a partial perspective of private sector regulation without an equal emphasis on ‘good regulation’ remains highly problematic for the World Bank Group. There are steps that management would want to take to ensure accuracy and consistency in the message throughout the report that the doing business indicator refers to the private cost to business and not necessarily to reform of the regulatory frame or environment. We look forward to such an improvement with respect to the content and presentation of the index in 2012.

2.3 To plan future additions or modifications of the indicators

The Bank Group has established a quality assurance process and piloting approach for proposed new indicators, thereby satisfying this recommendation with a rating of ‘high’.
3. **THE WORLD BANK GROUP GUARANTEE INSTRUMENTS 1990–2007**

**LIST OF RECOMMENDATIONS**

3.1 Take a strategic approach and make a decision whether to maintain the existing organizational structure while addressing some of the important problems, or develop and propose an alternative organizational structure to the Board.

3.2 Under any scenario, take action to introduce greater flexibility in the use of guarantee instruments in response to dynamic country and client needs and market developments by

- Revising existing policies and regulations on guarantees to minimize supply-driven product restrictions where most needed and to allow product differentiation on the basis of value added.
- Ensuring that adequate incentives exist for staff to offer the full array of WBG guarantees and PRM products to private sector clients within a single menu of options.
- Establishing more systematic links between advisory services and the deployment of WBG PRM instruments and other products, particularly in infrastructure.
- Following a consistent approach to pricing of PRM across its guarantee instruments to avoid potential distortions.
- Strengthening internal awareness of the guarantee instruments and the incentives and skills for their use and reducing transaction costs where possible, keeping in mind the importance of maintaining adequate processes and regulations for risk management.

3.3 If a new organizational structure is developed and proposed, consider at least three alternative perspectives for organizational realignment: the client perspective, the country perspective, and the product perspective.

- Under the client approach, all products for private sector clients, including guarantees and PRM instruments, would be offered through a single window.
- Under the country approach, the deployment of WBG guarantee and PRM products would be made according to country needs, under a management arrangement common for all the three institutions.
- Under the product approach, the bulk of guarantee/insurance products would be managed under one institutional roof.

3.4 If the current organizational structure is maintained, direct management of each individual WBG institution to improve the delivery of its own guarantee/insurance products by

**MIGA management**

- Proposing to MIGA’s shareholders amendments to its Convention to remain relevant and meet its market potential. Considering, in the meantime, alleviating several constraints derived from its operational regulations and policies.
- Increasing its responsiveness to market demand by addressing internal weaknesses that reduce efficiency and slow responsiveness without lowering MIGA’s financial, social, or environmental standards.
- Improving its client relationship management, including aftercare, to enhance the value MIGA adds and increase its client retention.

**Bank management**

- Maintaining and promoting the partial credit guarantee instrument as a potential effective countercyclical tool to leverage government access to commercial funds and extending such access to IDA countries.
- Creating awareness among Bank staff of the potential use and benefits of partial risk guarantees and building necessary skills.
- Developing a marketing strategy that encompasses both governments and the private sector to better identify situations in which the role of a partial risk guarantee can make a difference.
- Streamlining processing steps to reduce both internal disincentives to working on partial risk guarantees and transaction costs for private sector clients while ensuring that crucial measures for social and environmental safeguards and risk management are maintained.
IFC management
- Mainstreaming its guarantee products through its operations departments in the same manner that its equity and loan products are deployed.
- Assessing the extent to which it can bring its guarantee products closer to meeting Basel II and regulatory requirements in general, so that the guarantee beneficiaries can use IFC products more effectively for capital, provisioning, and exposure relief.
- Revisiting its approach to RSFs to increase flexibility and improve the attractiveness of the product.
- Scaling up successful models in energy efficiency, education, and capital market development based on the use of guarantee structures.

**STATUS OF IMPLEMENTATION**

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<tr>
<th>Recommendations</th>
<th>Level of Adoption</th>
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<tbody>
<tr>
<td>3.1 Take a strategic approach and make a decision whether to maintain the existing organizational structure while addressing some of the important problems, or develop and propose an alternative organizational structure to the Board.</td>
<td>Difference of Opinion/ Not tracked</td>
</tr>
<tr>
<td>3.2 Under any scenario, take action to introduce greater flexibility in the use of guarantee instruments in response to dynamic country and client needs and market developments by</td>
<td>Medium</td>
</tr>
<tr>
<td>3.3 If a new organizational structure is developed and proposed, consider at least three alternative perspectives for organizational realignment: the client perspective, the country perspective, and the product perspective.</td>
<td>Difference of Opinion/ Not tracked</td>
</tr>
<tr>
<td>3.4 If the current organizational structure is maintained, direct management of each individual WBG institution to improve the delivery of its own guarantee/insurance products by</td>
<td>Medium</td>
</tr>
</tbody>
</table>

**MANAGEMENT RESPONSE 2011**

As noted in the original Management Response, Management has opted to maintain the existing organizational structure while addressing some of the issues of coordination and marketing within the WBG. Hence, there are no agreed actions under sections 3.1 and 3.3 and the remaining parts of this Management Response focus on sections 3.2 and 3.4.

3.2 Original Response: As noted in the Management Response, the WBG institutions have complementary but differing mandates that are defined under their respective charters. Under these mandates, each member of the group has developed different products serving the different needs of its clients. Management therefore believes that current institutional arrangements are adequate, and issues of coordination and marketing can be addressed without a change in institutional structure.

3.2a The specific characteristics of each entity’s products are governed by the entity’s respective charters and policies, based on the clients it serves. Each institution continues to work to eliminate unnecessary restrictions, if any, in the use of its products. Management does not agree that an across-the-board revision covering very different guarantee products offered by the WBG members is needed. More effective coordination would better address these concerns (see below). Management would also like to point out that IFC has no specific policies restricting the offering of partial risk guarantees within its institutional boundaries and calls on MIGA to provide political risk insurance as needed. In accordance with its internal guidelines, IFC does not offer guarantee products that replicate
3.2b Management will assess the feasibility of increased staff incentives in the context of potential benefits. IFC is prepared to work with MIGA and the Bank with regard to marketing the various PRM products through IFC’s channels with clients. For example, there could be scope to leverage IFC’s industry departments’ relationships with key global private sector players to offer PRM instruments along with other financing options as appropriate. As the report notes, the newly established Client Relationship Management System could also be a vehicle for coordinated marketing efforts. The incentives for MIGA or Bank staff to utilize these channels could be considered.

3.2c The World Bank and MIGA will explore ways to establish more systematic links between advisory services and their PRM instruments. For MIGA, as solely a provider of political risk insurance and with no commercial interest, close collaboration with Bank policy advice is possible and indeed encouraged, as there is full alignment of interests between sound policy advice and such guarantees. The infrastructure area is in fact a good example of WBG coordination on advisory and financing services. IFC’s investment team, which is separate from the advisory team, can offer a financing package to the winning bidder subject to satisfactory due diligence. Such a package could include WBG guarantee products as appropriate. Advisory teams working with government clients will, as a matter of course, need to advise a government on the best options for ensuring a successful and competitive bid, for a concession, build-operate transfer, or other structure. Those options may lead to recommendations that either indications of interest from potential financiers (IFC or others) or of availability of political risk reduction mechanisms (WBG or others) be included in bidding information packages to increase the prospects of the government achieving its objectives. Governments are of course always free to reject such recommendations. Given the possible appearance of conflicts of interest, potential conflicts arising from such recommendations are fully disclosed to clients and mitigating measures as per WBG Conflict of Interest policies are put into effect if the governments choose to follow such recommendations. WBG units may not be able to offer financing or guarantee products if the winning bidder does not turn out to be acceptable to them.

3.2d Each of the Bank group institutions uses pricing methodology that reflects the unique characteristics of its charter and its clients. Management will provide guidance to staff to ensure the consistency of Bank advice to governments with regard to the “hierarchy of instruments” principle and the fee charged by governments to the private sector to offset the costs associated with issuing a counter guarantee. Such a fee will be considered the default option and application of the guidance will be monitored through the Finance, Economics, and Urban Development Department (the Sustainable Development Network department that supports the Regions’ guarantee work).

3.2e Efforts to increase awareness and ensure adequate skills in different specializations are ongoing. MIGA and the Bank will review their procedures to address any specific issues identified in the report that lead to higher transaction costs. IFC is prepared to provide training to staff on MIGA and/or Bank guarantee products it may be asked to promote. Within IFC guarantee products, IFC’s Investment Guidelines and Practices provide a detailed description of each product with a note to inform IFC Treasury as soon as is practical of plans to offer a guarantee product. Within the Finance/Treasury Vice Presidential Unit, the Structured and Securitized Products Department is the center of knowledge and practice on guarantee products in IFC, providing structuring guidance to investment staff as needed. IFC will continue to cover guarantee products in relevant training modules for staff. IFC is also mainstreaming a range of innovative financing techniques to investment departments to the degree possible.

MAR 2011 Management had agreed to take actions to improve policies and guidelines as necessary and strengthen coordination within the WBG. The previous MAR already described the mainstreaming of IDA partial risk guarantees, thus ending its pilot status. In addition, the eligibility criteria for IBRD enclave guarantees have been made more flexible. Whereas previously enclave guarantees required the underlying project to generate foreign exchange earnings, new projects without such earnings can benefit from the guarantee with adequate foreign exchange related credit enhancements and an off-take to a strongly creditworthy party.

In moving forward, Management has recognized the need for a comprehensive approach to revising existing policies and guidelines on Bank guarantees. Accordingly, in January 2011 a Bank-wide concept review for the Bank Guarantees Modernization exercise was launched. The ultimate objective of the exercise is to systematically revise and update Bank policies on guarantees in order to enhance the utilization of the instruments, while also ensuring that risks are properly appraised and managed. Policy revisions to be considered are expected to include: the ex-
Management has taken actions to strengthen coordination among Bank Group guarantee products and also to establish more systematic links between advisory services and guarantee operations. The Bank and MIGA have signed a cooperation and marketing agreement, and a similar agreement has been signed between the Bank and the IFC advisory unit. These agreements also strengthen the linkage between advisory services and guarantee operations. The Bank’s policy dialogue and technical advisory services on sector reforms continue to be critical components of guarantee operations. A guidance note to staff on WBG Guarantee Instruments has been prepared.

With regards to guarantee pricing, the Management Response indicated that each WBG institution uses pricing methodology that reflects the unique characteristics of its mandate and clients. Plans are for the Guarantee Modernization exercise to review pricing related issues with a view to enhancing flexibility and coordination within the WBG.

Management has taken actions to increase awareness and ensure adequate skills for guarantees within the Bank. Seminars and presentations on guarantees have been jointly conducted by the Bank, IFC and MIGA. The Bank also conducted a training workshop in April 2010 on Bank guarantees and is in the process of developing a new Guarantee Academy to be launched in FY11, adopting the approach used for the relatively successful DPL and CAS Academies.

3.4 Original Response:

3.4a Partially agreed at this time. Extending access of the Partial Credit Guarantee instrument to IDA countries would be an option that will be discussed under the IDA Guarantees Review to be presented to the Board by December 2008.

3.4b Agreed. Banking and Debt Management currently provides training on the political risk guarantee and other IBRD/IDA guarantee instruments for operational staff, and also includes a discussion of the guarantees in its general training for task team leaders. The Finance, Economic, and Urban Department (the Sustainable Development Network department that supports the Regions’ guarantee work) will continue to maintain adequate capacity to respond to demand from task teams for specialized guarantee expertise.

3.4c Partially agreed. The potential use of guarantees is most usefully discussed as a part of Country Assistance Strategy preparation, thus making the governments fully aware of the availability of guarantees. Management will work to ensure that the potential use of guarantees is discussed as part of the preparatory Country Assistance Strategy discussions for all countries. In addition, as part of outreach programs for IBRD financial products, Banking and Debt Management routinely includes material on the availability and potential for IBRD guarantees. Management plans to undertake a similar outreach program for IDA guarantees and is exploring various institutional options.

3.4d Partially agreed. Management is exploring ways to streamline the processing of guarantees but will not commit before identifying specific measures. Compliance with Bank policies pertaining to environment and social safeguards would not be affected by any changes in policies related to guarantees.

MAR 2011 Management had agreed to take actions to improve the delivery of guarantee products. In the IDA Guarantees Review presented to the Board in May 2009, Management indicated that it would explore the possible future expansion of IDA guarantee instruments to partial credit as well as policy based guarantees but noted that further analysis would be required. The possible extension of IDA guarantee instruments will be addressed under the comprehensive Guarantees Modernization exercise mentioned above.
Management had taken actions to create awareness of guarantees and build the necessary skills among Bank staff. As indicated above, the Bank has conducted a training workshop on guarantees in April 2010 and is in the process of developing a new Guarantees Academy to be provided in FY11. The Bank has committed to maintaining adequate capacity, as the center of technical expertise, to provide support to Regions’ guarantee work.

Management has taken actions to improve the marketing of guarantees and better identify opportunities to use these instruments. The original Management Response indicated that the use of guarantees is most usefully discussed as part of the CAS process. The Bank continues to participate in CAS discussions on a case-by-case basis in order to help identify appropriate opportunities for guarantees. In addition, Management increased incentives to use guarantees by reducing to 25 percent the guarantee exposure which would be counted against the IBRD country exposure limit, thus matching already existing arrangements for IDA countries. The Bank has conducted an outreach program to staff, client governments and private banks in order to enhance awareness of Bank guarantees. The program included major lead and underwriter banks in London, New York, Tokyo, Singapore and Hong Kong.

Management has taken steps to streamline the processing steps for guarantees. The corporate review process for guarantees has been aligned with those for loans and credits, by specifying that the required corporate review, notably depending on the level of risk, is not automatically at the Bank-wide Operations Committee level. The processing steps of guarantees will be reviewed and revised as necessary under the Guarantee Modernization exercise.

**IEG Response 2011**

3.1 1) IEG notes several important steps recently taken in the direction of recommendations made in the IEG Guarantees Evaluation, including: (i) more flexible eligibility criteria for IBRD enclave guarantees; (ii) launching of a Guarantees Modernization exercise; (iii) establishment of more systematic links between advisory services and guarantee operations; (iv) establishment of marketing agreements with MIGA and IFC; and (v) preparation of a guidance note to staff on guarantees.

3.2 Yet, IEG notes that effective implementation of many reforms is still a long way away. In particular, before effective practices can change, the Guarantees Modernization exercise needs to be completed; a Board Paper needs to be prepared; and the OP/BP on guarantees needs to be revised. The lag between when the recommendations were made in 2008 and when changes in practices can be realized has therefore continued to lengthen.

3.3 With respect to guarantee pricing, the IEG report pointed out that the clients for the Bank’s PRGs are private companies – the same as for IFC and MIGA. The purpose of PRGs is to provide political risk insurance to these clients – the same as MIGA. The argument of different pricing based on the “unique characteristics of mandates and clients” therefore does not appear to apply to Bank PRGs and MIGA PRI and continued efforts to ensure consistent pricing policies appear warranted.
4. **DECENTRALIZATION IN CLIENT COUNTRIES: AN EVALUATION OF WORLD BANK SUPPORT 1990-2007**

**LIST OF RECOMMENDATIONS**

4.1 Ensure that Bank support—particularly lending—is underpinned by genuine client commitment to decentralized service delivery, given its importance to the success of Bank interventions. Occasionally, a role for the Bank may be justified in the absence of client commitment (for example, to forestall potentially adverse measures), although the evaluation finds that Bank interventions under such circumstances are not usually effective.

4.2 Encourage the adoption of a more results-based approach to decentralization by helping to develop in-country and Bank capacity for monitoring and evaluation (M&E) that focuses on local outcomes (such as enhanced accountability, greater citizen participation, and improved service delivery) rather than on just the process of decentralization.

4.3 Ensure that Bank support at the country level is (among other things):
   - Founded on a clear analytical framework based on an integrative understanding of economic, political, and institutional factors at different levels of government and across sectors affected by decentralization
   - Accompanied by support (from the Bank or others) to develop and maintain local government capacity to the extent feasible.

4.4 Strengthen institutional arrangements within the Bank to ensure that an integrative view underpins Bank interventions, particularly those based on sector-specific entry points.

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<td>Negligible</td>
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<td>sector-specific entry points.</td>
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MANAGEMENT RESPONSE 2011
4.1 Ensure client commitment:

Original Response: Ongoing/Agreed in Principle. Management agrees in principle with this recommendation; however, it notes that the degree of country consensus around appropriate decentralization modalities may differ by sectors and levels of government. Consequently, the Bank can often play a critical role helping countries identify and implement entry points intended to promote quality in decentralized service delivery. However, a number of cases suggest that political drivers for decentralization are often an important country dynamic, and Bank country strategy design and implementation must be responsive to these realities. Management agrees to continue to emphasize cross-cutting client commitment for decentralized service delivery as a critical factor in defining entry points for successful engagement, and to calibrate assistance to support sustainable service delivery and poverty reduction as good practice in relevant Country Assistance Strategy (CAS) design and implementation. To implement the Governance and Anti-Corruption (GAC) Strategy, the Bank’s Regional vice presidential units have identified 26 countries that are initiating country-specific GAC processes. Where country conditions involve significant issues of decentralized service delivery (for example, the Democratic Republic of Congo, Indonesia, and the Philippines), country teams are systematically deepening the analysis around political-economy circumstances in shaping development effectiveness. At the conclusion of this learning process, Bank management is committed to reporting to the Board whether and how it intends to systematize and scale up its GAC work, including analytic and advisory activities. Reporting on the above agreed actions will be done in the context of overall GAC reporting.

MAR 2011: Operations are addressing this issue in the context of prevailing quality assurance processes, enhanced guidance and associated upstream AAA in this area, and the new Bank-wide risk assessment framework. Intergovernmental/sub-national operations typically span multiple counterparts across levels of government, but seek to respond and address evident critical gaps in public sector governance and service delivery. Recently issued guidance concerning the political economy of decentralization (see 14.3 below) shows how to move beyond superficial reference to “government ownership” in this area to support greater aid-effectiveness. The new Operational Risk Assessment Framework (ORAF) for investment lending, now in use, also puts strengthened emphasis on the risks of inadequate country ownership, provides guiding questions for assessing ownership and stakeholder risk, and involves a review by an independent Investment Lending Risk Team. Management will closely monitor over the coming 2-3 years as part of the implementation of the anticipated Public Sector Strategy (see 14.4 below) how this framework is performing in practice, including for the specific risks for engagement around decentralization processes identified by IEG. The Public Sector Strategy is being prepared as a companion piece to the GAC Phase II implementation strategy, and hence this feedback will be encompassed in overall GAC progress reporting.

4.2 Adoption of more result-based approach:

Original Response: Ongoing/Agreed. The Bank will continue to place particular emphasis in its dialogue with client countries on supporting the existence of a credible data-collection and reporting system for relevant services, one that is consistent with the structure of decentralization both in terms of its level of aggregation and management responsibilities and that can be used to make midcourse corrections as needed. At the same time, the design of M&E systems needs to highlight the presumed results chains between intermediate outcomes and ultimate outcomes (service delivery). For operations supporting a broad-based engagement in decentralized outcomes, countries will be encouraged to adopt a system that reflects the M&E system in place at the national level. At the national level, the Public Expenditure and Financial Accountability (PEFA) 8 indicators (concerning intergovernmental fiscal relations) and the PEFA 23 indicators (concerning front-line school and health facility financing) provide for systematic assessments of intermediate outcomes. The PEFA Secretariat also recently issued guidance on subnational government applications of this public financial management diagnostic tool, useful to countries to consider for M&E at this level. As part of the GAC Implementation Plan, management has committed to strengthen the application of Actionable Governance Indicators, including those in the area of decentralization. Management will continue its efforts to provide country and individual operations teams with guidance on helping countries strengthen M&E around decentralization.

MAR 2011: Strengthened quality assurance processes including the ORAF are enhancing the sharpness and realism of the results-focus and measurement reflected by Project Development Objectives (PDOs) in this area. The ORAF measures risks to the achievement of PDOs, thereby providing enhanced incentives for clear and well-defined PDOs. Investment lending reforms already in place also include the enhanced focus on implementation support, requiring strengthened M&E systems to measure progress; specifically, one of the risks assessed under
delivery quality risk and monitored regularly is the ability of the implementing agency to precisely and accurately monitor implementation. For IDA operations, the percentage of operations with at least one baseline indicator by the time of the first Implementation Status and Results Report has steadily increased across fiscal years and the addition of core indicators in key sectors has enhanced IDA’s ability to monitor results (see IDA15 Results Measurement System, Midterm Review). In addition to emphasizing M&E systems specific to a project and its intervention localities, the Bank is also placing greater emphasis on supporting clients in strengthening country systems for intergovernmental M&E. The Bank is also supporting the growing interest of a wide range of clients, for example Ghana and Indonesia, in more systematically instituting performance based intergovernmental transfers to complement general transfers. The new results-based lending instrument proposed by Management offers a number of promising entry points for better engaging with results, notably in rewarding sub-national governments for the achievement of specific results. The Public Expenditure & Financial Accountability (PEFA) program is also providing actionable indicators for intergovernmental fiscal relations and sub-national public financial management.

4.3 Work to an integrative analytical framework and strengthening local capacity for country level development effectiveness:

Original Response: Ongoing/Agreed in Part. Given the cross-cutting nature of decentralization, management agrees that an integrated approach is important as part of general and specialized economic and sector work, including attention to the political-economy of decentralization (for example, Public Expenditure Reviews and sectoral diagnostics, including around GAC issues). Management agrees with the first part of this recommendation and will implement it and monitor progress in the context of the GAC work noted in its response to the first recommendation. Management agrees that support for subnational capacity can be a vital ingredient to strengthening service delivery outcomes. However, management notes that strengthening government capacity must be linked to ultimate service delivery outcomes and based on appropriate engagement models and Bank comparative advantage, especially in the presence of a large number of diverse subnational jurisdictions. Local capacity building cannot be limited to, for example, the supply of training, but depends on appropriate incentives. Experience shows that it must be demand driven to be effective. Although strengthening local capacity often represents an important element for effective decentralization, management does not commit to always supplying local capacity building as an element in the activities it supports.

MAR 2011: To support operations (as per 14.1), the Bank has developed and published a framework to enhance the manner in which political economy factors, and a more robust understanding of country ownership around decentralization initiatives, are integrated into Bank support at the country level. Follow-up support is being

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2 See Sub-National Performance Monitoring: Issues and Options for Higher Levels of Government, Public Sector Group, June 28, 2010 (processed). Business Warehouse yields 117 approved projects by decentralization theme and 104 with sub-national government as sector for FY 2007-2008. As the IEG evaluation underscored, this sample may not be the exact sample a more intensive qualitative analysis of the portfolio might categorize as decentralization/intergovernmental/SNG engagement projects.

3 Intergovernmental Performance Grants: A Synthesis of Issues and International Experiences for the 13th India IFC, July 30, 2009, (processed)

4 For example, while prepared under existing investment lending modalities, the Indonesia Local Government and Decentralization Project (P53613, FY 2010) highlights the potential direction of opportunities in this type of project design.

5 PEFA has become the most widely utilized PFM tool, with more than 200 assessments completed in over 120 countries, and PEFA Performance Indicator 8 refers to the rules based character, transparency and predictability of intergovernmental transfers. A growing number of PEFA assessments have also been conducted at the SN level, and the PEFA Secretariat has prepared guidance in this regards. 55 SN assessments have been prepared to-date, and 10 are in the pipeline

6 The Political Economy of Decentralization Reforms: Implications for Aid Effectiveness, September 2010, PREM Public Sector Group During CY 2010, this was widely deliberated and review within and outside of the World Bank, including a series of country level pilot applications (see http://gacknowledge.worldbank.org/pe/html/gac-pe-md-gl.htm).
provided to a number of regional teams applying this approach at the country/project level supported by the Governance Partnership Facility (GPF).\(^7\) Under the Governance and Anti-Corruption (GAC) Implementation Strategy, increasing emphasis has also been placed on strengthening the demand side for augmenting the capability of local governments to perform, moving beyond traditional supply side approaches to strengthening local government capacity.

To strengthen collaboration with international development partners on engagement approaches and greater aid-effectiveness, including around local capacity building, the World Bank co-hosted in June 2010 in Washington, DC the fifth development partners meeting of an informal network working in this area \((\text{http://siteresources.worldbank.org/EXTDSRE/Resources/DPWG\_Summary\_081510.pdf})\). This external partnership is supported by a secretariat located in Germany (see \text{http://www.dpwg-lgd.org/cms/front\_content.php}). The follow-up meetings will be held in May 2011 in Brussels, building on the work by the Bank. The process has proactively engaged field-based staff in DRC, Indonesia, Uganda, and further outreach is planned to Benin, Ghana, Mozambique, and Peru in 2011.

4.4 **Strengthening WBG Institutional Coordination, especially around sectoral inputs:**

**Original Response:** Ongoing/Agreed. Management underscores the role of country management units and Regional vice presidential units (with support from multisectoral communities of practice in the Regions) in ensuring that consistent approaches are implemented as part of the CASs and operational review processes. Management will ensure that the issue is raised early in relevant CAS discussions. At a Bank-wide level, the Decentralization and Sub-National Regional Economics Thematic Group will continue to serve as a platform to promote integrative approaches to strengthen results based decentralization engagements, working together with other related cross-cutting thematic groups, notably the Urban Economics, Finance, and Management Thematic Group. Within the Bank-wide initiative to revitalize and support communities of practice, management sees this as a cross-network area to prioritize. This work will facilitate coordination across networks/sector teams at the Regional level. To support coherent approaches, the thematic group structure will offer senior facilitation and advisory services on a demand basis to country teams engaged in upstream CAS or project design issues. Specific steps to strengthen Bank engagement on issues of decentralization and local governance are under preparation under the guidance of senior operational management.

**MAR 2011:** As part of the GAC Phase II Implementation Strategy, a Public Sector Strategy companion piece is addressing the Bank’s engagement with intergovernmental reforms and sub-national government (alongside other core PSM areas such as PFM and CSR), notably anchored in supporting sectoral outcomes. Following further review, it was felt that a Global Expert Team structure – flagged in last year’s MAR - would not be the most effective mechanism at this stage to support cross-network institutional coordination, especially given the Bank’s broader on-going Matrix and Knowledge Management reforms. Management feels that currently prevailing structures, including notably ongoing coordination among the respective HD, PREM, and SD anchors and regions, enhanced by the work of the new Matrix Leadership Team, is proving an adequate mechanism to support institutional coordination in this area (including notably at CAS/CPS preparation and progress report stage reviews). The Public Sector Management Strategy team is currently engaged in initial consultations, and will propose specific follow-up concerning options for Thematic Group structures, notably addressing a perceived weakening of these structures over the past few years, and will specifically explore issues including budgetary pressures.

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\(^7\) The GPF is a multi-donor TF established to support the implementation of the Bank’s GAC strategy. At the end of CY 2010, it encompassed a total portfolio of 88 competitively awarded activities valued at USD 66.74 million in commitments (see \text{http://gpf}). A significant part of this portfolio addresses issues of decentralization and local governance, including “window 1” support for country level governance programming (Afghanistan, Burkina Faso, DRC, Kenya, Nepal, and Sierra Leone and Uganda).
4.1, 4.2, and 4.3: No comments

4.4 Management notes that the currently prevailing structures are proving to be adequate to ensure a more integrative approach to sector-specific entry points. More recent IEG evaluations, however, continue to find the lack of an integrative approach particularly in sector-specific entry points (see for example, HNP Evaluation 2009, Gender Evaluation 2010). Thus, the basis for Management’s ratings is unclear.
5. **ENVIRONMENTAL SUSTAINABILITY – AN EVALUATION OF WORLD BANK GROUP SUPPORT**

**LIST OF RECOMMENDATIONS**

**5.1 Increase the attention to environmental sustainability in the World Bank Group by ensuring that environmental issues enter fully into discussions of its strategic directions and Regional and country assistance programs.**

- Jointly reformulate and update the 2001 Environment Strategy to reflect new realities—including the increasingly important role of the private sector, technology transfer to developing countries, global public goods, and transnational environmental footprints—and emerging Bank Group corporate priorities.
- Consider both medium-term (5–10 year) and longer-term (10–20 year) approaches to strengthening environmental sustainability at the Regional and national levels and incorporate short-term (3–5 year) environmental programs into country assistance and partnership strategies.
- Identify opportunities for intra-Bank Group cooperation in helping clients address key national and global environmental challenges, including pollution reduction and long-term goals (up to 50 years) for greenhouse gas abatement and adaptation to climate change.
- Work with development partners to help countries address environmental problems. Use Country Environmental Analyses (CEAs) and Strategic Environmental Assessments (SEAs) for this purpose at the national, policy, sectoral, and subnational levels. Treat institutional capacity building as a means rather than an end and link it to attainment of observable environmental outcomes. Give greater attention to improving the performance of projects that focus primarily on environmental policy and institutions.
- Encourage the adoption and use of the Equator Principles as global environmental standards in private sector investments in the developing world and IFC Policy and Performance Standards on Environmental and Social Sustainability by multilateral development banks.
- Continue to develop IFC’s systems to improve accountability and transparency among Equator Principles signatories. Focus IFC Advisory Services and capacity building on Regions and sectors with low environmental performance, especially on Sub-Saharan Africa and the textile, food and beverage, tourism, and agriculture sectors, and continue supporting market transformation toward sustainability, emphasizing technology transfer and development in clean production, energy efficiency, and sustainable supply chain management.
- Expand MIGA’s environment-related technical assistance to clients.

**5.2 Move to more cross-sectoral and spatially oriented approaches to environmental support and strengthen staff skills.**

- Be more proactive on environmental concerns, including adaptation to, as well as mitigation of, climate change, but not neglecting other local and global environmental priorities. Better integrate environmental, health, and labor issues under the Bank Group’s sustainability agenda in the short and longer terms.
- Give greater analytical and operational attention to addressing problems that cross national and regional boundaries as well as to increasingly serious environmental and carbon footprint concerns. In analytic work, increase emphasis on linkages between poverty and the environment. Strengthen collaboration on environmental health issues among those responsible for health, water supply and sanitation, energy, transport, urban development, and environment.
- Strengthen staff skills in such areas as adaptation to climate change, carbon finance, and the ability to deliver environment-related investment and policy reform projects.
- Improve IFC-Bank coordination on policy dialogue with governments to enhance structural reforms aimed at public-private partnerships in water, wastewater, and waste management, reuse, and recycling sectors, and ensure that industry views are present in the national and sectoral policy dialogues.
- Stress the need for IFC and MIGA clients, especially financial intermediaries, to develop and implement solid environmental and social management systems, ensure that engineering and pollution control system design and community engagement is integrated in the early project stage, and use more independent environmental audits as part of project completion tests. In IFC’s project selection and marketing, emphasize the potential for environmental benefits. In MIGA’s engagement with projects, provide advice on environmental (and social) issues to help bring clients closer to industry best practices.
5.3 Improve the Bank Group’s ability to assess its support for the environment and to monitor and evaluate the results of its environment-related interventions.

- Improve World Bank monitoring, evaluation, and reporting of environmental performance and results of lending operations. Give greater attention to improving baseline environmental assessments in IFC and MIGA—and measure more fully the aggregate effects of projects with large environmental impacts—for example, in energy and agribusiness. Work with partners such as UNDP and UNEP to help quantify progress toward the achievement of Millennium Development Goal 7 for environmental sustainability.

- Improve the way the World Bank determines how much of its total financing has supported environmental improvement and revise preparation guidelines for Implementation Completion Reports (ICRs) to require a more systematic review of environmental dimensions and results. A mechanism to track the influence of Bank nonlending services on environment-related policies and institutions in client countries would also be desirable.

- For environmentally sensitive IFC agriculture and forestry projects, especially in areas of high biodiversity, undertake carefully designed baseline studies to identify indirect, induced, and cumulative (as well as direct) environmental and social impacts. Design, implement, and monitor adequate plans to mitigate any negative effects. Enhance sustainability of supply chains with certification schemes and third-party monitoring. Measure specific emissions and mass flows in advance of relevant projects and assess them afterward to gauge project impact on the abatement of effluent discharges and dust and greenhouse gas emissions.

- Improve the performance of projects on MIGA’s environmental and social policies on a timely basis, as appropriate in a project cycle. Require investor-clients to establish environmental and social project management systems at a sufficiently early stage to effectively monitor impacts. Consistently incorporate provisions for regular reporting of safeguard performance during project implementation in MIGA’s Contracts of Guarantee.

5.4 Improve coordination among the Bank, IFC, and MIGA and between the World Bank Group and external partners (public and private) in relation to the Bank Group’s environmental mission and ensure consistent and effective implementation at the corporate and country levels.

- Establish mechanisms to promote and monitor coordination across the Bank, IFC, and MIGA with respect to environment-related policies, strategies, and instruments. In particular:
  - Actively involve IFC and MIGA in updating the 2001 Environment Strategy and in monitoring and evaluating its implementation.
  - Jointly identify environmental aspects of World Bank Group country assistance and partnership strategies and jointly plan, monitor, evaluate, and report on mitigation of adverse impacts.
  - Increase efforts to share experience with assessment, monitoring, evaluation, and reporting on environmental aspects, results, and impacts of activities.
  - Systematically monitor and evaluate the application and results of environmental due diligence policies and procedures (safeguards and performance standards).

- Make strengthening external partnerships a central theme in an updated World Bank Group environmental strategy.

- Improve MIGA’s coordination with global programs, such as the Global Environment Facility and the Bank’s Carbon Financing Group, and identify potential partners whose clients might benefit from MIGA guarantee support.

**STATUS OF IMPLEMENTATION**
### Recommendations

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<tr>
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<tr>
<td><strong>5.1</strong> Increase the attention to environmental sustainability in the World Bank Group by ensuring that environmental issues enter fully into discussions of its strategic directions and Regional and country assistance programs.</td>
<td><strong>Mgmt</strong> Substantial <strong>IEG</strong> Substantial</td>
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<td><strong>5.2</strong> Move to more cross-sectoral and spatially oriented approaches to environmental support and strengthen staff skills.</td>
<td><strong>Mgmt</strong> Medium <strong>IEG</strong> Medium</td>
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<td><strong>5.3</strong> Improve the Bank Group’s ability to assess its support for the environment and to monitor and evaluate the results of its environment-related interventions.</td>
<td><strong>Mgmt</strong> Medium <strong>IEG</strong> Medium</td>
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<td><strong>Mgmt</strong> Medium <strong>IEG</strong> Medium</td>
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### MANAGEMENT RESPONSE 2011

With respect to the specific IEG recommendations and agreed World Bank actions, progress in several areas has been made in the past year, as outlined below. The following responses refer to World Bank actions. IFC and MIGA responses are covered in their respective Management Action Record processes with IEG.

**5.1 Attention to Environmental Sustainability.** As noted in the 2010 Management Response, the Bank has committed to promote environmental sustainability through a new WBG Environment Strategy. The Strategy is currently being drafted and is scheduled for discussion by CODE in May 2011. Improving the environmental sustainability of the WBG’s portfolio is core to the vision of the draft Strategy, which has the overarching goal of supporting WBG clients in achieving their development objectives of poverty reduction and growth in an environmentally sustainable manner i.e. greening their development. To this end, the draft Strategy has three interrelated pillars: transforming growth paths; maximizing wealth creation from natural resources; and managing multiple environmental risks.

- Three background papers that explicitly examine environmental sustainability were commissioned to underpin the new Strategy, of which two have been completed, including one on *Lessons from Environmental Mainstreaming: Towards Sustainability*, and a second on *Monitoring Environmental Sustainability: Trends, Challenges and the Way Forward*. The third paper on the *Role of Environmental DPLs in Supporting Environmental Sustainability* is close to completion. Another background paper that helps further the environmental sustainability agenda from a climate change lens cross-sectorally is on *Assessing the Environment Co-benefits of Climate Actions*, and is now available.

- The World Bank is working with partners on a comprehensive initiative on how to bring eco-system values and natural capital into national income accounts to promote sustainable growth.

- In the 2010 Management response, Management did not commit to formally establish new medium-term and long-term approaches, citing the need for flexibility, given the importance of customization and country ownership. Instead, to strengthen intra-Bank collaboration and knowledge sharing, a Climate Change Management group has been established with regional and sectoral climate change coordinators and IFC. Recent analysis also reveals that climate change has been integrated in more than 80 percent of all new FY10 Country Assistance/Partnership Strategies. Furthermore, the INFRA (SDN specifics for supporting financial crisis investments) platform places an emphasis on sustaining funding of operations and maintenance of current infrastructure, which is of environment and social benefit, placing sustainability squarely at the core of financial crisis related financing.

- As noted in the 2010 Management Response, the World Bank is already working closely with development partners to help countries address environmental problems. Country Environmental Analysis (CEAs) continue
to be an important instrument in linking environmental priorities to growth and development priorities. Several CEAs have addressed climate change as a priority linked to growth and development (e.g. in Indonesia and Central African Republic), therefore, making the link between global environmental commons and priorities for growth and development at the national level. An Environment Strategy background paper - *Strengthening Environmental Institutions and Governance: What Should be the Role of the World Bank Group?* - addressed the issue of environmental policy and institutions, and provided recommendations for the strategy.

- With respect to Sectoral Environmental Assessments (SEAs), their use has increased notably in Africa and in forestry, mining and transport sectors. A policy SEA approach will be used by the Bank for the Forest Carbon Partnership Facility.

5.2 Cross-sectoral and Spatial Issues. As noted in the 2010 Management Response, Management agreed with parts of this recommendation but did not commit to new actions, noting that work was already ongoing on these issues.

- Knowledge, strategies, and lending activities have increasingly addressed environment and natural resources issues in some sectors. Sectors most actively integrating environment into programs and projects include water supply and sanitation; energy mining and transport; and agriculture and rural development. With respect to environmental health, the Bank is more actively helping countries address environment-related health issues, including water supply, sanitation and hygiene, indoor air pollution, and urban air quality – although the current coding system precludes ready determination of the number of such projects. Furthermore, as noted in the 2010 Management Response, measurement of health impacts, for example in the water sector, is a challenge as many water and sanitation projects that integrate improved health and environmental practices are still economically justified as and labeled as traditional “increased access to water” projects.

- In the area of climate change a number initiates have been undertaken that foster cross-sector collaboration and spatial integration. The on-going analytical work on developing methodologies for GHG analysis of World Bank lending involves close collaboration between environment department and forestry, transport and energy sectors (as well as the IFC); a recent ESW report by the environment department on Cookstoves, Environment, Health and Climate Change involved collaboration with staff working on energy, agriculture / forestry, and environmental health; the climate change knowledge portal housed with the environment department is turning out to be a one-stop shop for information required by other sectors and regions alike (http://www.worldbank.org/climateportal/); and the climate finance option – a joint UNDP-WBG knowledge platform (http://www.climatefinanceoptions.org) is servicing a wide range of stakeholders across the development community Worldwide, to facilitate access to climate finance.

- Trust funds managed by sectors, such as ESMAP, BNWPP and co-financing by GEF, carbon facilities and CIFs have contributed to the observed progress on incorporating environment in sectors. The new WBG Environment Strategy will seek to build on the progress achieved, by continued cross-sectoral collaboration to improve environmental sustainability of WBG portfolio. As part of the Strategy preparation process, internal consultations were held with Anchor and regional environment staff, SDN Sector Boards and Management teams.

- Trust funds (including BNPP, TFESSD and DGF) have continued to support “traditional” environmental priorities, incorporating vulnerability to climatic and environmental shocks and crises as new concerns. In addition, trust funds such as the GAPTF have addressed gender-environment linkages. The GEF program remains an important driver and complement to Bank Finance for regional programs and has helped attract regional IDA funds for global environmental issues. GEF also remains an important tool for testing and innovation to tackle environmental challenges and leverage subsequent scale-up of successful programs with other funds. The WBG GEF Program also integrates anchor, regional, and IFC coordination functions across a shared WBG program.

- Spatial approaches have also been taken in analytical work such as the *Economics of Adaptation to Climate Change* study, which estimated the cost of adaptation to climate change for developing countries. In addition to focusing on specific sectors, the study examined risks and macro-economic impacts of climate change across sectors and in spaces such as coastal zones. Spatial and cross sectoral analyses are some of the main approaches used by SEAs e.g., the West Africa Minerals Sector Strategic Assessment.

- With respect to intra-Bank Group cooperation on pollution reduction, the update of parts I and II of the Pollution Prevention and Abatement Handbook (PPAH), a two part pollution management Sourcebook, is the result of extensive collaboration across the WBG, through the Pollution Management Thematic Group (PoMa TG), which
comprises 250 staff from World Bank, IFC and MIGA. The PoMa TG has evolved into a community of practice with skills on pollution management policy tools and hence strengthening capacity in the WBG to provide quality advice and business advisory services on pollution management to both private and public sector clients. In addition, a SCOOP PoMa TG has been created, to increase the availability of collaboration media.

- Lastly, the Sustainable Development Leadership Program (SDLP) and the Climate Change for Development Professionals (CCDP) learning program are under implementation. To-date, over 350 senior staff members have participated in the SDLP. The CCDP program has been rapidly expanding over the past two years, with 5,700 participant hours delivered in training sessions and over 3,000 in knowledge sharing events.

5.3 Assessment. Work is underway in the area of improving the monitoring, evaluation, and reporting of environmental performance and results of lending operations. Implementing the new Environment Strategy, project and country-level sector indicators of environmental sustainability in sectors will be developed in collaboration with sectors. This will help to improve monitoring and measurement of results of environment-related interventions.

- Work is also underway to strengthen the portfolio monitoring and tracking system in order to track financial flows that address climate change related in World Bank lending. This would be a major improvement over the current coding and monitoring system on climate change, and one that other parts of the World Bank (such as OPCS) as well as MDBs are very interested in. While being led by the environment department, this effort is also an example of working cross-sectorally since the system being developed will be applicable to all.

5.4 Coordination. As noted in the original Management Response, Management agreed with most of the recommendations but not all. Management committed to actively involve IFC and MIGA in the environment strategy preparation and continues to meet that commitment. The new Environment Strategy under preparation is a WBG Strategy, with active involvement of all WBG institutions. The process of consultation process on the Strategy is extensive, reaching out to different external partners - including government, private sector, development partners, donors, civil society, academia, NGOs - to better define the Bank’s role, as well as to ensure harmonization and coordination on specific themes. A total of 66 external consultation sessions were conducted with more than 2300 stakeholders from over 126 countries. Stakeholders also had the opportunity to provide their views and follow the Strategy development process through a website (www.worldbank.org/environmentstrategy). In addition, as part of the preparation of the WBG Environment Strategy, a number of analytical papers, including on pollution management, environmental mainstreaming and environmental policies, were prepared in collaboration with IFC. Furthermore, preparation of several background papers that underpin the Strategy involved consultation with external stakeholders. To date, 10 out of 13 background papers to underpin the Strategy have been completed and made publicly available on the website.

- The Bank has continued harmonizing SEA approaches with donors through its active participation in the OECD DAC SEA Task Team. A collaborative ESW was undertaken with two Swedish Universities (Gothenburg and SLU) and the Netherlands Commission of Environmental Assessment to evaluate the Bank’s SEA Pilot Program. As a result, a conceptual model and operational guidance for applying SEA in policy and sector reform has been refined and published which fills a gap in the literature on policy SEAs. This work is currently being widely disseminated through different fora ranging from presentations in international conferences to submissions of papers to academic journals.

- “Environment and Social Policy and Procedural Guidelines for Projects Financed Jointly by Bank, IFC, and/or MIGA” were finalized in 2009. The 2010 Management Response noted that other issues were dependent on the country context and that monitoring and evaluation can only take place within the project context, rather than at a broader level, so that the sovereignty principle is respected. ENV is supporting GEF Focal Areas programmatic-level results reporting. Often these programmatic results frameworks assist the funding agency more than the individual projects, as the results reporting demands aggregating projects-to-program rather than projects-to-country. However, the programmatic exercises are expanding aggregating methodologies in multi-sectoral areas (like nutrient pollution reduction), which can then lead to improved indicators for country-level aggregation. See examples in Georgia, Romania, and Turkey. Programmatic interventions have also been associated with demand for subsequent scale-up loans at the national levels. The “Environmental Policies and Institutions” subtheme within the IDA-15 Core Results Indicators will have an indicator specific to identifying budget support for strengthened institutions and improved effectiveness of environmental regulatory frameworks.
IEG Response 2011

IEG agrees with the ratings assigned by Management.

IEG recognizes the work underway on the new Environment Strategy, including the consultation process, and the scheduled discussion by CODE in May 2011.

IEG also recognizes the work that has been undertaken to identify opportunities for intra-Bank Group cooperation in helping clients address key national and global environmental challenges, including pollution reduction. The upcoming sourcebook entitled “Green Growth, Firm Competitiveness and Pollution Management” was prepared with input from both IFC and MIGA. The recent release of the ESW "The Changing Wealth of Nations" – highlights the possibilities of maximizing wealth creation by placing a greater focus on the role of natural capital like forests, agricultural land and sub-soil assets – but investments in these assets remain relatively low.

On the need to move to more cross-sectoral and spatially oriented approaches, IEG continues to note that the coding system gets in the way of accounting for and recording environmental related impacts, such as in the area of environmental health, e.g. RWSS projects. This is a missed opportunity. IEG also reiterates the finding that emerged from its Climate I evaluation, that while there have been improvements in cross-sectoral analytical work (e.g. on cities), there are still stovepipe barriers to cross-sectoral energy efficiency investments. Meanwhile, there is noteworthy spatial work that has been conducted through the Mapping for Results Initiative, but how this affects projects with an environmental theme remains to be seen. The climate portal has done a significant service by collating and making available spatial data on existing climate patterns and on climate projections.

The IEG Recommendation on cross-sectoral and spatially oriented approaches noted that the Bank should be more proactive on environmental concerns, including adaptation to, as well as mitigation of, climate change, but that it should not neglect other local and global environmental priorities. Biodiversity conservation is not mentioned in the Management Response despite the fact that the World Bank prepared a Global Monitoring Report (2010) at the request of the Conference of the Parties to the Convention on Biological Diversity on the status of financing for biodiversity. The report found that global financial support has fallen short of the funding needs to achieve biodiversity objectives, and contributed to the failure to meet the global target to achieve by 2010 a substantial reduction of rate of biodiversity loss. The Management response also falls short in accurately describing the changing relationship of the World Bank as an implementing agency of the GEF. As noted in the latest operational performance evaluation of the GEF, “a remarkable trend in terms of the GEF funding share of the agencies has been the decline in the share of World Bank.” During the pilot phase, World Bank accounted for 58.3 percent of the GEF funding. Thereafter, its share had been declining steadily. The pace of decline accelerated during GEF4 and it now accounts for less than a fourth of the total. The decline in World Bank share is spread across focal areas.

On skills, IEG notes the significant investments that have been made in both the SDLP and CCDP training programs, the climate toolkits, and global expert teams. IEG also looks forward to the manner by which staff will be trained to provide guidance on environmental considerations in the Bank’s new lending instrument, the P4R. There is still much progress that needs to be made in improving World Bank monitoring, evaluation, and reporting of environmental performance and results of its overall lending operations.
6. CLIMATE CHANGE AND THE WORLD BANK GROUP PHASE I—AN EVALUATION OF WORLD BANK WIN-WIN ENERGY POLICY REFORMS

LIST OF RECOMMENDATIONS

6.1 Systematically promote the removal of energy subsidies, easing social and political economy concerns by providing technical assistance and policy advice to help reforming client countries find effective solutions, and analytical work demonstrating the cost and distributional impact of removal of such subsidies and of building effective, broad-based safety nets.

- Energy price reform, never easy or painless, can pose social and political economy risks in client countries. But the Bank can help provoke and promote reforms by providing clients with assistance in charting and financing adjustment paths that are politically, socially, and environmentally sustainable.
- One way to do this is for the Bank to continue to develop and share knowledge on the use of cash transfer systems or other social protection programs as potentially superior alternatives to fuel subsidies in assisting the poor. This would include systematic analyses of the distributional impact of energy subsidies. Timely monitoring and analysis of energy use and expenditure, at the household and firm levels, will also be important in policy design, in securing public support, and in detecting and repairing holes in the safety net.

6.2 Emphasize policies that induce improvement in energy efficiency as a way of reducing the burden of transition to market-based energy prices.

- Cost-reflective prices for energy boost the returns to efficiency, but the Bank should support country policies that allow households and firms to exploit efficiency opportunities. Conversely, the deployment of energy-efficient equipment such as compact fluorescent lights can be used as a device for cushioning the impact of price increases. The Bank should explore innovative ways to finance efficiency (and renewable energy) investments in the face of fuel price volatility.
- In order to strengthen internal incentives toward promotion of energy efficiency, the Bank should develop appropriate metrics, such as indicators that more directly reflect energy savings, instead of dollar growth targets in lending for energy efficiency (which may distort effort away from the high-leverage, low-cost interventions). These indicators, in turn, need to be harnessed to country strategies and project decisions. All of these efforts are likely to call for increased funding for preparation, policy dialogue, analysis, and technical assistance rather than lending.

6.3 Promote a systems approach by providing incentives to address climate change issues through cross-sectoral approaches, teams at the country level, and structured interaction between the Energy and Environment Sector Boards.

- Helping clients reform will require a systems view, such as looking at the power system as a whole; looking at energy subsidies as just one, undesirable, part of a social protection system; and looking at the connections between water and power management.
- To be effective the Bank needs to break down sectoral silos and encourage cross-sector approaches and teams. This will require championship by country directors and vice presidents, to promote incentives such as supporting capacity building for power system regulators in integrated resource planning, and using the Clean Technology Fund to support public systems that will catalyze widespread investments.
- Structured interaction of the Energy and Environment Sector Boards, initiated with ad hoc groups to address specific crosssectoral challenges, could move the Bank closer toward mainstreaming sustainable development.

6.4 Invest more in improving metrics and monitoring for motivation and learning at the global, country, and project levels.

- Good information can motivate and guide action. One particularly useful global initiative for the World Bank would be to collaborate with the International Energy Agency or other partners to set up an Energy Scorecard that would compile up-to-date and regular standardized information on efficiency indicators, energy prices, policies, and subsidies at the national and sectoral levels. Indicators could be used...
by borrowers for benchmarking; in the design and implementation of country strategies, including sectoral and cross-sectoral policies; and in assessing Bank performance in assisting countries.

- At the national level, the Bank should support integration of household and firm surveys with energy consumption and access information to lay the foundation for assessing impacts of price rises and mitigatory measures, as well as planning for improved access.
- At the project level, the Bank should invest in rapid-feedback monitoring and impact evaluation of efficiency projects and policies.

**STATUS OF IMPLEMENTATION**

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<th>Level of Adoption</th>
<th>Mgmt</th>
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**MANAGEMENT RESPONSE 2011**

With respect to the specific IEG recommendations and agreed Bank actions, progress in several areas has been made in the past year, as outlined below.

**6.1 Promote the Removal of Energy Subsidies.**

**Original response** Agreed; work is already ongoing. The Bank continues to work with client countries to address the issue of energy subsidies. Technical assistance and policy advice are provided, as requested by our client countries. The Bank focuses on the legal and regulatory mechanisms needed to support sustainable energy pricing reforms.

Energy staff will continue to work with Poverty Reduction and Economic Management Network and Human Development Network staff (for example, Guidance for Responses from the Human Development Sectors to Rising Food and Fuel Prices, World Bank HDN 2008) to develop and apply social safety nets, including cash transfers, designed to protect the poor from the impact of energy price adjustments. A regulatory thematic group has been established in the Bank to foster dissemination of lessons learned. These lessons will be applied, taking into account the unique circumstances in client countries. When requested, the Bank provides support to enable countries to monitor and analyze energy use so that findings can be applied to their energy policies.
As requested by the G20 in their communique of the September 2009 Summit, the Bank collaborated with the IEA, OECD, OPEC and prepared a joint report on phasing out energy subsidies which was submitted at the G20 Summit in Canada. The report examined the challenges and options for providing targeted assistance to the poor, including what has worked in the past, drawing on the Bank and other institutions’ experience. Rigorous analytical frameworks and methodologies are being developed for modeling energy subsidies that will allow drawing lessons on the implementation of removal of subsidies and developing effective ways to mitigate political economy obstacles. The Bank continues to assist client countries to address energy subsidies, through technical assistance and policy advice as requested by client countries. Several Bank DPLs approved in 2010 are aimed at removal of subsidies, such as for Belarus, Sierra Leone, Vietnam, and Zambia.

6.2 Promote Improvements in Energy Efficiency.

Original Response. Partially agreed; work is already ongoing. The Bank has established an Energy Efficiency for Sustainable Development program to help guide and scale up energy efficiency activities. It is implementing the first step of this program, to increase the staffing with energy-efficiency experience, in ESMP, the Energy Anchor Unit, and the Regions. This effort is complemented by a learning program developed by the Bank’s energy efficiency thematic group, under the oversight of the Energy and Mining Sector Board. Another step is the development of programs and projects at the country/policy level, the industry level, and the equipment level to ensure that a broad-based implementation program evolves.

To foster World Bank Group support for energy efficiency, the draft “Development and Climate Change: A Strategic Framework for the World Bank” (World Bank 2008) has proposed an initiative to screen the project pipeline for energy-efficiency potential early in the project design phase.

The Bank is working with the donor community to: (i) increase the financial support needed to intensify energy-efficiency efforts; (ii) increase low-cost funding to support energy-efficiency and renewable energy programs; and (iii) broaden the support from partners in implementing a renewable energy and energy-efficiency program.

In terms of internal incentives, the discussion on developing appropriate metrics has been ongoing with the International Energy Agency and with UN Energy, but to date it has been inconclusive. Given the inconclusive nature of the discussion to date, management is not prepared to agree with establishing new metrics that focus solely on energy efficiency. The World Bank Group has committed to accelerate lending for new renewable energy and energy efficiency to 30 percent per annum over the next three years, a 50 percent increase over the 2004 Bonn commitment (which it has consistently met since that time).

MAR 2011 The Bank continues to expand its non-lending (policy, institutional, and advisory) and lending portfolio in the areas of supply-side and demand-side energy, supported with a gradual increase in staffing and strengthening of the learning program through its energy efficiency thematic group and other broad-based SDN and Bank-wide learning initiatives. The Bank Group’s FY10 commitments for energy efficiency and renewable energy were $3.6 billion, including $1.8 billion for energy efficiency alone, which exceeded the previous year’s commitments by seven percent. Implementation of new AAA initiatives are underway to help mainstream the scaling of energy efficiency regulatory policy development activities in the future, including the Energy Efficient Cities Initiative which is working in 12 countries which has developed a city energy diagnostic tool, which analyzes city energy use to help identify opportunities to reduce operating costs, free resources for improved services, enhance competitiveness and reduce the environmental footprint through the design and implementation of energy efficiency actions. Work was also completed on the public procurement of energy efficiency services, on energy efficiency institutional governance mechanisms, and several country and regional level energy efficiency assessments. Several recent development policy lending (DPL) operations which were completed or are under preparation include heavy emphasis on energy efficiency (e.g., Mexico, Poland, Turkey, Russia, Armenia, etc). At the corporate level, the process of screening of energy projects for energy efficiency opportunities was implemented in 2010 and the energy efficiency consultant database is being maintained which is used extensively by various regions within the Bank and also by some external partners. Cross-sectoral collaboration, particularly with Urban, Water, ICT and Transport sectors, and in partnership with GEF, Carbon Finance, Clean Investment Funds, WBI, and others has strengthened the operational synergies and has helped leverage several innovative projects, programs and activities in the area of energy efficiency.

6.3 A Systems Approach.

Original Response: Partially agreed; work is already ongoing. The Bank will continue to use a system-wide
approach in reviewing projects and programs.
Most Regions and many country teams have already created climate change teams of staff from several sectors to promote synergies, and are developing cross-sectoral business strategies to integrate climate change considerations. The World Bank Group established a Climate Change Management Group as a focal point to discuss cross-sectoral issues and promote synergies. The Bank supports regulatory capacity building, drawing on lessons learned from successful cases accomplished to date. On the basis of previous experience, management disagrees with the proposed use of integrated resource planning, as it is unconvinced of the effectiveness of the use of integrated resource planning by either supply-side entities or their regulators.

However, the Bank supports the use of broad-based planning tools by policy makers to support the implementation of policies in the legal and regulatory framework.
The Bank is currently considering large-scale responses to demand-side issues using new funding for low-carbon technologies when the funds become available.

The merging of infrastructure and environment into a common vice presidency has facilitated interaction at the sector boards and thematic working groups

MAR 2011: In the past year, cooperation has continued across practices and sectors at both strategic (such as through the Sector Boards) and operational levels (such as through the Climate Change Management Group, and Climate Change Finance Working Group, etc.). Energy and Environment Units have tapped into the synergies while preparing their respective sector strategies, and for developing the investment plans and projects under the Clean Technology Fund (CTF) and Scaling Up Renewable Energy for Low Income Countries program and preparing low carbon growth country studies. The energy strategy which is currently under preparation is set up in the broader contexts of energy sector development and the climate change agenda, and is expected to enable developing countries improve the access and reliability of energy while helping facilitate the shift to a more environmentally sustainable energy development path. Staff from the various World Bank practices, along with IFC, are also working together on the implementation, carbon tagging, GHG accounting methodologies, and monitoring and results management activities related to the Strategic Framework for Development and Climate Change (SFDCC). An Energy and ICT Working Group was also established in 2010.

6.4 Invest in Improving Metrics.

Original Response: Partially agreed; work is already ongoing. The Bank has been working with the International Energy Agency on collecting energy-efficiency-related information in pilot countries for two years, with limited success. Management does not commit to the idea of establishing a centrally maintained Energy Scorecard. Rather, the focus of our efforts is now on helping client countries establish their capacity to undertake the data collection exercise in a manner that targets both effective implementation and related policy-making guidance. Without this capacity and country willingness to participate in and lead this initiative, it will not be sustained. The Bank is also looking into possible new, innovative knowledge-sharing mechanisms to facilitate sharing lessons learned.
The Bank lacks the resources to maintain a comprehensive and reliable database on energy policies, prices, subsidies, and energy efficiency at the national level. Regional organizations provide part of this information, which the Bank selectively draws upon, depending on the information’s reliability.
The Bank, with ESMAP support, has led in improving Living Standards Measurement Survey (LSMS) instruments for increased collection of energy data as part of LSMS surveys.
The Bank will include rapid-feedback and monitoring and impact evaluation of efficiency projects when requested by our borrowers.

MAR 2011: Recognizing the importance of this topic, the Bank through ESMAP, had completed a comprehensive study and organized an international roundtable in 2010 for reviewing different practices and inter-linkages for evaluating energy efficiency performance at national, sectoral, activity, end-use and policy levels, and for gaining more understanding of the underlying resource requirements and the roles of international partner agencies, including that of the Bank, in facilitating the expanded use and ownership of appropriate energy efficiency metrics in developing countries. This work also benefitted from the contributions of the International Energy Agency (IEA), which has the global expertise, infrastructure, and systems set up for tracking energy efficiency indicators at sectoral and end-use level for IEA-OECD member countries, and which maintains a comprehensive clearinghouse of energy efficiency related data and information that is available in the public domain. The Bank does not have specific in-house expertise and associated resources in this area and therefore continues to draw

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from the work and analytics of the IEA, IAEA, APEC, World Energy Council and others, and has been able to distill the information and experience from these sources in enhancing the understanding for preparing Bank’s own programs, including the targets under the clean investment plans for the CTF, low carbon country studies, and the analytical projections for potential improvements in energy efficiency associated with the country and regional level assessments.

IEG RESPONSE 2011

6.2 Promote Improvements in Energy Efficiency.
Compliance is good with the first part of this recommendation, with increased attention to energy efficiency policies in DPOs and in analytic work. There has been less progress on the second part of the recommendation, with respect to recasting internal incentives in terms of energy savings rather than dollars.

6.3 A Systems Approach.
There has been progress along some fronts. The low-carbon growth studies are opening the door to system-wide assessments of the energy sector, as are adaptation studies. There has been cross-sectoral integration in analytic work and in some DPOs. However ‘stovepiping’ still inhibits cross-sectoral investment work on energy efficiency. Formal interaction between energy and environment sector boards is still limited.

6.4 Invest in Improving Metrics.
Management had originally ‘partially agreed’ with this recommendation. The ESMAP workshop on energy efficiency benchmarks, and the Efficient Cities scorecards on city efficiency are good steps. But much more could be done on tracking energy efficiency benchmarks at the national or sectoral levels, an area where the Bank could take a leadership role and mobilize funds if necessary. This in line with Management’s intention of supporting countries on this agenda. And, as reiterated in the second phase of the climate evaluation, the use of rapid but rigorous feedback on the performance of energy efficiency projects is largely untapped source of value to the Bank and its partner countries. The Bank could be proactive in working with them on this agenda.

Management had specifically disagreed on the suggestion to monitor energy prices and subsidies, saying that this is not within the Bank’s comparative advantage. IEG believes to the contrary that compilation and use of information on energy prices and subsidies should be firmly within the Bank’s macroeconomic agenda at the country level, and regular monitoring of the burden of energy expenditures fits with poverty and social welfare analysis.
LIST OF RECOMMENDATIONS

7.1 **Reinvigorate the mandate**—which underpinned the fiscal 1999 ESW reforms—for country teams to maintain a strong knowledge base on countries and sectors where the Bank is providing or planning to provide funds.

- Bank country strategies and lending activities need to continue to be supported by requisite analysis, although a return to strictly defined “core diagnostic” ESW is unnecessary.

7.2 **Ensure ESW tasks in IDA countries are adequately resourced, even if it means fewer ESW in some countries.**

- This will help to address the lower level of resources for individual ESW tasks in IDA countries than those in International Bank for Reconstruction and Development countries and is supported by the finding that cost matters for quality and quality matters for effectiveness. Greater selectivity will also help to reduce the burden on limited government capacity in some IDA countries and will free resources for more collaboration and follow-up needed to enhance the effectiveness of ESW. Selectivity could be enhanced by giving priority to ESW that informs Bank lending and strategy or that is clearly desired and needed by the client.

7.3 **Enhance the institutional arrangements for undertaking ESW and TA.**

- To the extent allowed by budget, ensure substantive task team presence in country offices, particularly in countries with low institutional capacity. This will facilitate closer collaboration with clients from task initiation through follow-up. In addition, formulate a dissemination and implementation strategy for ESW and TA at the concept paper stage. Such a strategy should identify the target audience, the mode of dissemination, and the follow-up arrangements after dissemination, all of which should be explicitly budgeted for as integral to the task.

7.4 **Recognize and build on client preferences, whether for nonlending versus lending services or for TA versus ESW.**

- Institute a mechanism to obtain client feedback on a periodic basis on delivered ESW and TA products. Such feedback should include clients’ views on collaboration, follow-up, and usefulness of the tasks (including specifics of how the tasks were used). The client feedback should be requested at a set period (for instance, around 1 year) after the delivery of the task to the client to allow time for follow-up, and it should be the last milestone for ESW and TA. Obtaining client feedback would encourage a stronger results focus for ESW and TA and would help counterbalance current Bank incentives for lending over nonlending and for ESW over TA.

7.5 **Take the results tracking framework seriously**, including by incorporating systematic client feedback, as noted in the above recommendation.
**STATUS OF IMPLEMENTATION**

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<tr>
<td>7.5  Take the results tracking framework seriously, including by incorporating systematic client feedback, as noted in the above recommendation.</td>
<td>Substantial</td>
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**MANAGEMENT RESPONSE 2011**

**Original Response**

7.1 **Agreed/Ongoing.** Management agrees with the recommendation of maintaining a strong knowledge base in countries where the Bank is providing or planning to provide funds. This recommendation, which is supported by the empirical association between the existence of upstream ESW and the quality of loan design, is particularly relevant as the Bank moves into thematic lending areas such as governance and climate change mitigation. In the context of the review of AAA starting this fiscal year, and particularly for International Development Association (IDA) countries, management will take stock of the existing body of ESW and outline steps to address identified issues.

7.2 **Agreed/Ongoing.** Management agrees with the importance of selectivity in allocating ESW resources. In the context of ESW and TA, greater selectivity may lead to reducing the number of tasks and to increasing the budget assigned to each of the tasks. But the issue should not be seen just in terms of numbers of tasks, but also in terms of consolidating tasks within a programmatic, multiyear, results-based approach so as to enhance their overall impact. The planning of the AAA program, including ESW and TA activities, takes place in the context of preparation of the CAS, and selectivity is a major consideration in preparing a CAS program that is tailored to country needs. As part of the consultation process, as well as ongoing country policy dialogue, specific knowledge gaps are identified. How and when to address them is planned, taking into account country needs, the work programs of other partners, and country circumstances. For IDA countries, issues with data quality and availability of analytic work prepared by the government or other sources may entail a larger effort to fill gaps over time. In countries where what is needed is knowledge on implementation (the engineering of reform) rather than traditional ESW, it is possible that, given weaker country capacity, smaller and more narrowly focused ESW or TA is more effective than larger efforts. In its AAA review, management will analyze resource allocation issues surrounding ESW and TA tasks and will propose steps to strengthen collaboration with in-country institutions and other stakeholders to ensure an effective ESW/TA program.

7.3 **Agreed/Ongoing.** Management agrees that task team presence in field offices, particularly in countries with low institutional capacity, will facilitate close collaboration with clients. The delegation of task management responsibilities to the field has been an ongoing process—for example, in the Sub-Saharan Africa Re-
gion and fragile states—and further steps are being considered. There are associated trade-offs that transcend budget constraints. Ensuring that ESW/TA is of top quality often requires that task management be carried out by thematic experts who cannot be decentralized, given their global role. In many countries, the size of the ESW program and budgetary constraints limit decentralization of specialized staff. In any country, the balance depends on the country context and the specific issues. Management is reviewing these considerations in the context of the ongoing review of decentralization. Management fully agrees with the recommendation to clearly formulate and adequately fund the dissemination and follow-up strategy for ESW and TA at the concept stage of the task. The AAA review will provide further guidance in this area.

7.4 **Agreed.** Management agrees that client feedback is a key input to assess how clients view the different dimensions of ESW/TA in particular and the design of the Bank’s program in general. Feedback is already sought and used in the context of client surveys, CAS preparation, policy dialogue, lending preparation, and project implementation. Feedback focused on ESW and TA should provide further insights on client views as well as lessons for the design and implementation of the ESW and TA program. Overall, the focus should be more on the development results that might follow from changes in client approach and policies, rather than short-term client satisfaction with the production process. In the context of the AAA review, management will review options regarding the periodicity of requests for feedback to minimize the burden on country counterparts. Management will also analyze whether the feedback should focus on independent pieces of work rather than on a body of work with a common thematic focus.

7.5 **Agreed.** Management agrees with the recommendation to ensure greater attention to results, for example, by incorporating client feedback. Although use of feedback is an important component of a results framework, other elements could also be quite relevant. Attribution is certainly an issue: it is difficult to ascribe results to a single piece of ESW. In some cases a credible results framework can be established around a thematic program of activities that will help monitor results within an adequate time frame. In the context of the AAA review, management will examine the results framework for ESW and TA and outline steps to strengthen it. Management will consider all these agreed actions completed with the conclusion of the AAA review and management decision based on the results of the review. Management will report to the Board on the outcome of that process in fiscal 2010.

**MAR 2011** Work has intensified on the Review of ESW and TA on two key fronts which address the actions recommended by the IEG Evaluation: strengthening the results framework for ESW/TA and developing systems and processes which enable systematic consideration of the factors of success underlying high impact ESW/TA (e.g. relevance, ownership, timeliness, appropriate dissemination and follow-up, in addition to technical quality). As a backdrop to this work, the inclusion of the Knowledge Agenda as one of the elements of the internal reform agenda has given increased prominence and importance to the contribution of ESW/TA. In addition, the heightened focus on results has led to broader buy-in across the Bank on strengthening the results framework for ESW and TA, including discussions with IEG on an appropriate methodology to assess and evaluate ESW and TA.

The following deliverables are expected to be completed by end-FY11: (i) improved results framework, monitoring and measurement; (ii) better systems & processes, differentiated by products: just-in-time, programmatic, etc.; and (iii) input (e.g. monitorable results indicators) to feed into the broader Knowledge work; Results Report and Corporate Scorecard. A summary of the changes will be shared with CODE, but the substance covered in broader consideration of the above mentioned reports.

7.1 **Reinvigorate the mandate for country teams to maintain strong knowledge base on countries where the Bank is providing or planning to provide funds.**

The importance attached to the Bank’s knowledge assets, especially at the country level, has been reinvigorated by the knowledge strategy, including the establishment of the Knowledge and Learning Council, the Chief Economists Council and the Matrix Leadership Team. As recognized in the recent IEG evaluation of the Bank Group’s response to the global economic crisis, the Bank’s analytic work was important in many countries and enabled the Bank to provide financial support quickly. In addition, the enhanced results framework for ESW and TA currently under development seeks to ensure better strategic alignment of both lending and knowledge services in the Bank’s overall engagement
with clients.

7.2 Ensure ESW tasks in IDA are adequately resourced, even if it means fewer ESW in some countries.

As noted in last year’s Management Action Record, there has been continued consolidation of ESW tasks, with numbers of tasks declining without a drop in overall expenditure levels. In addition, a new product line –Programmatic AAA—is being which enables the clustering of ESW and TA around a common development objective within a multi-year framework, thus reducing fragmentation and increasing selectivity based on country demand/need. This product line will respond to requests from Regions in order to not only reduce fragmentation, but also to facilitate increased management attention to a fewer number of larger tasks.

7.3 Enhance institutional arrangements for undertaking ESW and TA.

Fundamental to increasing the impact of ESW and TA is the upfront recognition of client needs and hence ownership. A standardized, online concept note format currently under development will focus discussion and approval of the concept on a clear statement of objectives and expected intermediate outcomes of the activity. Integral to this will be the clear identification of the intended audience and appropriate “dissemination” (including need for translation) as well as next steps.

The sub-recommendation to “ensure substantive task team presence in country offices, particularly in countries with low institutional capacity” will need to be considered and balanced with the need for the Bank to maintain and share global expertise, as well as other issues (e.g. budget). As noted in the original Management Response, this and other issues are being considered in the context of the global Bank (another of the internal reform agenda items).

7.4 Recognize and build on client preferences whether for non-lending versus lending or for TA versus ESW.

Revealed client preferences continue to show a trend of increased demand for technical assistance. Programmatic AAA will also enable a more strategic fit with client needs and preferences. More structured capturing of client feedback is being planned in conjunction with the Knowledge Agenda and client survey instruments. In addition, indirect feedback from clients is also being sought via country director ratings of Bank performance, including in the area of the effectiveness of policy dialogue and analytic work. It is also expected that IEG’s evaluation of ESW (sample based) which has been piloted would involve seeking client input.

7.5 Take the results tracking framework seriously.

Intensive work is underway to strengthen the ESW/TA results framework, ensuring that such framework is reflected throughout the lifecycle of the activity (i.e. results need to be linked to clear objectives identified at concept stage). Consultations have begun with IEG to ensure that the results framework is also consistent with IEG’s own evaluation methodology and that the construct of the activity can be evaluated post-completion (i.e. “success indicators” are systematically covered at concept stage). Accordingly, the Activity Completion Summary (ACS) will be replaced by a Results Completion Summary (RCS) in which TTLs will self-assess the performance of the activity in meeting its “change objective” as well as a Bank performance rating (reflecting quality, timeliness, relevance and client engagement). Self-assessments will be validated by Management and aggregate indicators fed into Corporate Scorecard, Results Report and Knowledge Report. The updating of systems and processes to support this enhanced RCS is currently underway by IMT; the new systems and processes will be tested in a pre-roll out in FY11Q3.
IEG notes the progress that has been made by the Bank on the knowledge agenda since a year ago. In particular, there has been progress in the development of concrete actions in the context of the AAA review undertaken by the Bank, compared to a year ago when the review was just being undertaken and yet to be presented to CODE.

In light of this progress, IEG has raised its ratings on the level of adoption by Management for 3 of the 5 recommendations (7.2, 7.3, and 7.4). The ratings on the level of adoption for the other 2 recommendations (7.1 and 7.5) remain the same as last year, as IEG does not discern appreciable changes in the level of adoption to merit increases in ratings for them. IEG’s ratings for each of the recommendations are explained below.

**Recommendation 7.1. Reinvigorate the mandate for country teams to maintain a strong knowledge base on countries where the Bank is providing or planning to provide funds.**

IEG notes the management response that greater importance has been attached to the knowledge agenda, in particular through the knowledge strategy, and the establishment of the various councils. However, there is absence of any mention in the knowledge strategy of the need to ensure that any lending, or potential lending, by the Bank should be underpinned by adequate analysis, which is fundamental to the recommendation. Hence the rating for the level of this recommendation remains “medium”, as last year (Management’s rating for this is “substantial”).

**Recommendation 7.2. Ensure ESW tasks in IDA are adequately resourced, even if it means fewer ESW in some countries.**

IEG endorses Management’s development of the new product line – Programmatic AAA – which will enable clustering of ESW and TA around a common development objective within a multi-year framework, reducing fragmentation and increasing selectivity. IEG has raised its rating for the level of recommendation of 7.2 from “medium” in last year’s MAR to “substantial” for this MAR (same as Management’s rating).

**Recommendation 7.3. Enhance institutional arrangements for undertaking ESW and TA.**

IEG endorses Management development of the standardized on-line concept note that will include a clear statement of objectives and expected intermediate outcomes of the activity, as well as a clear identification of the intended audience and appropriate “dissemination” (including translation) and next steps. IEG has raised the rating from “medium” in last year’s MAR to “substantial” for this MAR (same as Management’s rating).

**Recommendation 7.4. Recognize and build on client preferences whether for non-lending versus lending or for TA versus ESW.**

IEG appreciates the Management response that more structured capturing of client feedback is being planned in conjunction with client survey instruments. Hence, IEG has raised its rating for this category from “negligible” in last year’s MAR to “medium” for this MAR (same as Management’s rating).

**Recommendation 7.5. Take the results tracking framework seriously, including by incorporating systematic client feedback, as noted in the above recommendation.**

The work reported by Management as being underway would present an important step forward in tracking ESW/TA results seriously. Hence, IEG’s rating for the level of adoption of this recommendation is “substantial”, up from “medium” last year, endorsing Management’s “substantial” rating for this category.
8. THE WORLD BANK'S COUNTRY POLICY AND INSTITUTIONAL ASSESSMENT (CPIA)

LIST OF RECOMMENDATIONS

8.1 Disclose ratings for IBRD countries.

8.2 Remove accounting for the stage of development in the CPIA rating exercise.

8.3 Undertake in-depth review of each CPIA criterion and revise as necessary. This should entail a detailed review of the literature for each criterion and should reflect the latest thinking on development and lessons learned. It should also take into account the recommendations of IEG on specific changes to the criteria that were derived from the evaluation.

8.4 Consider not producing an overall CPIA index while continuing to produce and publish the separate CPIA components.

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<td>Mgmt: Substantial</td>
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MANAGEMENT RESPONSE 2011

Original Response:

8.1 Disclose ratings for IBRD countries. Difference of Opinion

8.2 Remove accounting for the stage of development in the CPIA rating exercise. Difference of Opinion

8.3 Undertake in-depth review of each CPIA criterion and revise as necessary. Agreed. Periodic reviews of the content and methodology have been a fixture of the evolution of the CPIA, and going forward they should continue to be. As the IEG evaluation recognizes, these reviews create discontinuities, as some criteria are added, dropped, or revised. The last major revision took place in 2004, informed by the recommendations of an external panel that undertook an in-depth review of the CPIA. Consensus on development thinking moves slowly, and revisions should be undertaken with sufficient intervals so that the CPIA scores have some consistency over time. From the standpoint of country relations and aid volatility, it is also important to avoid situations where changes in scores result from modifications in the criteria rather than from a deterioration or improvement in country performance. The CPIA is used by other multilateral development banks and an extensive consultation process would be
The IEG evaluation found that “perhaps the time has come… for a thorough review of the CPIA” (chapter 2). Management broadly agrees but underscores that such a review needs to be carefully planned and done in the context of IDA 16. The specific suggestions provided in the IEG evaluation will inform this review, to be completed by the time IDA 16 is launched.

8.4 Consider not producing an overall CPIA index while continuing to produce and publish the separate CPIA components. Agreed. Management will take this IEG recommendation into consideration in the context of the review of the CPIA mentioned above. IEG’s rationale for this recommendation is that producing the different components of the CPIA without assigning weights to them in order to arrive at an aggregate index would allow different weights to be applied according to country context and uses. In management’s view, in the absence of robust evidence as to what these weights should be, there is value in applying a uniform weighting scheme across all countries and producing an overall index that summarizes the information contained in the different criteria and provides a clear reference point. Moreover, because the scores for all the criteria are disclosed, nothing prevents the users from creating an alternative index based on their preferred set of weights. As part of the review of the CPIA, management will consider whether or not to produce an overall index.

MAR 2011: The review of the CPIA criteria is ongoing. Taking into account the recommendations of the IEG evaluation, terms of reference were prepared to guide the review of each criterion by the appropriate network anchor. Drafts of the individual criteria have been prepared and in several cases these drafts have been already discussed by the appropriate sector boards and revised on the basis of comments received. In the context of the ongoing work, the pros and cons of preparing an overall index have been considered and discussed with the regions and networks. The review of the criteria is on track, and the 2011 CPIA exercise is expected to be carried out using the revised criteria as it was agreed during the CODE meeting of September 2009.

IEG RESPONSE 2011

IEG notes the progress that has been made since last year specifically that concrete steps have been undertaken with respect to the review of the CPIA, compared to a year ago when Management made the commitment to undertake the review.

Since the review is still ongoing, with revisions to the CPIA criteria yet to be made (though Management expects that revised criteria will be used in the 2011 CPIA exercise), IEG rates the adoption of recommendations 8.3 and 8.4 as “substantial” (same as Management’s ratings).
9. HOW EFFECTIVE HAVE POVERTY AND SOCIAL IMPACT ANALYSES BEEN? AN IEG STUDY OF WORLD BANK SUPPORT TO PSIAs

LIST OF RECOMMENDATIONS

9.1 Ensure that staff understand what the PSIA approach is and when to use it by providing clear guidance (perhaps through updating of the 2008 PSIA Good Practice Note) and actively disseminating this guidance, particularly on—

- Whether and how the PSIA approach differs from other distributional analyses, including whether the inclusion of the word “social” in Poverty and Social Impact Analysis suggests the need to include a different type of analysis
- Whether or not PSIAs should be linked to specific reforms and identify beneficiaries and those adversely affected by the reform
- What criteria should be used to determine when the PSIA approach is appropriate for a particular operation in a country program.

9.2 Clarify the operational objectives of each PSIA with regard to its intended effect and tailor the approach to those objectives, ensuring that the concept note

- Contains a clear statement of the operational objectives of the PSIA with respect to the intended effect (not just the topics/issues to be analyzed)
- Indicates how its approach, in particular stakeholder engagement, team composition, partner institutions, budget, and time frame, have been tailored to meet the operational objectives, and provided the rationale for the choices made
- Shows how any tensions and trade-offs among the operational objectives will be reconciled
- Discusses if the intended dissemination audience and strategy are consistent with the stated operational objectives.

9.3 Improve integration of the PSIA into the Bank’s country assistance program by—

- Shifting decision-making and funding authority to the Regions to ensure that the PSIA topics, scope, and approach are consistent with the country assistance program and that PSIAs ask policy-relevant questions
- Requiring that all earmarked funding for PSIAs be matched by a substantial contribution from the country unit budget.

9.4 Strengthen PSIA effectiveness through enhanced quality assurance, including—

- Subjecting PSIAs to systematic review by Regional management at the concept and completion stages to ensure relevance and fit of the PSIA to the country assistance program and consistency of the proposed approach with operational objectives, in addition to ensuring technical quality
- Ensuring that the Bank establishes a monitoring and self-evaluation system designed to assess if PSIAs are being undertaken where appropriate and are achieving their stated operational objectives.

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<td>High, Substantial</td>
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<td>9.4 Strengthen PSIA effectiveness through enhanced quality assurance.</td>
<td>Substantial, Medium</td>
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**MANAGEMENT RESPONSE 2011**

9.1 Original Response: Agreed. Management agrees that it should disseminate more widely what is meant by the PSIA approach as outlined in the 2008 Good Practice Note. Management, however, notes an important caveat in addressing this recommendation. Efforts to expand awareness about the PSIA approach must be careful to not create perceptions of minimum or universal standards for PSIA, and instead stress the flexibility of the approach to adapt to specific country and policy contexts. The revised Good Practice Note (GPN) discusses key elements of the PSIA approach: first, an analysis to determine the distributional impacts and, second, a process that engages appropriate stakeholders in policy making. The GPN also makes it clear that an ideal PSIA will vary based on country and reform-specific conditions. In particular, the range and extent of stakeholder engagement in the PSIA process will vary according to the political context of the reform and the related opportunities for promoting the public debate on policy options. The GPN clarifies when it could be a priority for a country team to carry out detailed PSIA: when there are potential negative poverty and social impacts on different groups, particularly poor and vulnerable groups; when there is potential to significantly improve the benefits of a reform for poor and vulnerable groups; the prominence and urgency of the report in the government’s policy agenda; and the level of debate surrounding the reform. With regard to the methods and tools adopted for PSIA, the GPN stresses the need for flexibility as well. While multidisciplinary or mixed methods of analysis enhance the understanding of the poverty and social impacts of a reform, the design of the methodology and the selection of tools will depend on the nature of the reform problem being addressed, the availability and quality of data, the time available for analysis, and the available in-country capacity. PREM and SDV are already incorporating the revised GPN into their PSIA-related learning programs (Fundamentals of Bank Operations, PSIA e-learning, PSIA course). Management will further enhance outreach using these materials through an improved Web site that more clearly frames the main objective and potential benefits, as well as the need for a flexible approach, and more frequent and accessible learning events, drawing on additional resources provided by the aforementioned Multi-Donor Trust Fund. Management will consider its agreed action complete with the full roll-out of these activities in fiscal 2010.

MAR 2011: Management agreed with this recommendation and considers that it has been completed with the full roll-out of the following activities that it agreed to undertake in fiscal 2010, as indicated in its Management Response. Guidance on the PSIA approach has been revised, updated, and disseminated to staff throughout the Bank’s relevant learning programs and PSIA website. The Good Practice Note on PSIA has been revised by PREM and SDV and incorporated into their PSIA-related learning programs (such as Fundamentals of Bank Operations, PSIA e-learning, and PSIA Course). OPCS’s DPL Academy includes a dedicated session on how to use poverty and social impact analysis in the context of Development Policy Lending. Furthermore, the PSIA website hosted by PREM has also been significantly improved to enhance the outreach of these materials and more often and accessible learning activities have been offered to staff. Management rates the adoption of this recommendation as **High**.

9.2 Original Response: Agreed. Management agrees that poverty, social, and distributional impact analysis should have a clear operational objective and a methodology and strategy for stakeholder engagement and dissemination that is consistent with the operational objective. Almost all PSIA type analysis is done in the context of economic and sector work (ESW), where Bank guidelines require that the operational objective, scope, and participatory approaches be clearly specified in the concept note. The revised GPN
indicates that poverty, social, and distributional analysis should be an integral part of the ESW cycle. All dissemination activities need to be fully consistent with the Bank’s Disclosure Policy. PSIA can also be done in the context of technical assistance, where the objective is to strengthen client institutions and capacity to influence reforms or as a factual technical document analyzing a specific policy reform supported by a Development Policy Operation. Once operational, the new PSIA trust fund will require that the Regions detail in their concept notes how they will ensure that poverty, social, and distributional analysis (supported by the Trust Fund) is treated as ESW, technical assistance, or a project-related factual technical document. Management will consider its agreed action complete with the introduction of these requirements.

**MAR 2011:** Management agreed with this recommendation and considers that it has been completed with the full roll-out of the following activities that it agreed to undertake in fiscal 2010, as indicated in its Management Response. In FY10, the Bank set up a new Multi-Donor Trust Fund (MDTF) to support PSIA work and assigned responsibility to the Regions, in terms of allocating funds, monitoring and quality review of the analytical work funded by the Trust Fund. The MDTF requires that the Regions detail in their concept notes how they will ensure that poverty, social and distributional impact analysis (supported by the TF) is treated as ESW, TA or a FTD. Management rates the adoption of this recommendation as High.

### 9.3 Original Response Agreed

Poverty, social, and distributional impact analysis that is part of ESW, technical assistance, or a project-related factual technical document is currently managed and funded by the Regions. The revised GPN explicitly advises that poverty, social, and distributional impact analysis be anchored in the Country Assistance Strategy (CAS). Under the revised policy for poverty reduction (OP 1.00), the CAS summarizes existing knowledge on poverty, identifies analytical gaps, and presents the work program by the Bank and others to fill these gaps. The CAS can usefully lay out key reform areas that the Bank will support and indicate whether there are any plans for poverty, social, and distributional impact analysis. The new PSIA trust fund will decentralize the management of resources for poverty, social, and distributional impact analysis carried out as ESW, technical assistance, and factual technical documents to the Regions. The Regions will be required to provide matching resources from the country unit budget. The annual Trust Fund Regional monitoring reports will indicate the share of matching resources provided to complement Trust Fund support. Management will consider its agreed actions complete with the roll-out of the trust fund.

**MAR 2011** Management agreed with this recommendation and considers that it has been completed with the full roll-out of the following activities that it agreed to undertake in fiscal 2010, as indicated in its Management Response. The Good Practice Note on PSIA has been revised and explicitly urges poverty, social and distributional impact analysis to be anchored in the CAS. The CAS Retrospective (Country Assistance Strategy: Retrospective and Future Directions) concluded by Management in FY10 confirmed that CASs, particularly in IDA countries, have included a comprehensive discussion and diagnosis of poverty, covering poverty incidence, trends, causes and correlates with links to the MDGs. In addition, the new PSIA MDTF has decentralized the management of resources for poverty, social and distributional impact analysis carried out as ESW, TA, and FTD to the Regions, which are required to provide matching resources from the country unit budget. Management rates the adoption of this recommendation as High.

### 9.4 Original Response Agreed

PSIA work that is part of ESW is subject to Regional quality assurance procedures and the preparation of an activity completion report. As noted in the Management Response to IEG’s evaluation of ESW and technical assistance, management will undertake a review of analytic and advisory activities in fiscal 2010 that will address institutional arrangements, notably quality assurance. The quality and effectiveness of PSIA informing the Bank’s Development Policy Operations has been monitored through the retrospective assessment of the Bank’s Development Policy Lending portfolio that has been carried out every two years by Operations Policy and Country Services. A Development Policy Operation retrospective is under preparation and will be available early in fiscal 2010. The proposed PSIA trust fund annual Regional monitoring reports as well as the final independent Trust Fund evaluation will assess the extent to which poverty, social, and distributional analysis (supported by the Trust Fund) has met its operational objectives and has had an impact on the ground. Management will consider its agreed actions complete with the completion of the fiscal 2010 analytic and advisory activities review and the implementation of changes coming out of that process, the issuance of the Development Policy Operation retrospective, and the implementation of the trust fund reporting system.

**MAR 2011** As indicated in the Management Response, Management had agreed to implement this recommenda-
tion through the following actions: (a) the completion of the FY10 AAA review broadly covering analytic and advisory activities and the implementation of changes coming out of that process; (b) the issuance of its DPL Retrospective; and (c) the implementation of the PSIA MDTF reporting system. Actions (a) and (b) have been completed, while action (a) is expected to be completed in FY11. The AAA Review will be completed in FY11 and will propose revised systems and procedures for analytic and advisory activities. The findings and recommendations of the AAA Review will be incorporated in Management’s Knowledge Strategy and shared with CODE in the context of the discussion on the Knowledge Strategy in FY11. Hence, Management no longer intends to present the AAA Review as a separate product to CODE, as indicated in the 2010 MAR. Management rates, therefore, the implementation of this recommendation as Substantial.

IEG RESPONSE 2011

Regarding Recommendation 9.1, IEG notes that Management has revised and disseminated PSIA guidance and incorporated that guidance into various learning programs and web-based resource materials. A higher rating would call for data on: the proportion of relevant staff (those currently undertaking/reviewing or likely to undertake/review PSIAs or other forms of distribitional analysis) availing of the learning programs/web-based resource materials; and views of those staff regarding the usefulness of the guidance in understanding what PSIAs are and when to use them.

Regarding Recommendation 9.2, the Management Response that “The MDTF requires that the Regions detail in their concept notes how they will ensure that poverty, social and distributional impact analysis (supported by the TF) is treated as ESW, TA, or a FTD” does not adequately address IEG’s Recommendation. A higher rating would call for data on the extent to which PSIAs are clear about their intended effect and the PSIA approach is tailored to achieve that effect.

Regarding Recommendation 9.3, IEG notes that making the Regions responsible for managing the MDTF is an important step in the right direction. A higher rating would call for data on the proportion of matching contributions from country unit budgets where earmarked PSIA funds are used as well as on the extent to which PSIAs topics, scope, and approach are consistent with the country assistance program, and PSIAs ask policy-relevant questions.

Regarding Recommendation 9.4, the actions taken by Management so far (i.e., issuance of the DPL Retrospective and implementation of the PSIA MDTF reporting system) do not adequately address IEG’s Recommendation. A higher rating would call for data on the extent to which the Regional management’s review of PSIAs is focusing on the intended effects of PSIAs in addition to their technical quality, and there is a monitoring and self-evaluation system to assess if PSIAs are being undertaken where appropriate and are achieving their intended effects.
### List of IEG Recommendations

#### 10.1 Intensify efforts to improve the performance of the World Bank’s health, nutrition, and population support.
- a. Match project design to country context and capacity and reduce the complexity of projects in low-capacity settings through greater selectivity, prioritization, and sequencing of activities, particularly in Sub-Saharan Africa.
- b. Thoroughly and carefully assess the risks of proposed HNP support and strategies to mitigate them, particularly the political risks and the interests of different stakeholders, and how they will be addressed.
- c. Phase reforms to maximize the probability of success.
- d. Undertake thorough institutional analysis, including an assessment of alternatives, as an input into more realistic project design.
- e. Support intensified supervision in the field by the Bank and the borrower to ensure that civil works, equipment, and other outputs have been delivered as specified, are functioning, and are being maintained.

#### 10.2 Renew the commitment to health, nutrition, and population outcomes among the poor.
- f. Boost population and family planning support in the form of analytic work, policy dialogue, and financing to high-fertility countries and countries with pockets of high fertility.
- g. Incorporate the poverty dimension into project objectives to increase accountability for health, nutrition, and population outcomes among the poor.
- h. Increase support to reduce malnutrition among the poor, whether originating in the HNP sector or other sectors.
- i. Monitor health, nutrition, and population outcomes among the poor, however defined.
- j. Bring the health and nutrition of the poor and the links between high fertility, poor health, and poverty back into poverty assessments in countries where this has been neglected.

#### 10.3 Strengthen the World Bank Group’s ability to help countries to improve the efficiency of their health systems.
- k. Better define the efficiency objectives of its support and how efficiency improvements will be improved and monitored.
- l. Carefully assess decisions to finance additional earmarked communicable disease activities in countries where other donors are contributing large amounts of earmarked disease funding and additional funds could result in distortion in allocations and inefficiencies in the rest of the health system.
- m. Support improved health information systems and more frequent and vigorous evaluation of specific reforms or program innovations to provide timely information for improving efficiency and efficacy.

#### 10.4 Enhance the contribution of support from other sectors to health, nutrition, and population outcomes.
- n. When the benefits are potentially great in relation to the marginal costs, incorporate health objectives into non-health projects, for which they are accountable.
- o. Improve the complementarity of investment operations in health and other sectors to achieve health, nutrition, and population outcomes, particularly between health and water supply and sanitation.
- p. Prioritize sectoral participation in multisectoral HNP projects according to the comparative advantages and institutional mandates, to reduce complexity.
- q. Identify new incentives for Bank staff to work cross-sectorally for improving HNP outcomes.
- r. Develop mechanisms to ensure that the implementation and results for small health components retrofitted into projects are properly documented and evaluated.

#### 10.5 Implement the results agenda and improve governance by boosting investment in and incentives for evaluation.
- s. Create new incentives for monitoring and evaluation for both the Bank and the borrower linked to the project approval process and the midterm review. This would include requirements for baseline data, explicit evaluation designs for pilot activities in project appraisal documents, and periodic evaluation of main project activities as a management tool.

#### Level of Adoption
**Recommendations**

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**MANAGEMENT RESPONSE 2011**

10.1 Intensify efforts to improve the performance of the World Bank’s health, nutrition, and population support.

**Original Response:** Management agrees that complexity can be at least partially addressed by adopting IEG recommendations, such as thorough technical preparation, including solid analytical underpinning, political mapping, high quality at entry, including prioritizing interventions relative to the institutional context, and establishing a good results framework, followed by in-depth supervision and parallel policy dialogue with client and partners. However, HNP operations are rarely institutionally or technically simple, since the desired outcome depends on a complex and interacting set of social, cultural, and institutional factors. This is recognized by donors and policy makers, whether in low-income, middle-income, or high-income countries. The inherent complexity of the sector may be attributable to the political economy in a multi-stakeholder environment, the need for extensive coordination and partnership with national and international agencies and civil society organizations, and the often difficult technical and social nature of the subject. The recent international recognition of the need to invest in (complex) health systems in order to ensure the success of vertical disease control programs in low-income countries is testimony to the fact that there are few easy ways to avoid systemic complexity. Investing in simple programs would not necessarily provide for lasting impact.

Management agrees in principle to carry out political mapping exercises prior to investments in the sector where appropriate. As there are currently mandatory risk assessment and mitigation steps built into the project cycle and approval process, we anticipate improved risk mitigation strategies in newer HNP operations. These enable staff to identify major political and technical risks and devise with the client suitable risk-mitigation strategies. However, it is also evident that despite good assessments and risk-mitigation strategies, neither technical nor political risks can be completely offset.

Management agrees to the recommendation to phase reforms to maximize the probability of success. Undertake thorough institutional analysis, including an assessment of alternatives, as an input into more realistic project design.

Management agrees in principle with this recommendation. Supervision requirements, both in terms of staffing mix and budgeting, are being reassessed Bank-wide within the context of the ongoing review of investment lending. Given the inherent dispersed nature of many HNP investments, care must be taken during project design to ensure that the client assumes responsibility for ensuring that civil works, equipment, and other outputs have been delivered as specified, are functioning and being maintained, while the Bank audits/appraises/confirms that such monitoring is taking place so that detailed supervision of projects can be properly conducted within likely budget norms. Management action: In response to the portfolio quality challenges, the HNP Sector Board has introduced a quarterly portfolio monitoring and benchmarking system, which is being used by the Sector Board and regional management to improve portfolio performance.

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Building off the substantial progress in 2010, HNP has maintained its efforts to review and improve portfolio quality, which
continues to be a key priority for the HNP Sector Board (SB) and an ongoing effort at all levels.

- The Portfolio Improvement Action Plan (PIAP) continues to be reviewed by the HNP SB on a quarterly basis. The HNP SB sub-committee on quality remains active and continues to discuss and resolve portfolio quality issues.
- All operational teams, especially in Africa (AFR) and South Asia (SAR), continue to make strides towards improved portfolios. For example, based on discussions and demand for increased guidance on Implementation Status and Results (ISR) report ratings, AFR carried out a detailed review of ISR reports and developed a checklist to assist TTLs, cluster leaders, and sector managers. Additionally, in SAR a significant share of the India portfolio has been restructured, with the result of improvement in portfolio performance.
- Of the 15 FY11 approvals that required Quality Enhancement Reviews (QERs), 8 QERs were carried out by the Hub and the rest underwent a Regional QER. There was one Hub managed QER of supervision.

HNP continues to incorporate risk assessment into reviews and has made progress in developing strategies to mitigate risks on a case by case/country by country basis.

- The Operational Risk Assessment Framework (ORAF), which was not in existence at the time of the drafting of the HNP Management Action Plan, is an "integrated framework for assessing the risks of investment lending projects." HNP has taken steps to adopt the recently developed ORAF. Promoting staff knowledge and understanding of the ORAF is critical and all HNP staff have been encouraged to attend OPCS training sessions on the ORAF. In addition, HNP, in cooperation with Operations Policy and Country Services (OPCS), conducted sessions on the ORAF during HD Week (FY11Q3).
- 100% of Hub-managed QERs review the ORAF in detail and provide advice to teams on risk mitigation measures. Additionally, QER panels also confirm/adjust ratings based on risk management/mitigation as appropriate.
- The regions continue to prioritize risk management and mitigation throughout the project cycle, including through utilization of the ORAF. For example, in EAP uses non-EAP peer reviewers, peer reviewers with expertise on risk management/mitigation, and external experts in the Regional QER process. SAR employs both ORAFs and Governance and Accountability Action Plans (GAAP) to identify, mitigate, and assess risks. Finally, ORAF is also an integral part of all new LAC project packages and some projects have also developed a Governance and Anticorruption Council (GAC). For example, in Argentina the team has developed an extensive ORAF and implemented a GAC to improve project fiduciary performance, accountability, and transparency.
- In addition, regions have taken other measures to reduce risk and improve portfolio, including use of external peer reviewers in Regional QER panels in LAC and routine use of Regional Accountability and Risk Reviews (RARs) in SAR. In the case of problem projects in East Asia and Pacific (EAP) Region, additional funds have been provided by the VPU (e.g., Philippines restructuring) and mid-term reviews have been carried out, with early restructuring if necessary (Timor Leste). AFR has instituted a program of intensive support for problem projects. After an initial increase in the number of projects at risk (as a result of more realistic and independent ratings), the number of projects at risk has begun to steadily decline.

HNP has made progress and continues to undertake significant efforts to improve the quality and realism of project design.

- Analytical work and Quality of design for HNP projects has improved, in particular regarding the complexity of design. In the Second Quality Assessment of the Lending Portfolio (QALP-2), 77% of sampled HNP projects had moderately satisfactory or above ratings, compared to 61% under QALP-1.
- HNP had 15 new projects from March 2010-February 2011, not including additional financing projects or emergency recovery loans. Of the 15 new HNP projects, 7 have a significant focus on health systems strengthening; 4 out of these 7 were based on specific analytical work, though all of them included analysis of risk. Institutional analysis remains a critical component of HNP’s project development. All 15 new HNP Projects are based on institutional analysis (100%). At the regional and country levels, use of institutional analysis remains a

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8 Published July 2010, OPCS.
9 P094755, P110599, P106870, P095171, P121060, P074091, P111840, P115563, P111556, P113540, P113202, P117417, P095275, P113896, P116226.
10 P111556, P113896, P110599, P113202, P116226, P106870, P115563.
11 See PADs for projects: P111556, P113896, P116226, P106870.
12 See PADs for projects: P094755, P110599, P106870, P095171, P121060, P074091, P111840, P115563, P111556, P113540, P113202, P117417, P095275, P113896,
foundation for the project development cycle. In SA, institutional analysis has been an explicit part of the preparation of the Nepal HNP&AIDS SWAp and the India ICDS Systems Strengthening and Nutrition Improvement Project. LAC carries out analytical work at regional and country levels (Jamaica, Brazil, Colombia, Mexico, Argentina, Mexico and Peru, Paraguay, Chile), which feeds into the policy dialogue, further analytical work, technical assistance and operational support to client countries. Similarly, in AFR, almost all new operations are based on analytical work such as country status reports or public expenditure reviews.

- As reported in the 2010 HNP MAR to the IEG report, “a new course – Flagship Course on Health Sector Reform and Sustainable Financing – started in FY10, with stakeholder analysis (in the context of the politics of health systems reform) as a core component and institutional analysis included in the sections on organization.”13 The Bank’s Flagship Course on Health Systems continued in the latter half of FY10 and has already reached over 80 HNP Staff in FY11. Additionally, a shortened version of the Flagship Course on Health System Reform and Sustainable Financing, which emphasizes policies to improve HS efficiency, along with access and quality of health systems, was developed and offered for WB staff in 2010 and has recently been delivered as part of the 2011 HD Learning Week.

- In order to provide support for strengthened institutional analysis, AFR launched the Health Systems for Outcomes (HSO) program in FY10. HSO supports governments, Bank TTLs and development partners in over 24 countries in Africa by providing technical, analytical and knowledge management assistance directly related to health systems strengthening. For example, HSO’s work has included contributions to the policy dialogue and analytical contributions in the form of country programs such as support for public expenditure reviews (PERs), public expenditure tracking surveys (PETs), country status reports (CSRs), to name a few. This work has resulted in: the development of an Africa Investment Case (to achieve the health related MDGs and other health objectives); numerous workshops on health insurance, improving financial access to care, governance and regulation of the pharmaceutical industry, public/private partnerships; development of a Health Financing Flagship course; establishment of health systems communities of practice in Africa and a common platform for exchange of health systems information.

- HNP has also carried out a review of the Bank’s work on health system analysis. An HNP Discussion Paper has been developed and will be published in FY11Q3.

HNP is continuing to ramp up its efforts to strengthen overall portfolio and match project design to country context and capacity.

- All HNP Hub-organized QERs focus on simplifying design and provide guidance to teams on how better to match the complexity of the operation to the capacity of the country.

- HNP is working to strengthen supervision in the field, though this has been challenging due to declining supervision budgets over time. However, it remains a critical component of operational work. Of the 15 new HNP projects considered, only 7 projects had civil works components.14 Of these projects, 6 projects outline borrow responsibility,15 all 7 have adequate civil works budgeting, and 5 include use of standards for civil works.16 All regions continue to regularly review new and on-going projects to ensure appropriate fit to country context and reduced complexity. For example, in the Middle East and North Africa (MENA) Region, projects have been simplified to avoid complex and multi-component health sector reform-type designs. Additionally, the scope of outputs and outcomes expected from each investment project has been reduced and made more attainable. For example, the scope of the Egypt Health Insurance System Development Project is limited to establishing the business process and IT systems to support the purchasing functions of the new national health insurance agency (NHIA). This investment will lay the foundation for building the capacity of the NHIA, which is hoped to eventually lead to universal coverage; however the project only addresses the first phase of the multi-phased reform agenda. In addition, participation of AFR Cluster Leaders in a number of AFR missions during the design stage has helped ensure simplicity of project design.

Specific efforts have been undertaken to strengthen monitoring and evaluation (M&E) of HNP projects and improve the focus on results.

- Building off of a review which started in FY10, AFR recently carried out an in-depth study of M&E in all 52 AFR operations, which will be published in FY11Q3. Key findings of this work reveal progress on M&E design, including selection of indicators and approaches to data collection. However, sustained effort is critical to continued im-

13 HNP MAR, 2010.
14 P095275, P111556, P115563, P111840, P095171, P106870, P110599
15 See PADS for: P095275, P111556, P115563, P111840, P095171, P106870,
16 See PADS for: P095275, P111556, P115563, P111840, P095171,
The Bank generally agrees with the need to ensure that project design responds to the priorities and needs of the poor, and to measure the full impact of improved health services for the poor. Management will therefore seek to ensure that adequate attention is given to poverty dimensions in project design and supervision. However, direct assessments, where feasible, may be technically complex and expensive. The Bank publication Attacking Inequality in the Health Sector—A Synthesis of Evidence and Tools (Yazbeck 2009) lays out a policy menu (pro-poor policy reforms along six dimensions) and a list of the analytical tools for understanding the constraints to pro-poor targeting of public health investments in poor countries. As opposed to specific income groups, disease control programs must focus on the prevailing epidemiology (for example an AIDS program must focus on high-risk groups, irrespective of income). A malaria program focused solely on the poor would fail to eliminate malaria. Polio could only be eradicated from the Western Hemisphere by focusing on large, inclusive campaigns targeting all income groups. Such investments in public health and control of communicable diseases are global public goods, generating positive externalities for society, irrespective of income status. Investments in health systems should result in increased access and better quality of services—also benefiting the poor. Investment in social security and social safety net systems prevents the middle class from falling into poverty in case of a catastrophic health event. Management notes the substantive improvements over the past years in quantity and quality of HNP involvement in Poverty Reduction and Economic Management Network (PREM)–led analytical work, and agrees that HNP must be fully included in all Poverty Assessments and fully examined in the preparation of CASs.

Management agrees with this recommendation for high-fertility countries and regions—in particular as those areas have received less attention from other development partners as well over the past decade. Demand for stand-alone population (family planning) programs has declined over time. The Bank should increase support for reproductive health programs, which are usually better implemented when they are fully embedded into public health/clinical services. We would generally not support a return to stand-alone vertical family planning projects. Moreover, AIDS control projects (or components) and the work through UNAIDS have substantially contributed to reproductive health—and greatly expanded coverage of family planning for otherwise hard-to-reach population groups. In countries that are significantly advanced through the demographic transition, clients increasingly request advice and financing on financial protection, labor markets, and long-term care needs to address the ongoing demographic and epidemiological shifts resulting in an aging society. Finally, Development Grant Facility–financed programs such as the Special Program of Research, Development and Research Training in Human Reproduction (HRP), into which the Bank has substantial technical, financial, and managerial input, are contributing to the global reproductive health agenda.

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Original Response: Management agrees with this recommendation for high-fertility countries and regions—in particular as those areas have received less attention from other development partners as well over the past decade. Demand for stand-alone population (family planning) programs has declined over time. The Bank should increase support for reproductive health programs, which are usually better implemented when they are fully embedded into public health/clinical services. We would generally not support a return to stand-alone vertical family planning projects. Moreover, AIDS control projects (or components) and the work through UNAIDS have substantially contributed to reproductive health—and greatly expanded coverage of family planning for otherwise hard-to-reach population groups. In countries that are significantly advanced through the demographic transition, clients increasingly request advice and financing on financial protection, labor markets, and long-term care needs to address the ongoing demographic and epidemiological shifts resulting in an aging society. Finally, Development Grant Facility–financed programs such as the Special Program of Research, Development and Research Training in Human Reproduction (HRP), into which the Bank has substantial technical, financial, and managerial input, are contributing to the global reproductive health agenda.

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Management agrees. Substantial progress regarding this recommendation has been made in some regions over the past years, both in terms of the analytical underpinnings, the need for capacity building, and investment needs. Management will seek to improve cross-sectoral collaboration with the PREM Network at country level as a precondition to further improvements.

Management action: Recent major analytical work for staff and policy makers prepared by the Human Development Network to improve effectiveness in reaching the poor includes: Reaching the Poor with Health, Nutrition and Population Services—What Works, What Doesn’t and Why (Gwatkin, Wagstaff, and Yazbeck 2005) and Attacking Inequality in the Health Sector—A Synthesis of Evidence and Tools (Yazbeck 2009). It is expected that this work will help clients and staff achieve better results in reaching the poor with health services. Concerning nutrition, in addition to disseminating the new Nutrition Strategy (Repositioning Nutrition as Central to Development—A Large Scale Action [World Bank 2006c]) the Regional Reprioritization Fund will allocate US$4 million over fiscal years 2009–11 to strengthen Bank capacity to scale up nutrition support and leverage resources from other donors.

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HNP continues to be a key global player in sexual and reproductive health rights, particularly with the recent launch of the World Bank Reproductive Health Action Plan.

- The World Bank’s new Reproductive Health Action Plan (RHAP), a detailed operationalization of the reproductive health component of the 2007 HNP Strategy, was presented to the Board in May 2010 and implementation began in FY11. Under the RHAP, the World Bank is focusing on 57 priority countries with high levels of maternal death and morbidity, fertility rates, and higher levels of STI prevalence.

- A CSO Consultative Group has been formed to ensure continued dialogue and priority for SRHR at the World Bank and to ensure accountability of RHAP at the national level.

- Profiles are being created for all 76 priority countries of the RHAP to provide readily available information on the country’s RH status and as inputs into CASs. They will also be used for policy dialogue with governments in priority countries. Since March 2010, 10 countries have had new CASs or Interim Strategy Notes (ISNs). Issues related to fertility, family planning, and reproductive health were mentioned in 7 of the CASs/ISNs.

- In partnership with others, the Bank has: contributed to a first attempt to assess trends in MMR at the regional and global levels; organized a training in AFR on the methodology for measurement of maternal mortality; provided total support of $3.87 million through the Development Grant Facility to support civil society organizations for capacity development through the Population & Reproductive Health Capacity Building Program; continued the WBI’s Flagship training course on Pop/RH- Achieving the Millennium Development Goals: Poverty Reduction, Reproductive Health and Health Sector Reform. Additionally, the Bank is developing case studies for a better understanding of the impact of political leadership on progress on MDGs 4 and 5 (Bolivia, Nepal, Egypt and China) and is organizing a learning session on the RHAP for the HD Learning Week.

- The Bank is in constant dialogue with partners (UNFPA, UNICEF, UNAIDS, WHO) and is working together towards jointly programming work at the national and regional level in an effort to enhance synergies and achieve maximum results.

- Efforts at the global level are mirrored by strong progress at the regional and country levels, as reproductive health, including family planning, is increasingly incorporated to health systems projects, for example. In MENA, the Bank has engaged in a regional consultation on gestational diabetes and work is ongoing to intensify the focus on maternal, neonatal, and reproductive health in Yemen and Djibouti. In EAP, an important study on adolescent sexual and reproductive health is underway in the Pacific Islands to identify improved information delivery strategies. In LAC projects are currently active which place specific emphasis on improving maternal and child health outcomes, particularly among the poor (Guatemala, Argentina, and Brazil). SAR has developed regional RHAP workplan and is exploring options for a “buy-down” for family planning in Pakistan, for example. Finally, AFR has developed a draft RHAP and the South Asia Region and nearly all RBF activities in AFR include support for family planning. Reproductive health projects are under preparation in both Burkina Faso and Mali, while there is an ongoing population projects in Niger, strong components of reproductive health in the Mozambique Health Sector Development Plan, and the Angola Municipal Health Service Strengthening project. AFR is also in the process of preparing a Population Policy Note (to be completed mid-2011) and is currently collaborating with PREM on (i) popula-

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17 Burkina Faso, Cameroon, Chad, Comoros, Honduras, Lesotho, Sierra Leone, Solomon Islands, Timor Leste, Uganda.

18 CAS: Burkina Faso, Cameroon, Lesotho, Sierra Leone, Uganda; ISN: Chad, Comoros, Honduras, Solomon Islands, Timor Leste.
tion/reproductive health input into a new PRSP for Burundi; (ii) population policy note for Sierra Leone; and (iii) AAA product for Uganda (contributions on demography and economic growth).

Improving health results for the poorest and most vulnerable continues to be a cornerstone of the work of HNP.

- HNP’s ongoing seminar series Making Health Systems Work for the Poor continues to be a success in presenting evidence from health reforms with a measurable impact on the poor.

- HNP has made progress in incorporating poverty dimensions into new projects. Of the 9 IBRD and 12 IDA projects approved in FY10 and FY11 Q1 and Q2, 13 projects (5 IBRD, 8 IDA) were considered to be “appropriate” for incorporating a poverty dimension – other projects related to strengthening institutional capacity (supply chain management, etc.) or H1N1. In appropriate projects, 7 projects (3 IBRD, 4 IDA) were found to incorporate poverty dimensions into PDOs, a vast improvement over the IEG findings. Kenya, Vietnam, Nepal, and Mexico were particularly good examples of incorporating poverty dimensions into PDOs and results frameworks.

- Increased emphasis on poverty and equity continue to be a key focus of the Bank HNP regional work. For example, AFR has established a baseline on what proportion of projects explicitly set out to measure equity in access or outcomes and has incorporated equity concerns in its results chain and other job aids. Support to the Africa Programme on Onchoerciasis Control (APOC) is also ongoing and has made great strides in reducing onchocerciasis incidence. Moving forward, there are plans to use this program to launch an effort on neglected tropical diseases which disproportionately affect the poor. In SA, all new operations include indicators which track impact upon the poor or marginalized groups. Similarly, several LAC projects focus on the disproportionate burden of communicable and non-communicable diseases on the poor (Argentina, Mexico, Brazil, Haiti, Nicaragua, Caribbean, and Uruguay). In Brazil, VIGISUS allocated $100m to improve the health of poor, indigenous populations. Similarly, HIV/AIDS and STI work in Central America and the Caribbean are largely targeted towards indigenous groups and marginalized people (commercial sex workers, etc.). Finally, an ESW is underway in MENA on the topic of health equity, which is based on commissioned studies in 7 countries in the MENA region to measure catastrophic health expenditures at different income levels, and the impoverishing effects of health expenditures, especially on the near poor population.

Support to improving nutrition outcomes continues to be a significant component of HNP’s work to deliver improved health results.

- The Global Action Plan for Nutrition, now called the Scaling-Up Nutrition (SUN) Framework, was launched during the Spring Meetings in April 2010. The Bank also worked with partners to develop the SUN Roadmap, which spells out the operationalization of the consensus framework for action.

- As reported in the 2010 HNP MAR, “Six additional Bank staff have been hired for nutrition work—one in HQ and five in the Regions,” and “A new multi-donor trust fund established by Japan to scale up nutrition solutions has been secured and is operational.”

- The Bank team is now developing programmatic guidance on agriculture/food-security-nutrition linkages and social protection-nutrition linkages. These guidelines (initial drafts will be completed by March 2011) will advance the ability of the Bank to support positive nutrition outcomes through nutrition sensitive activities across multiple sectors (e.g., Agriculture, Social Protection, and Education among others) in addition to nutrition specific actions in the Health sector.

- With last year’s scale up of field-based nutrition staff, progress on nutrition work in the regions has been significant. Under the SUN Framework, HNP has committed to conducting 6-8 analytical and advisory activities or new investments in nutrition by FY11, with work in one country (Afghanistan) already complete. The EAP Regional nutrition strategy is currently under preparation. Two countries have completed country nutrition scale-up plans (Nepal and Mozambique) and Morocco’s plan is awaiting government sign-off. In Malawi, Tanzania, Kenya, Zimbabwe, Yemen, Benin, Angola, Afghanistan and Zambia, analytic work that will support the development of country nutrition strategies and plans to scale up nutrition programming has been completed and scale-up plans are under development. AFR has a total of 10 active nutrition operations, including two new operations in Benin and the Gambia and 8 free-standing projects or projects with sizeable nutrition components (Madagascar, Senegal (2), Mauritania, Ghana, Ethiopia, Tanzania, Burkina Faso). Four new nutrition projects were approved (Nepal) or are under preparation (Malawi and Mozambique and Pakistan). Projects and project components are being prepared in Yemen, Burkina Faso, Liberia, and Sri Lanka, building on qualitative and quantitative research regarding the nutrition situation in-country supported through the Japan Trust Fund for Scaling up Nutrition. Pilots of innovative ap-

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19 Supra, 5.
proaches (for example, a locally-produced Ready-to-Use Therapeutic Food commodity and Corn Soya Blend in Ethiopia and a pilot to test the effectiveness of social transfers, food or cash, to improve the birth weight of children in Nepal) are being implemented in Ethiopia, Haiti, Guatemala, Peru, Ecuador, and Nepal. After the pilots are evaluated, lessons learned will be disseminated through South-to-South exchanges, regional consultations, and other fora. Three countries (Ghana, Malawi, Zambia) have joined and are part of the five "early risers" under the global multi-donor SUN Framework, with five more expected to join in FY11 or early FY12 (Ethiopia, Mali, Mozambique, Senegal, Tanzania) and two more on the waiting list (Burkina Faso, Niger).

- In addition, a large amount of ESW has also been carried out on nutrition in AFR - Malawi and Nigeria are being finalized; ESW reports have been completed for Mali, Tanzania and Ethiopia; new ESW on nutrition has been initiated in Angola and The Gambia. The focus of all these ESWs is on mainstreaming nutrition in the development agenda and scaling up evidence-based nutrition action at country level. Both formal and informal technical assistance on nutrition policy and program development is being provided to Benin, Cote d'Ivoire, DRC, Ghana, Liberia, Mozambique, Rwanda, Senegal, The Gambia, Zambia and Zimbabwe. Regional AAA work include the finalization and publication of the comparative nutrition policy study in eight countries (Benin, Burkina Faso, Ethiopia, Ghana, Madagascar, Senegal, Tanzania, The Gambia); a soon-to-be-launched capacity assessment in four East African countries (Kenya, Tanzania, Uganda and Zimbabwe); and a new initiative (in preparation) on South-South Peer Reviewing and Coaching to be launched in West Africa.

Improving the monitoring of HNP outcomes among the poor is being undertaken through analytical work that provides information on changes in HNP outcomes among the poor, and through training materials and events that build the capacity of Bank staff and client countries to better, and more easily, monitor HNP outcomes themselves.

- Over the course of FY10 to FY11 Q2, a comprehensive database on HNP outcomes and coverage rates by wealth quintile for 98 countries, with data from 1985-2007 has been developed; a series of Health Equity and Financial Protection (HEFPro) country reports that monitor HNP outcomes among the poor have been initiated; and country data sheets monitoring HNP outcomes among the poor have been developed. Additionally, WBI’s e-learning course on Health Outcomes and the Poor was delivered in FY10 and the ADePT-Health software that automates and simplifies the analysis of financial protection and equity in the health sector has been substantially improved, user guides have been developed, online tutorials are available, and there is a fast-expanding group of international users. In FY10 Q4, training on ADePT-Health and health equity monitoring techniques was delivered to clients at a conference in Manila; training materials are currently under development for more intensive training in CY11.

HNP, WBI and DEGRG are collaborating on the creation of a new WBI Flagship course on Health Equity and Financial Protection (to debut in FY11 Q4).

- Of the 5 Poverty Assessments completed in FY10 and FY 11 (Q1, Q2), all but one (80%) gave considerable attention to health outcomes of the poor. One of the five (Bosnia and Herzegovina) assessments had an entire chapter dedicated to health and two (India and Iraq) had chapters devoted to a combined analysis of health and education. Overall, the coverage of health outcomes in poverty assessments is considered substantial. Any expectations for improvement need to take into consideration the evolution in the nature of Poverty Assessments away from generic multi-sectoral analyses towards more tailored documents focusing on only a few themes that are of particular interest to government at the time of writing. Of all of the 16 CASs and CPSs delivered in FY10, 15 discussed health outcomes to some degree. This discussion tended to be brief and, especially in IDA countries, sometimes focused only on progress towards the health-related MDGs. Of these 16 CASs, only 6 mentioned health outcomes among the poor. More promisingly, 5 of the CASs included an objective, indicator or target related to the health status of the poor in their results matrices.

HNP is currently working to systematically increase the emphasis on poverty and equity, however, and has recently taken up a new work program for monitoring equity and financial protection in the health sector, which complements the new ADePT-Health data analysis tool developed by DEC.

10.3 Strengthen the World Bank Group’s ability to help countries to improve the efficiency of their health systems.

Original Response: Management generally agrees with this recommendation. The efficiency argument is a key rationale, in particular for working with health systems in middle-income countries. Since national health expenditures rise with national income, improving sector efficiency makes an important contribution to fiscal sustainability. However, in the health sector there are important efficiency equity trade-offs. This points to the fact that efficiency gains should not be the sole objective of Bank-financed health programs.
Management agrees that it is necessary to carefully assess the need for additional finance where other donors are contributing substantial amounts. While fiscal space and potential budget substitution by ministries of finance should be closely monitored, the empirical evidence of distortionary effects of large vertical disease programs is scanty. Proposals for Bank support for new disease-specific programs are closely coordinated with other donors and often fund complementary financing and institutional needs, for which financing was unavailable from other donors.

Management agrees partially with this recommendation: Technical support and financing for management information systems as well as routine surveillance and vital statistics systems should be ramped up. However, the outcomes of management information system investments may be hard to evaluate fully within the timeframe of a project, and multiple determinants influence health outcomes. Management also notes that the Paris and Accra Declarations and the new OP 13.60 emphasize the use of pooled funding and country-level M&E systems instead of ring-fenced funding and stand-alone M&E systems. Hence, the standard should be that sufficient evidence on outputs, intermediate outcomes, and outcomes should be collected to establish a credible story line to assess the link between Bank-financed investments and overall sector progress, including efficiency and efficacy gains. Management action: The Human Development Network and the Regions have carried out major analytical work that will help policy makers and Bank staff to better understand challenges and trade-offs in health financing, risk pooling and insurance, the issue of fiscal space and external assistance (Health Financing Revisited—A Practitioner’s Guide [Gottret and Schieber 2006]). Furthermore, the Bank is a lead sponsor of the International Health Partnership (IHP+). This is a country-led and country-driven partnership that calls for all signatories to accelerate action to scale up coverage and use of health services and deliver improved outcomes against the health related MDGs, while honoring commitments to improve universal access to health.

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Efficiency and quality are both important for improving health results. HNP continues to work with internal and external partners to find ways to maximize efficiency while maintaining or improving quality of HNP results.

- Of the 15 new HNP projects since March 2010, 14 consider efficiency, including overall potential efficiency gains, reduction in wastage and leakages, and increased cost-effectiveness, for example. 20
- HDNHE has developed guidelines of strategies to improve organization performance in service delivery. A discussion paper is ready for publication and a more pro-active user’s guide for strategies to improve service delivery performance is being finalized for FY11Q3. The plan is to develop opportunities to work with TTLs and clients to carry out the analysis needed to apply this approach and use it to improve efficiency of health systems.
- The Bank is developing guidelines and tools for country teams to integrate cost-analysis into its RBF for health programs, including program cost-effectiveness, efficiency and sustainability analysis, into project design. This work will begin in Afghanistan, Benin and Rwanda.
- The IHP+ continues to be a key partnership whose intention is to help reduce transaction costs and increase efficiency, based on the principles of Aid Effectiveness (more below).
- The Health Systems Global Expert Team also responded to a number of requests from TTLs and different Bank regions to advise on project design and reform plans to improve health system efficiency. In FY11, 20 requests were received, 4 have been completed and all others are currently in progress. Some highlights of this work include: high level consultations with Mexico on strategies to strengthen Seguro Popular; virtual workshop with 5 Africa offices/TTLs on health insurance; development of practitioner to practitioner capacity building in Asia on health insurance and provider payment.
- Increased efficiency at the regional and country levels is also a high priority. In EAP, RBF approaches have been utilized to improve efficiency and create stronger linkages to results, especially in Lao, Vietnam, Philippines, and the Pacific Islands. EAP has also supported China in M&E activities at a decentralized level for the implementation of the ambitious Chinese National Health Reform. In SA, both Bhutan and Nepal are currently conducting assessments of public expenditure for health, which aim to identify opportunities for efficiency gains to create fiscal space. Innovative work is ongoing in AFR, where a randomized controlled trial (RCT) of different approaches to deliver drugs to peripheral health centers in Zambia has been carried out. This is the first published RCT on logistics management in health - the best approach identified by this study proved to be extremely efficient in reducing stock outs and has now become national policy in Zambia. Finally, work in LAC focuses on strengthening regional health systems. As such, operations aim at improving essential public health functions (Argentina, Brazil), public sector management (Argentina, Brazil), public sector management (Brazil, especially the GDF Multisector Man-

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20 P094755, P110599, P106870, P095171, P121060, P074091, P111840, P115563, P113540, P113202, P117417, P095275, P113896, P116226.
management Project), health insurance (Argentina, Mexico), health networks (Brazil, Costa Rica), modernization of hospitals and hospital management (Brazil), pharmaceutical policies, and other issues aiming at improving coverage, quality, and efficiency of regional health systems.

- The Harmonization for Health in Africa (HHA) partnership (AfDB, JICA, UNAIDS, UNFPA, UNICEF, USAID, WHO, WB) is also important for increasing efficiency. The WB HSO team closely coordinates and collaborates within the context of this partnership to ensure harmonized support for African countries, increasingly working in the context of joint missions and shared responsibilities. HHA, in turn, works closely and collaboratively with other regional and global partnerships such as the Global Health Workforce Alliance, Joint Learning Network, and IHP+.

Increasingly, the HHA has carried out joint efforts with the IHP+ in support of countries, namely Benin, Burkina Faso, Burundi, Cameroon, DRC, Ethiopia, Ghana, Kenya, Liberia, Madagascar, Mali, Mozambique, Niger, Nigeria, Rwanda, Sierra Leone, and Zambia.

HNP continues to be a leader in the global dialogue on delivering results in line with the principles of Aid Effectiveness outlined in the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action.

- HNP continues to work towards improvement in selectivity/complementarity of support in order to maximize the impact of support at the country level and to continue to work towards implementing the principles of aid effectiveness. Of the 15 new HNP projects, 3 projects included a significant focus on priority diseases. Of these 3, only 1, Nepal, included financing from other donors – the project in Nepal mapped contributions from these other donors.

- Increased aid effectiveness remains a key aspiration of ongoing projects, as well. In EAP, for example, the approach has been to consider support provided by others and to serve as a donor of last resort. In SA, financing for HIV/AIDS components has been rolled into existing SWAPs in Nepal and Bangladesh and are part of a provincial level health sector operation in Pakistan. In the Caribbean, LAC has plans to move from single disease projects to increased investment in health systems strengthening (Haiti) and chronic diseases (other Caribbean countries). In AFR, partners have recently asked the Bank to spearhead an effort to develop a joint disease control approach to health systems in order to foster synergies and bridge he divide between disease control programs and HSS at the country level.

- A number of HNP-managed partnerships continue to support the aid effectiveness agenda, highlighting the need for collaboration amongst partners and coordinated financial and technical support to countries based on a single national health plan, thus resolving a number of existing issues regarding financing for earmarked diseases. These include the IHP+ and the related Health Systems Funding Platform.

- IHP+ continues to support the implementation of the Joint Assessment of National Strategies (JANS). The JANS tool, which lays out some parameters for assessing a country’s national health strategy, is now widely considered a global public good in the health sector. Since the time of last reporting, JANS have been carried out in a number of countries – Ethiopia, Nepal, Uganda, Ghana, and Vietnam. In order to learn from lessons of these JANS, a document has been developed consolidating lessons learned to date; the IHP+ also intends to learn from these lessons by revising the JANS tool to work towards better applicability to country needs.

- The Health Systems Funding Platform is now advancing well. The World Bank, led by the work of HNP, is working with the GAVI Alliance, the Global Fund, WHO, and other partners to accelerate progress towards the MDGs to coordinate, mobilize, streamline and channel the flow of existing and new international resources to support national health strategies. For example, Nepal is using the Platform to further implement the aid effectiveness agenda and bring more donors into a joint fiduciary framework. A JANS was conducted in 2010 and the World Bank, AusAid and DFID were able to use this process in place of the stand alone appraisals and the leading aid donors (DFID, World Bank, the GAVI Alliance, USAID, UNFPA and UNICEF) agreed to sign a joint financing agreement (JFA) for pooling and non-pooling partners committing additional resources through a single framework for financial management – with one report and one audit – Nepal is currently urging donors to carry out their commitment to using one M&E framework. Similarly, development partners and the MoH in Ethiopia are working towards agreement on a joint fiduciary framework, working together on one financial management assessment, planned in March. This work links directly to the preparation of a new RBF health project using the new Results-based Investment Lending Instrument. Other platform work is ongoing in Cambodia and Benin.

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21 P117417, P113540, P121060.

22 See PAD: P117417.

23 It is expected that AusAid and KfW will sign the JFA in due course.
Health Information Systems (HIS) are a critical component to a functioning health system and effective health governance and M&E. HNP continues its strong support of this work in a diverse through a diverse array of mechanisms.

- Building capacity at the country level is critical for the sustainability of strong monitoring and evaluation systems. Of the 15 new HNP projects since March 2010, 12 projects include components to strengthen country M&E systems.24

- As reported in the 2010 HNP MAR, “Under the IHP+, global health partners have developed a common monitoring and evaluation framework.” Additionally, also reported in 2010, “In partnership with the Health Metrics Network, the Bank has supported country assessments of health information systems in over 80 countries.”25

- HNP supports country impact evaluation (IE) programs of RBF for health projects, through four priority areas: (i) financing IE activities through the HRITF, (ii) development of technical resources such as an IE Toolkit, questionnaires and training manuals; (iii) direct technical support to country teams on design and implementation of prospective, rigorous IE; and (iv) technical training in IE in annual IE training workshops. To date, the Bank has directly supported over ten RBF for health project teams on IE activities.

- HIS and IE are critical components of project success at the country level. As a result, MENA has recently scaled up investment in strengthening health information systems for improved health service management and health financing in Lebanon (claims processing and utilization reviews of hospital services), Tunisia and Morocco (government level monitoring of health systems performance), Egypt (Health Insurance System Development Project - IT/business process enhancement), and Saudi Arabia (Saudi Health Insurance Bus - a national portal for health insurance claims processing, and a Saudi National Health Data Dictionary). Health systems strengthening operations in LAC have also assisted in the establishment of complex surveillance systems (Brazil), M&E (Brazil) and HIS (Brazil and Caribbean). Additionally, many of the LAC RBF projects have disbursement-linked indicators directly related with health systems strengthening.

Increased support of health systems, strengthened partnership and coordination, and improved knowledge management and learning remain critical components of HNP’s efforts to make progress on the health-related MDGs.

- The HNP Knowledge Resource Center (KRC) was successfully launched by the Hub in FY10, with strong positive feedback from the regions. The KRC delivers just-in-time advisory services that respond to TTL requests within 24 hours. The strongest positive feedback has been for the consultant/TORs database, which is available on the internal website and updated continuously and the HNPWeekly internal e-newsletter. Other products include HNPFLASH, the external monthly subscription-only e-newsletter, which has been only been active since June 2010. In spite of this short time and no marketing, HNPFLASH has 1,000 new subscribers. The KRC is also coordinating HNP's 2011 HD Learning week, which consists of 3 parallel course series including the nascent HSS Staff Flagship Program. The full HNP Learning Program, which consists of BBLs and seminars jointly-sponsored with other units remains as active as in previous years. This year the KRC developed one of the first On-Boarding Programs in the Bank, which is still under review by management, but is key to implementing the Bank's new Learning Strategy. The KRC also collects and synthesizes knowledge content for the central HNP Website, edits the HNP Discussion Paper and HNPNotes series, and conducts vigorous outreach to the regions to meet internal demand for knowledge and learning.

10.4 Enhance the contribution of support from other sectors to health, nutrition, and population outcomes.

**Original Response:** Management agrees in principle, but implementation can be challenging. For example, health is a secondary objective for many clients in water and sanitation operations and borrowers are reluctant to add potentially costly components. In addition, the current mandate, staffing, and budget of the water sector does not allow the sector to be “accountable for health benefits” as IEG suggests. Under IDA 15 guidelines, it is mandatory to track “safe and sustainable access to water and or sanitation services” as an outcome, with health benefits classified as impacts, rather than outcomes. Because it is difficult and expensive to track health impacts, the number of water projects with a health objective has declined, and this trend is likely to continue absent changes in policy and/or additional resources.

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24 See PADs: P094755, P110599, P106870, P095171, P121060, P074091, P111840, P115563, P113202, P117417, P095275, P113896.

25 Supra, 5.
Management generally agrees that we need to support client countries to seek improved complementarity of water and sanitation programs with health projects, in particular as clients are reluctant to burden all water and sanitation operations with potentially small (albeit cost effective) health impact objectives, and to demonstrate and document empirically such impact and outcomes in each case.

Management agrees and notes that significant additional resources have been mobilized from fiscal year 2009 on to better respond to client and partner requests for embedding Bank support in multisector programs, or to provide just-in-time advice to countries and partners in development. Specifically, over US$3 million additional Bank budget will be allocated per year to ramp up Bank support for the 14 IHP+ countries, mostly in Africa, including the establishment and staffing of two regional technical support hubs in Africa. Additional resources are being provided by other donors.

Management agrees, but notes that this is a concern across the institution that needs institutional analysis and solutions, including revisiting the incentives needed for improved cross-sectoral and cross-departmental collaboration.

Management agrees, subject to the limitations mentioned previously related to M&E and attribution. Management action: the HNP sector continues to expand and deepen cross-sector engagement. Recent products include work on Social Safety Nets, Ageing and Demographic Change, Early Childhood Development and Poverty, Environment and Health. Ongoing initiatives include work with Water and Sanitation, Transport, Poverty Reduction and Economic Management, Agriculture and Rural Development, and Operations Policy and Country Services on global challenges ranging from global infectious threats, climate change (part of the 2010 World Development Report), road safety, and an Advanced Market Commitment to develop a pneumococcal vaccine suitable for use in Africa.

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Achieving improved health results is a product of health and non-health sectors alike. Multisectoriality, while a challenge, remains critical to achieving results in the health sector.

- A working group has recently been convened to address non-health sector inputs to health results. This group includes representatives from sectors such as education, social protection, environment, transport, and water and sanitation. The first meeting of this group took place in February 2011.
- HNP continues to solicit the participation of other sectors in QERs, based on project need. Thus far in FY11, 8 Hub-supported QERs were undertaken, 5 of which included inputs from other sectors.
- As part of capturing contributions from other sectors, HNP tracks 100% of all non-HNP sector Board operations for core health sector indicators.
- The nutrition team continues to work across sectors, engaging with Children and Youth (C&Y), Education, Social Protection and Agriculture, to name a few. Multisectoral actions feature prominently as part of the solution to malnutrition. Under the SUN Framework, a team from HNP, SP and ARD is developing programmatic guidance on agriculture/food-security-nutrition linkages and social protection-nutrition linkages. The agriculture/food security-nutrition joint guidance will be implemented in a few of the SUN "early riser" countries (Nepal, Bangladesh, Ghana, Uganda and Malawi) which have committed to rapid scale up efforts, with support from the HD and ARD Hubs. HNP also collaborated with Education and C&Y in the Africa region to produce a new volume in the Directions in Development Series entitled, Investing in Young Children: An Early Childhood Development Guide for Policy Dialogue and Project Preparation. This book takes a multisectoral/multidisciplinary approach to the topic of early childhood development, highlighting the importance of, and need for, investment in all of the domains that affect child growth and development including the physical (health and nutrition), linguistic, cognitive, and socio-emotional. Finally, the Nutrition team received a $250,000 RSR grant in FY10 to: 1) support the development of guidelines for multisectoral approaches to nutrition and 2) organize a regional conference (based in Africa or South Asia) to share experiences among Bank and client country teams in a South-South learning event.
- Multi- and cross-sectoral work has also been very successful in HNP regions. EAP has provided inputs to other sectors supporting health activities, with a particular view to increase the impact at the community level. For example, it provided inputs to Social Protection on conditional cash transfers in Indonesia and the Philippines. In LAC, cross-sectoral work in LAC is very positively rated in OPEs, which provides incentives for staff to work with other sectors. HNP operations in Brazil, Guatemala, and Panama, to name a few, have strong support to other sector projects with health goals. In Brazil, the multisector SWAPs aim to improve HNP outcomes through improvement in public sector management and, in some cases, improvements in other sectors like Wa-
All HIV/AIDS projects are also multisectoral, engaging sectors such as Education, Transport, and Tourism to improve HNP outcomes. In the case of some HIV/AIDS projects (Barbados), increased selectivity of engagement of other sectors has been important and a key objective with the intent to improve performance and shift the focus to groups at higher risk of infection. Regional Influenza and Nutrition projects are also multisectoral, engaging with the Agriculture sector and, in the case of nutrition, working closely together to improve food security, for example. Finally, LAC HNP also works closely together with the Environment to improve hospital waste management throughout the region (Barbados, Brazil, Costa Rica) and management of the use of pesticides for communicable diseases (Argentina, Brazil).

- AFR and SA have also shown tremendous success in multi- and cross-sectoral work. AFR is currently taking forward a new multisectoral initiative on strengthening all aspects of child development, including maternal and child health, nutrition, early childhood development, school feeding, and school health. AFR is also working closely with Social Protection in Rwanda to address rural poverty and has recently carried out a regional country team training on governance and the pharmaceutical sector in close collaboration with GAC Africa, INT, and OPCS, all under the auspices of the AFR HSO program. AFR has expanded an existing $40m multi-country Senegal River Basin Water Resources Development project to $70m for joint efforts for malaria control and infrastructure development. This project brings together a number of countries and sectors to strengthen the fight against malaria in Africa and this project is the first of its kind for malaria. Finally, the AFR HIV/AIDS program has a long history of interaction with other sectors, such as the Transport sector, for improving delivery of HNP results. SAR has also begun to ramp up cross sectoral collaboration, having recently incorporated a road safety component into a Pakistan roads project; including community level nutrition in the India livelihoods project, and working the HNP Hub to jointly implement a regional Food and Nutrition Security Initiative with the Agriculture sector.

10.5 Implement the results agenda and improve governance by boosting investment in and incentives for evaluation.

In line with the 2007 HNP Strategy, which renewed the Bank’s focus on results, the Bank continues to prioritize implementation of results-based financing (RBF) projects and documentation of lessons learned, and leverage partner resources to support work at the country level.

- HNP continues to support RBF activities through the Health Results Innovation Trust Fund (HRITF). This multi-donor TF supports RBF approaches in the health sector for achievement of the health-related MDGs, particularly those linked to MDGs 1c, 4 and 5. During calendar year 2010, additional contributions from the governments of Norway and the United Kingdom were formalized, which expanded commitments to the HRITF to US$543 million equivalent through 2022.

- HNP continues to provide technical and financial support to nine governments, through country pilot grants (CPGs) to design, implement, and learn from RBF and carry out impact evaluations (Afghanistan, Benin, DRC, Ghana, India, Kyrgyz Republic, Rwanda, Zambia, and Zimbabwe). The HRITF third phase was launched in September 2010 and seven CPGs were approved for Burkina Faso, Burundi, Ethiopia, Laos, Nigeria, Sri Lanka, and Tajikistan. Under the HRITF, grant financing for RBF pilots is linked to a required prospective, rigorous impact evaluation (IE) embedded in project design.

- The HRITF Phase 3 introduced Country RBF Evaluation Grants to support non-HRITF funded RBF projects, to provide financial support to RBF program evaluation efforts to learn from successful (and unsuccessful) experiences from around the world, with four grants awarded. To date, 4 country teams have received this support, including Argentina, Cameroon, India and Turkey.

- In 2010, the Bank held an annual RBF for Health Impact Evaluation workshop, co-hosted by the African Development Bank, to provide technical support to country teams, as well as a forum to discuss new challenges and demand for support for the next phase of impact evaluation work. The workshop was attended by over 80 participants from ten countries.

- Additionally, 18 new RBF Knowledge and Learning Grants were awarded under the HRITF to support technical dialogue and learning around RBF design and implementation in IDA eligible countries.

- RBF and RBF-like approaches have shown tremendous success at the regional and country levels. AFR has provided a large amount of technical assistance to countries on RBF, including organization of regional workshops and establishment of a large and very successful “community of practice” on RBF. LAC operations have been successfully utilizing a number of approaches, including RBF (also SWAps and APLS – SWAPLs) in or-
Incentives for governance and evaluation continue to be critical for improving HNP results.

- A regular practice in HNP, the Results Framework and M&E arrangements of all Preparation and Supervision QERs supported by the Hub continue to be reviewed by the M&E specialist in the Hub or by an M&E specialist Panel member.
- In EAP, improvements in creating incentives for monitoring and evaluation have been seen in ensuring baseline data is available during the design stage; utilizing government indicators has helped to ensure ownership of indicators and utilization of indicators as a management tool. Restructuring of various indicators has been supported by management in Lao, Timor Leste, and Vietnam. Finally, a regional evaluation of SWAPS in health and education is currently being undertaken in the Pacific Islands in conjunction with other global partners (Australia, New Zealand, Asian Development Bank).
- In SAR, incentives have been strengthened, with proposed APLs in India (Uttar Pradesh and the India nutrition project) tying additional financing to results. Also in India, a study on impact evaluation and cost effectiveness has received support under the India AIDS project. In Nepal, a similar incentive allows for acceleration of disbursements if results are attained. In Afghanistan, a test is currently ongoing to see whether tying financing to results improves performance of service providers.
- Based on recent analytical work, AFR has provided support to task teams in all areas of monitoring and evaluation, including distribution of key aids (results chains). It also continues to use ISRs intensively as a forum to discuss results. AFR is also working closely with OPCS on the use of results-based lending instruments such as programmatic investment loans (PILs).
- LAC also continues to focus on support of impact evaluation. Impact evaluation analysis and focus on results has been implemented in a number of large operations, promoting accountability and better governance in the sector in countries such as Argentina, Brazil, and Mexico. For example, Argentina has obtained a $0.8m grant for impact evaluation of Plan Nacer and technical assistance has been put in place to support the design and further implementation of a health observatory for health systems and policies. Mexico is currently seeking financing to carry out an impact evaluation of its universal health coverage program.
- Thus far in FY11, LAC has provided a number of grants to support strengthening of the governance agenda, namely for human resources and health financing at the regional level. Additionally, as previously noted, health systems strengthening operations in LAC have facilitated the development of a complex surveillance system in Brazil (VIGISUS), and strengthening of both M&E and health information systems in Brazil and the Caribbean, respectively. New projects are currently focusing on the use of the information produced by such projects, as well as other available evidence, for improved decision making.
In the Action Plan, management committed to undertake intensive Quality Enhancement Reviews (QERs) in 75% of all new HNP projects, focusing on technical preparation, M&E, and institutional and risk assessments and mitigation measures, beginning in FY10, and to undertake quarterly reviews of the HNP portfolio by the Sector Board. Adoption of this sub-recommendation continues to be high. All 15 FY11 approvals to date that were eligible (not repeater projects) have been subjected to in-depth QERs and the Sector Board has been reviewing the portfolio via the Portfolio Improvement Action Plan on a quarterly basis. All QERs conducted in the Hub (about half of all QERs) reportedly focus on simplifying design and better matching of complexity to country capacity. Projects have been restructured in South Asia, with reported improvement in portfolio performance, although the precise results were not reported. In MNA Region, projects have reportedly been simplified to avoid complex and multi-component health reform designs. The number of projects at risk, after initially increasing from more realistic ratings, has “began to steadily decline”. No specific evidence has been provided to show a reduction in complexity and greater selectivity in Africa region projects. Overall, adoption of this sub-objective is high.

b) “Thoroughly and carefully assess the risks of proposed HNP support and strategies to mitigate them, particularly the political risks and the interests of different stakeholders, and how they will be addressed.”

In the Action Plan, management committed to ensuring that 100% of the QERs focus on risk, beginning in 2010, and that a course would be developed and rolled out on project risk analysis for HNP teams, disseminating best practices and lessons learned, starting in FY10. According to management’s response, all of the QERs managed by the Hub focus on risk assessment, though IEG has not been able to confirm that the quality of risk assessment has actually improved as a result. Staff have been trained in the new Operational Risk Assessment Framework and 80 staff enrolled in FY11 in the new Flagship Course on Health Sector Reform and Sustainable Financing, which includes a core component of stakeholder analysis in the context of the politics of health systems reform. It isn’t clear to what extent these measures have resulted in better assessment of the political risks, the interests of different stakeholders, and mitigation measures in newly approved projects. Adoption of this sub-objective is rated substantial.

c) “Phase reforms to maximize the probability of success.”

In the Action Plan, management committed to increase the analytical work focusing on reform for HNP reform projects, with 100% of all new projects focusing on health system strengthening (HSS) or broadly on health reform to be based in analytical work, including political risks and the interests of different stakeholders, starting in FY10. According to management’s response, four of the 7 new FY11 HNP projects that focused on health systems strengthening were based on specific analytical work and all analyzed risk, about the same share as reported in the previous year’s MAR for FY10 (10 of the 14 new operations). However, it would be important to document the extent to which reforms are being phased among the health reform projects that have been improved, which is the thrust of the sub-recommendation. Adoption of this sub-objective is rated substantial.

d) “Undertake thorough institutional analysis, including an assessment of alternatives, as an input into more realistic project design.”

In the Action Plan, management committed to conduct institutional analysis in 80% of all new projects beginning in FY10 and to design and deliver a training/learning program focusing on HNP sector institutional and stakeholder analysis. Management’s response indicates that all 15 of the new HNP projects that are not additional financing included an institutional analysis as part of preparation. Institutional analysis is part of the organization section of the Health Reform Flagship course. It is unclear the extent to which these analyses are discrete products that take into account institutional incentives and that propose alternatives at the design stage, per the recommendation. Adoption of this sub-objective is rated substantial.

e) “Support intensified supervision in the field by the Bank and the borrower to ensure that civil works, equipment, and other outputs have been delivered as specified, are functioning, and are being maintained.”

In the Action Plan, management committed to specify in project design the borrower’s responsibility for civil works and equipment maintenance in all new HNP projects, beginning in FY10, and that all new HNP projects would be designed to ensure adequate recurrent cost budgeting for civil works and equipment maintenance. The Action Plan’s commitments are about project preparation rather than the intent of the sub-recommendation, which is intensified supervision of existing as well as new projects. In its response, Management notes that of the 7 new projects with civil works, six outline the borrower’s responsibility, all 7 have adequate budgeting and five use standards for civil works. However, overall, scant information is provided about the extent to which supervision has been intensified – the Africa region has developed a checklist for ISRs, but Management notes that supervision budgets have been declining over time. Adoption
10.2 Renew the commitment to health, nutrition, and population outcomes among the poor: Medium

a) “Boost population and family planning support in the form of analytic work, policy dialogue, and financing to high-fertility countries and countries with pockets of high fertility.”

In the Action Plan, management committed to writing an analytic and advisory activity policy note on reproductive health, including family planning (FP), by FY10; to incorporate FP into health system strengthening projects, delivering 2 HSS projects in high fertility countries that include strengthening of FP in FY10; and to incorporate population and family planning into half of CASs for high-fertility countries, beginning in FY10. A Reproductive Health Action Plan was presented to the Board in May 2010 and implementation began in FY11; it targets 57 countries, including but not limited to those with high fertility. A Population Policy Note is being prepared in the Africa Region and population analytic work is being prepared for Burundi (for a new PRSP), Sierra Leone (Policy Note), and Uganda (demography and economic growth), all high-fertility countries. A freestanding population project has been approved in Niger and preparations are under way in Burkina Faso and Mali. There have been new CASs or Interim Strategy Notes in 10 countries since March 2010, of which 6 are in countries with total fertility rates greater than 5 children: CASs in 2 high-fertility countries commit to specific actions to support population and family planning programs addressing high fertility, in 2 countries the CAS commits to continued support for ongoing maternal and child health interventions, and in 2 countries high fertility is mentioned as a constraint in the CAS, with no specific action. Adoption of this sub-recommendation is rated substantial, based on progress in strategies and policy development since last year, but will be revisited in the next period with respect to evidence that the policy changes have found their way into country strategies and the portfolio of lending and analytic work in high-fertility countries.

b) “Incorporate the poverty dimension into project objectives to increase accountability for health, nutrition, and population outcomes among the poor.”

The Action Plan committed to ensure that “adequate attention is given to the poverty dimensions in project design and supervision, particularly project development objectives and key performance indicators”; the target was for 80 percent of all new HNP projects to incorporate the poverty dimensions “where appropriate” beginning in FY10. According to Management’s response, 13 projects approved in FY10 and the first two quarters of FY11 were appropriate for incorporating a “poverty dimension”; 7 of these (54%) did so in their objectives and 4 (31%) incorporated poverty into the objectives and at least some of the indicators of the results framework. This is an improvement over the findings of the HNP evaluation (20 percent explicitly targeting the poor or having an equity objective, FY97-06), but short of the 80% target. Adoption of this sub-objective is rated medium.

c) “Increase support to reduce malnutrition among the poor, whether originating in the HNP sector or other sectors.”

The Action Plan committed to scale-up the Bank’s analytic and investment work and to leverage resources from other donors, by hiring 6 additional Bank nutrition staff, mobilization of additional trust fund money for nutrition from Japan and others; developing a Global Action Plan with key partners by FY10; and conducting 6-8 analytical and advisory activities or new investments in nutrition by FY11. Six additional staff have been hired for nutrition, one in headquarters and five in the regions; the Japanese trust fund for nutrition is operational; and the Nutrition Global Action Plan (“Scaling Up Nutrition”) was launched in April 2010. Six to eight new AAA or investments in nutrition are expected by FY11, only one has been completed (in Afghanistan) – no change since the previous MAR. There are numerous plans to scale up nutrition activities in the regions. One concern (not addressed in the action plan but part of the recommendation) is whether these activities to reduce malnutrition are sufficiently targeted to the poor; there is no information in management’s response regarding this point, and it would be worth examining for the next MAR. Overall adoption of this sub-recommendation remains high.

d) “Monitor health, nutrition, and population outcomes among the poor, however defined.”

The Action Plan commits to tracking health outcomes and coverage of interventions among the poor by publishing an annual review of health indicators among the poor, starting in FY10, with the responsibility in the HNP Hub. Management reports on the development of a comprehensive database on HNP outcomes and coverage by wealth quintile and additional tools and training. However, the evaluation’s recommendation was based on the fact that very few projects or countries were monitoring health outcomes among the poor – an issue for country teams and
operational staff, not a call for more analytic work at the center. Management’s original response to the HNP evaluation also acknowledged that point (p. 157): “Management agrees with the need to ensure that project design responds to the priorities and needs of the poor, and to measure the full impact of improved health services for the poor.” Management reports that all new operations in South Asia Region include indicators that track impact on the poor or marginalized groups; all of the four projects with explicit objectives to reach the poor noted above in 2b had incorporated at least some indicators of access or outcomes among the poor into the results. However, the gist of the recommendation is that outcomes should be measured among the poor as a good practice, whether or not it is explicit in the objectives. It would be useful if management could provide some statistics in this regard for next year’s MAR. Until then, there remains an important agenda in monitoring HNP outcomes among the poor in the lending portfolio. Adoption of this sub-recommendation is rated medium.

e) “Bring the health and nutrition of the poor and the links between high fertility, poor health, and poverty back into poverty assessments in countries where this has been neglected.”

The Action Plan committed to increase inclusion of HNP in poverty assessments, with the target of 90% of all poverty assessments and 40% of all CASs assessing the health status of the poor, beginning in FY10. Management notes that Poverty Assessments in Bosnia & Herzegovina, India, and Iraq, completed since the last MAR, had a dedicated chapter for health or for health and education together, out of a total of 5 that were completed ~60% of new poverty assessments, short of the 90% target. It isn’t clear to what extent high fertility is discussed in any of them, since none of the three are high-fertility countries. Of the 16 CASs and CPSs delivered in FY10, five (31%) include an objective, indicator, or target related to the health status of the poor in their results matrix. While these results fall short of the targets, there has been significant progress since the last MAR. Adoption is rated medium.

10.3 Strengthen the World Bank Group’s ability to help countries to improve the efficiency of their health systems: Substantial

a) “Better define the efficiency objectives of its support and how efficiency improvements will be improved and monitored.”

The Action Plan committed to expanding and making more explicit the PAD definition and discussion of efficiency objectives, measures, and monitoring framework, with 70% of HNP projects to include definition and analysis of improving sector efficiency, including discussion of the efficiency-equity trade-off beginning in FY10. It also committed to launch AAA tasks to review experience in improving health system efficiency. Among the 15 HNP projects approved since March 2010, only two had explicit objectives to improve efficiency (P095171, P113896) and two others had objectives that involved functions linked to efficiency (P074091, P116226) – 27%. There is no mention of the status of the proposed AAA to review experience in improving health system efficiency. Adoption of this sub-objective is rated medium.

b) “Carefully assess decisions to finance additional earmarked communicable disease activities in countries where other donors are contributing large amounts of earmarked disease funding and additional funds could result in distortion in allocations and inefficiencies in the rest of the health system.”

The Action Plan committed to coordinate proposals for new disease-specific programs with other partners, mapping all HNP projects with significant priority-disease components with contributions from other donors, and to ensure strengthening of health systems, starting in FY10. Management has provided substantial evidence of efforts to address the balance between earmarked disease funding and health systems development, taking into account support from other donors. Adoption of this sub-objective is rated substantial.

c) “Support improved health information systems and more frequent and vigorous evaluation of specific reforms or program innovations to provide timely information for improving efficiency and efficacy.”

The Action Plan committed to building statistical capacity in countries on priority HNP outcome indicators directly through Bank operations and/or supporting global partners’ country support, with half of new HNP projects to include strengthening of country M&E systems by FY10. It also advocated continuing to support the IHP+ efforts to strengthen M&E and health information systems, specifically developing a with global partners a strategy for global monitoring by FY09, and conducting assessments of health information systems in 10 countries by FY10. As noted in last year’s MAR, assessments of health information systems have been conducted in 80 countries (greatly exceeding the target), and under the IHP+ the global health partners have developed a common M&E framework. Twelve of the 15 new HNP projects include components to strengthen country M&E systems. The Action Plan itself does not respond to the intent of the sub-recommendation to ensure vigorous evaluation of specific reforms or
program innovations. Management notes that impact evaluations have been supported in a number of projects supporting results-based financing, but there is no specific information on the incorporation of more frequent and vigorous evaluation of specific reforms or innovations to improve management decisions around efficiency and efficacy. Adoption of this sub-recommendation is rated **substantial**.

10.4 Enhance the contribution of support from other sectors to health, nutrition, and population outcomes: **negligible**. The intent of the recommendation was to make other sectors accountable for HNP outcomes, but the Action Plan assigns accountability almost entirely to the HNP Sector. Management’s response has given many examples of collaboration by HNP staff with staff from other sectors. But the HNP evaluation advocated greater accountability and results from health investments of other sectors, and greater synergy between projects in different sectors in the field.

a) “When the benefits are potentially great in relation to the marginal costs, incorporate health objectives into non-health projects, for which they are accountable.”

*The Action Plan committed to provide incentives to non-HNP task team leaders to incorporate health objectives into non-health projects and to set up an intersectoral coordination thematic group for HNP results to identify constraints and incentives by FY10. The Action Plan had no targets with respect to health objectives in non-health projects, and did not suggest focusing on any particular sectors.*

A working group has been set up to address non-health sector inputs into health results and met for the first time in February 2011, including links with education, social protection, environment, transport, and water and sanitation. Under the new global nutrition strategy framework, teams from HNP, social protection, and agriculture and rural development are developing programmatic guidance on links between nutrition and agriculture/food security and social protection. Management’s response indicates many initiatives of cross-sectoral collaboration to support health objectives of projects managed by other sectors, but (as in the previous MAR) there is yet no evidence of an increase in the share of non-health projects (for example, water supply and sanitation projects) with explicit objectives to improve health outcomes. The adoption of this sub-recommendation is rated **medium**.

b) “Improve the complementarity of investment operations in health and other sectors to achieve health, nutrition, and population outcomes, particularly between health and water supply and sanitation.”

*The Action Plan committed to develop, implement, and manage an intersectoral coordination thematic group for HNP results (same as (4a) above) by FY10. An intersectoral coordination working group was just established and met for the first time in February 2011, and the results are not yet apparent. No evidence is provided of systematic efforts to improve complementarity of operations to improve HNP outcomes at the country level, particularly with water supply and sanitation. One exception is the Brazil Integrated Health and Water Management Project, which pulls together major investments in both health and access to safe water and sanitation in a single project to address childhood diarrhea and mortality. Adoption of this sub-recommendation is rated medium.*

c) “Prioritize sectoral participation in multisectoral HNP projects according to the comparative advantages and institutional mandates, to reduce complexity.”

*The Action Plan committed to invite other sectors’ participation to HNP project design reviews (for example, Quality Enhancement Reviews), where appropriate, for all HNP projects starting in FY10. Management reports that 5 of 8 QERs conducted to date in FY11 by the Hub had representation from other sectors. However, this recommendation is not about engaging more sectors in the design of HNP projects. Rather, it is about reducing the complexity of multisectoral HNP projects (projects involving more than one sectoral ministry in implementation) by prioritizing a smaller number of sectors that are strategically the most important. No information has been provided about efforts to reduce the complexity of multisectoral HNP projects. It would be sufficient to show, for example, that HNP projects in the countries with the least capacity have embraced fewer priority sectors. In the absence of information, adoption of this recommendation is rated negligible.*

d) “Identify new incentives for Bank staff to work cross-sectorally for improving HNP outcomes.”

*The Action Plan referred back to the incentives proposed to sub-recommendation 4a on the intersectoral committee. The recent formation of the intersectoral committee is noted. Management also notes that in the Latin America and Caribbean region, cross-sectoral work is positively rated in OPEs of HNP staff and there is evidence of strong support from HNP staff in LAC to projects in other sectors. The Africa region has launched a new multisectoral initiative on strengthening child development. It would be important to demonstrate in the next MAR the incentives for
staff in other sectors to address health outcomes in their projects. Adoption is rated medium.

e) “Develop mechanisms to ensure that the implementation and results for small health components retrofitted into projects are properly documented and evaluated.”

The Action Plan commits to monitor health results achieved by the portfolio managed by non-health sectors, with the target to track half of all HNP and non-HNP Sector Board operations, starting in FY10. As no evidence is presented on the monitoring on the non-health sector portfolio of health components, nor is there any information on efforts to ensure that these components are evaluated, adoption of this recommendation is rated negligible.

10.5 Implement the results agenda and improve governance by boosting investment in and incentives for evaluation. Specifically, the recommendation was to "create new incentives for monitoring and evaluation for both the Bank and the borrower linked to the project approval process and the midterm review. This would include requirements for baseline data, explicit evaluation designs for pilot activities in project appraisal documents, and periodic evaluation of main project activities as a management tool.”

The Action Plan commits to: (i) support impact evaluations of at least 15 HNP projects in FY 11 through the Spanish Impact Evaluation Trust Fund (SIEF); (ii) pilot and evaluate the impact of output- and performance-based financing for HNP-related projects/programs in 16 projects, with most loan proceeds for input-based finance; and (iii) introduce Results Frameworks targeting HNP outcomes, output, and system performance, reaching at least 70% of new projects approved by the Board beginning in FY09. No information is presented on the number of HNP projects in FY11 with impact evaluations financed by the SIEF. Country pilot grants were approved, financed by the Health Results Innovation Trust Fund, for Results-Based Financing in nine countries (against a target of 16), all of which are linked to a prospective, rigorous impact evaluation embedded in project design. All anchor-supported preparation and supervision QERs review the Results Framework and M&E arrangements, and involve the anchor’s M&E specialist or an M&E specialist panel member. It isn’t clear whether the target on Results frameworks (70% of new projects) has been achieved. While progress continues to be substantial, it is not known whether these important initiatives flagged in the Action Plan have changed the incentive structure for evaluation, which is the thrust of the recommendation. Results-based financing can generate incentives for monitoring; it remains to be seen whether it creates incentives for greater evaluation. Adoption of this recommendation is substantial.
11. GENDER AND DEVELOPMENT: AN EVALUATION OF WORLD BANK SUPPORT, 2002–08

LIST OF RECOMMENDATIONS

11.1 Foster greater clarity and better implementation of the Bank's gender policy, notably by—
   t. Establishing a results framework to facilitate consistent adoption of an outcome approach to gender integration in the Bank's work.
   u. Establishing and implementing a realistic action plan for completing or updating country-level diagnostics, giving primacy to countries with higher levels of gender inequality.
   v. Extending implementation of the 2007 GAP while formalizing and strengthening its policy basis. An alternative would be to reinstate and strengthen provisions along the lines of OMS 2.20 to restore a sector- and/or project-level entry point for gender.

11.2 Establish clear management accountability for the development and implementation of a system to monitor the extent to which Bank work adequately addresses gender-related concerns, including effective reporting mechanisms. The pivotal role of country directors needs to feature centrally in the accountability framework.

11.3 Strengthen the incentives for effective gender-related actions in client countries by continuing to provide incentive funding through the GAP to strengthen the collection, analysis, and dissemination of gender-disaggregated, gender-relevant data and statistics.

STATUS OF IMPLEMENTATION

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<th>Mgmt</th>
<th>IEG</th>
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MANAGEMENT RESPONSE 2011

11.1 Fostering greater clarity and better implementation of the Bank’s gender policy

Original Response: Management agrees that the implementation of the Bank’s gender policy needs improvement and will detail steps to be taken in the GAP transition plan to be presented to the Board in the fourth quarter of fiscal 2010. Management will also prepare and issue a guidance note to staff on the Bank’s gender policy framework.

Management notes that the Bank has a gender monitoring framework and reports regularly to senior management. Of course, it can be improved and made more results focused. The GAP transition plan will set out how the
Management sees the CAS as the link between diagnostics and implementation and as the right place to determine gender priorities in Bank support to all countries in which the Bank has an active program. As noted in the CAS Retrospective (World Bank 2009c), management will work to improve the treatment of gender in CASs and will further monitor that the gender assessment adequately informs the CAS, as required in the policy. Management will report on results in regular gender monitoring reports.

Management and IEG agree that the GAP is filling an implementation gap in the Bank’s gender policy framework. At the Board’s request, management is preparing a transition plan that will extend the gains of the GAP once it ends. The policy basis for the GAP and future action plans is fully adequate. The Bank’s relevant policies already determine project entry points for gender.

**Mar 2011:** Management welcomed IEG’s recommendation that the implementation of the Bank’s gender policy needs improvement. In response, Management identified a series of concrete steps in the GAP transition plan, “Applying Gender Action Plan Lessons: A Three-year Roadmap to Gender Mainstreaming (2011 – 2013),” presented to the Board in the fourth quarter of fiscal 10, to this end. The transition plan extends the implementation of the Gender Action Plan, while broadening its scope.

Internal to the World Bank Group, the transition plan identifies a specific results framework and proposes a set of additional tools to make WBG work more gender-responsive. External to the World Bank Group, it identifies priority interventions based on analysis of gender equality trends, with a particular emphasis on managing risk and vulnerability for women and girls resulting from aggregate shocks, and on harnessing demographic opportunities for economic growth through gender-related interventions. These priorities fully align with the World Bank Group’s Post-Crisis Directions.

During 2010, following IEG’s recommendation, Management prepared and issued a policy guidance note clarifying Management’s position that the Bank’s gender policy framework is wider than OP/BP 4.20 and that project-level entry points for integrating gender issues are triggered by a number of factors. This guidance note pulls together in one place the various strands of Bank policy with gender-relevance. It is aimed at fostering greater clarity and better implementation of the various Bank policies, procedures, good practices, guidelines and templates for routine Bank project preparation that are relevant for mainstreaming gender issues in the Bank’s work.

A set of expanded and operationally focused CAS guidelines have been developed to support compliance with OP4.20. They will be published following clearances from PREM and OPCS.

Management continues to monitor the treatment of gender in all CASs and report on progress in regular Gender Monitoring Reports, and will further monitor that the gender assessment adequately informs the CAS, as required in the policy. Starting in May 2010, meetings of the operational vice presidents (OVPs), chaired by a Managing Director (MD) have been held regularly to assess progress on implementing the Bank’s gender policy, including, amongst others, the commitments mentioned above, and to establish clearer management accountability for gender-related performance.

Further, Gender was made a Special Theme for the 16th replenishment of the International Development Association (IDA), including a commitment by Management that 100 percent of IDA CASs will draw on and discuss the findings of a gender assessment, to be supported by the issuance of a guidance note on the World Bank gender policy, training for staff on how to mainstream gender issues in CASs, and more robust corporate review of gender analysis of CASs by the PREM network. In IDA countries, for the implementation of IDA16 (FY11 – 13), Management has introduced an Action Plan on Gender Mainstreaming and Gender-Related MDGs, including

- Increasing gender-informed investments in line with World Bank president Robert Zoellick’s commitment, and monitoring progress through the addition of an indicator and a performance standard in the IDA16 RMS.
- Additional tracking indicators to measure IDA’s support to gender-based country outcomes.
- The preparation and implementation of Regional Gender Action Plans.
- Implementation of the Reproductive Health Action Plan with a focus on 52 priority countries with high maternal mortality and total fertility rates, including 25 countries in the Africa Region.
• The completion of the forthcoming Education Sector Strategy and the subsequent implementation of a program of action targeting gender issues in high priority countries.

Some of this work is ongoing, while other parts are scheduled to be launched during 2011. Progress on this Action Plan will be reviewed during the IDA16 Mid-Term Review.

11.2 Monitoring and Mgmt Accountability

Original Response: Management agrees with the recommendation to strengthen accountability for implementation of the Bank’s gender policy, including country directors and operational vice presidents. Management notes that it has monitoring systems in place, but agrees that further work is needed to improve their impact. Starting with the current fiscal year, management commits to an annual Managing Director–level discussion of the comprehensive annual progress report, drawing on inputs from operational vice presidencies.

Mar 2011: Management welcomed IEG’s recommendation. The Bank has had a gender monitoring framework and reported regularly to senior management on progress on the gender strategy, along with annual reports to the Board of the implementation of the Gender Action Plan (GAP). Nevertheless, management agreed with IEG that the monitoring system should be strengthened along with a need to establish clearer accountability.

Since then, the GAP Transition Plan has been presented to the Board containing a specific and time-bound set of quantitative performance targets and accompanying indicators for Bank deliverables in key sectors and Regions, which were defined in a process involving relevant sector boards and Region departments. This specific results framework helps ‘give teeth’ to efforts to strengthen management accountability. Progress on these performance targets and indicators is now being reviewed regularly during MD-level discussions. The first such meeting, with OVPs, was held during the first quarter of fiscal 11.

Since the IEG report, two MD-chaired discussions have been held to monitor progress and one, in January 2011, identified practical next steps and priority areas.

In addition, information on the number of project beneficiaries, disaggregated by sex, is now required for all International Development Association (IDA) investment projects that have an approval date of July 1, 2009, or later. The GAP Transition Plan, launching in January 2011, includes provisions for supporting Bank task teams in fulfilling this new requirement.

11.3 Incentive-funding for collection, analysis, and dissemination of gender-disaggregated data

Original Response: Management agrees that incentive funding continues to be needed for gender disaggregated data and statistics, but adds that transitional incentive funding for analytical and operational work has proven to be effective, as demonstrated by GAP results.

MAR 2011: Management agreed that incentive funding continues to be needed for sex-disaggregated data and statistics, and added that transitional incentive funding for analytical and operational work has proven effective, as demonstrated by GAP results. The GAP Transition Plan includes provisions for continued incentives-based funding for better results on gender-relevant statistics, as well as for analytical and operational work, including, importantly, gender-diagnostics in key ESW in targeted countries.

In addition, Management is in the process of establishing a task force (under minister-level supervision) with key government partners to create a roadmap for addressing a perennial issue for practitioners of gender and development: the lack of reliable and consistent data on women’s economic opportunity.
11.1 Fostering greater clarity and better implementation of the Bank’s gender policy: While IEG appreciates and notes several important steps that Management has taken, there is still a need to articulate a clear results framework for Bank support for gender and development in a manner that will “facilitate consistent adoption of an outcome approach to gender integration in the Bank’s work”. Currently, as reflected in the GAP Transition Plan, the results framework for gender equality is at best partial. There is also a need to ensure a policy basis for the GAP, namely for gender integration at the project-level.

11.2 Agreed.

11.3 Agreed.

LIST OF RECOMMENDATIONS

12.1 Work with clients and partners to ensure that critical water issues are adequately addressed.
- Seek ways to support those countries that face the greatest water stress. The mid-term strategy implementation review should suggest a way to package tailored measures to help the Bank and other donors work with these clients to address the most urgent needs, which will be far more challenging as water supply becomes increasingly constrained in arid areas.
- Ensure that projects pay adequate attention to conserving groundwater and ensuring that the quantity extracted is sustainable.
- Find effective ways to help countries address coastal management issues.
- Help countries strengthen attention to sanitation.

12.2 Strengthen the supply and use of data on water to better understand the linkages between water, economic development, and project achievement.
- In project appraisal documents, routinely quantify the benefits of wastewater treatment, health improvements, and environmental restoration.
- Support more frequent and more thorough water monitoring of all sorts in client countries, particularly the most vulnerable ones, and help ensure that countries treat monitoring data as a public good and make them broadly available.
- In the design of WRM projects that support hydrological and meteorological monitoring systems, pay close attention to stakeholder participation, maintenance, and the appropriate choice of monitoring equipment and facilities.
- Systematically analyze if environmental restoration will be essential for water-related objectives to be met in a particular setting.

12.3 Monitor demand-management approaches to identify the aspects that are working or not working and to build on these lessons of experience going forward.
- Clarify how to cover the cost of water service delivery in the absence of full cost recovery. To the extent that borrowers must cover the cost of water services out of general revenues, share the lessons of international experience with them so they can allocate partial costs most effectively.
- Identify ways to more effectively use fees and tariffs to reduce water consumption.
- Carefully monitor and evaluate the experience with quotas as a means to modulate agricultural water use.

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</table>
12.1 Work with clients and partners to ensure that critical water issues are adequately addressed:

Original Response: Ongoing/Agreed. Management agrees with the recommendation, which is at the core of the 2003 Water Resources Sector Strategy. The Bank has been responsive to government priorities on water in the most waterstressed countries and in those that will face problems in the future. Using a range of instruments (finance, knowledge, and reputation), the Bank has worked toward ensuring that its assistance adds value, especially vis-à-vis other development banks and donors. The Water Resources Sector Strategy Mid-Cycle Implementation Progress Report will highlight (i) how the World Bank has addressed client needs, differentiating by income group; (ii) the growing importance of addressing water issues at the river-basin level; (iii) areas of the 2003 strategy where the Bank has sequenced its approach, starting with studies, technical assistance, capacity building, and pilot projects to address complex issues, such as sustainable groundwater management and coastal management; and (iv) how the development community has been actively working toward meeting the sanitation MDG targets.

MAR 2011: The sector saw some realignment of the Bank’s portfolio and the identification of investment priorities, including multipurpose hydraulic development, water supply and sanitation and watershed management. The Mid Cycle Implementation Progress Report for the Water Resources Sector Strategy highlights how the World Bank has addressed client needs, the growing importance of addressing the water issues at the river–basin level and sequencing of approaches. While the Bank Group has engaged across the whole spectrum of clients, it has expanded its support to IDA countries significantly where water stress is greater. The bulk of the assistance for water has been directed towards those countries that rank highest on the water poverty index. The report illustrates progress made in aligning Country Assistance Strategies (CAS) and the Country Partnership Strategies (CSP) with the Sector Strategy on the principle of comprehensive water resource management. Comparing the last CAS/CPS with the previous CAS/CPS for each country, improved water resources management was the most common activity in the recent strategic documents in countries that are at the top of the water poverty index. In government owned Poverty Reduction Strategy Papers (PRSP), more attention has been devoted to water resources management, including stakeholder participation, water quality improvement, establishment of monitoring systems, ground water management and legal and institutional reforms. Country Water Resources Assistance Strategies (CWRAS) have been found effective instruments to support a dialogue with client countries on water issues as the instrument analytically pinpoints the country’s water challenges and opportunities and set those challenges and opportunities within a framework in a long-term context, together with political, economic and social constraints. The Bank continues to promote their use. As a result, lending to the water sector has increased substantially because of an improved understanding of the sector. Integration between water resources management and sectors is still a work in progress though CWRAS have been able to mobilize intra-sectoral cooperation with the Bank quite effectively. Most recently, the WBG has been engaging to assess options to reduce the gap between water availability and use by involving all stakeholders in order to support government transformation programs. The IFC - McKinsey Report identified supply-side and demand-side measures to close the water resource gap more effectively and formed the base to engage with several countries to develop the transformation programs. The Bank is looking at ways this approach can be applied in specific countries to support policy or lending programs of key strategic importance. The sustainability of the resource base is being discussed and incorporated in more Bank operations. Furthermore, the Bank is now embarking in the formulation of a strategic approach to ensure that water management and the provision of services are clearly aligned and that water service operations include proper management strategies. Support to the incorporation of proper groundwater activities in Bank loans is continuing primarily through the expert support team coordinated by the Water Anchor. WSP has played a pivotal role by bringing the development community in piloting and testing at scale the most effective approaches to sanitation and supporting national and local governments towards meeting the sanitation MDG targets. The Bank is also continuing to promote basic sanitation through the support of the Water Partnership Program and the expert support team on sanitation.

12.2 Strengthen the supply and use of data on water to better understand the linkages between water, economic development, and project achievement:

Original Response: Ongoing/Agreed. Management agrees with the recommendation, and the principle that more and better data would help to support efforts to improve the performance and accountability of the water sector, the results of Bank-financed water projects, and the impact of alternative water policies. Several global initiatives are
under way (for example, IBNET, Hydrological Expert Facility), and efforts are ongoing as part of the standard evaluation analysis of projects to quantify the costs and benefits (and externalities). Better management and use of data will take place when the investment lending reforms are implemented.

More specifically:

• The Water Anchor will develop further core indicators for water projects (for example, sanitation/sewage, irrigation/drainage).

• Regions will pilot new approaches to take advantage of new sources of information (such as remote sensing), tackling these with existing data sources.

• Regions will scale up projects, building detailed information systems and benchmarking systems.

• The Water Anchor and Water Sanitation Program will conduct an impact evaluation of sanitation and hygiene interventions at scale in achieving health and income outcomes.

• As part of the development impact evaluation initiative, in collaboration with the Development Economics Department, the water sector will conduct further impact evaluations on health impacts of water and wastewater interventions. The Water Resources Sector Strategy Mid-Cycle Implementation Progress Report will outline how progress toward strengthening the supply and use of data will be monitored.

Mar 2011: The Water Resources Sector Strategy Mid Cycle Implementation Progress Report highlights that water has been among the four sectors that have spearheaded the effort to define Core Sector Indicators to strengthen results based decision making in Bank projects. To monitor progress in implementing the Water Resources Sector Strategy, a new Results Framework for the Water Resources Strategy, FY 10-13 has been developed incorporating country level indicators, WBG activities and outputs. The Water Anchor has developed core indicators for water projects and these indicators are being implemented for IDA projects in water supply as well for sanitation. A Guidance Note on irrigation and drainage core indicators prepared and has been virtually reviewed and approved by the Water and the Agriculture and Rural Sector Boards for both IDA and IBRD operations. The next step will be the release by OPCS. Efforts are underway in preparing new environment and energy strategies to develop core indicators that are relevant to the water practice (for eg. water quality, coastal zone management, and ground water). Regions are working on comprehensive monitoring systems combing latest remote sensing data with models and ground based monitoring data in projects. On December 10, the Water and Sanitation Program (WSP—a multi-donor partnership operating in 25 countries and with Regional offices, including in Washington, D.C.) and the Water Anchor published the IBNET (International Benchmarking Network) Blue Book, a database that covers performance of more than 300 utilities from 110 countries and updates are ongoing constantly. Two World Bank projects under implementation already have IBNET as an official tool for monitoring the performance of utilities. WSP and the Water Anchor are developing tools for energy efficiency and a water utility vulnerability index on the basis of IBNET. WSP has conducted 31 Country Sector Overviews (CSO) for African Countries. The Water Resources Sector Strategy Mid-Cycle Implementation Progress Report states that impact evaluations may yield useful information on the impact of water investments; however clients have been reluctant to include them in projects, placing more emphasis on borrowing to meet access needs. In response, the Water Anchor is organizing with SDN and HDN a series of capacity building exercises geared to Bank TTLs and client countries to ensure that more projects have activities to gather data and evaluate impacts. The first of these training events will take place in April of 2011. The sector is actively engaged in the Bank’s Development Impact Evaluation Initiative with a number of studies looking at health impacts of water and wastewater interventions. WSP has an ongoing state of the art project on measuring the health impact from improved rural sanitation and hand washing in 6 countries (Peru, Senegal, Tanzania, India, Indonesia and Vietnam). The baseline data collection and analysis have been completed and end-line data collection is expected to be completed in this FY. The Economic Sanitation Initiative (ESI) analyzing economic cost of lack of sanitation has been recently published for India and two more country reports (Bangladesh and Pakistan) are underway.

12.3 Monitor demand –management approaches to identify the aspects that are working or not working and to build on these lessons of experience going forward:
Original Response: Ongoing/Agreed.

- Regions and the Water Anchor will examine financing of services delivery as part of Public Expenditure Reviews and other country-specific economic and sector work.

- The Water Anchor and Regions will conduct a study on lessons learned about government payment for water services.

- Regions will continue to explore fees, tariffs, and other options (metering, water rights, and the like) for demand management in Bank projects.

- Regions will pilot evapotranspiration (ET)-based rights and community-based approaches to water resource management. A key priority of the Thematic Group on Water Resource Management, with the support of the Water Anchor, will be to document lessons learned on demand-management approaches.

MAR 2011: As a response to the IEG exercise, the Anchor prepared a cost recovery note, particularly addressing the water supply and sanitation and irrigation sectors. In addition to this, the Water Anchor is preparing an ESW report template on cost recovery in the water practice as a FY11 delivery. The work will present a systematic approach to assessing and documenting the current situation in the water practice (actual expenditure, revenues and subsidies); the minimum requirement for financial/physical sustainability (required expenditures under current management; achievable revenues under present tariffs and required subsidies); and the desired future scenario (required expenditures under efficient management; tariff structures to promote better water use and achieve social objectives). The approach will be applicable individually to the major water-using sectors (WSS, irrigation) as well as across sectors for multi-purpose schemes. Water Public Expenditure Reviews (PERs) are increasingly used as an instrument to engage clients on the allocation of fiscal resources and financing water services. The Water Anchor is producing a Knowledge Product on PERs for delivery in FY11. The goal of the project is to increase knowledge of key issues in public expenditure in the WSS sector by analyzing the existing coverage, quality, and results of World Bank led PERs in the Water and Sanitation Sector in proceeding years. The mapping will include stand-alone WSS Sector PER as well as sector analysis within Public Expenditure Reviews.

IEG RESPONSE 2010

12.1 Work with clients and partners to ensure that critical water issues are adequately addressed.

IEG agrees that the Mid-cycle Implementation Progress Report for Water Resources Sector Strategy has highlighted many of the critical water issues. IEG has the following comments on the status of implementation with regards to the list of recommendations provided in the Water Evaluation.

- The report discusses that the Bank Group is providing more support to IDA countries where water stress is greater compared to the countries that are least water poor, however, the IEG water evaluation has shown that during the same evaluation period the most water stressed countries have not received sufficient attention. More evidence should therefore be provided on the tailored measures to help the Bank and other donors work with the water stressed clients to address the most urgent needs.

- The report describes how the Country Water Resources Assistance Strategies and other sector work have been instrumental in improving the knowledge of water resources management in many countries. More evidence needs to be provided on the actions that have been taken to ensure that projects pay adequate attention to conserving groundwater and that the quantity extracted is sustainable.

- Similarly, more evidence is required on the effective ways to help countries address coastal management issues.

- IEG welcomes the increasing focus placed in ongoing projects to scale up access to improved sanitation through WSP and trust funds. Despite such interventions, the challenge of meeting the MDG targets on sanitation remains. More attention needs to be given to scale up the tested pilots across Bank supported water projects.

IEG rates the level of adoption as Medium.
12.2 Strengthen the supply and use of data on water to better understand the linkages between water, economic development, and project achievement.

- IEG welcomes the key actions taken by the management in strengthening the supply and use of data on water, including the definition of the core indicators for water projects through the work done by the water anchor, guidance notes, and new environment and energy strategies to cover all the sub sector indicators. IEG however seeks to understand what actions have been taken to routinely quantify the benefits of wastewater treatment, health improvements, and environmental restoration in project appraisal documents.
- Recent publication of the IBNET Blue Book and related benchmarking exercises would contribute to the improvements in utility data collection, comparison, and execution of other analytical work by WSP and the Water Anchor. IEG welcomes this and other initiatives taken by the Anchor and the regions to develop and define water monitoring indicators. More evidence would be required on helping the countries to treat the collected monitoring data as a public good and making them broadly available.
- Similarly, more evidence would be required on how WRM projects that support hydrological and meteorological monitoring systems are paying close attention to stakeholder participation, maintenance, and the appropriate choice of monitoring equipment and facilities.
- IEG acknowledges that impact evaluation of water investments have been difficult as the clients place more emphasis on borrowing to meet access needs, and welcomes the Water Anchor’s plan to organize capacity building exercises for the TTLs and client countries, starting in April 2011.
- Collaboration with the Development Economics Department and WSP are welcome to conduct further impact evaluations on health impacts of water, wastewater, and sanitation interventions.
- More information from the region would be required to assess whether a systematic analysis or monitoring has been adopted in the client countries of e.g. the need for environmental restoration.

IEG rates the level of adoption as Medium.

12.3 Monitor demand—management approaches to identify the aspects that are working or not working and to build on these lessons of experience going forward.

- IEG welcomes the Anchor’s cost recovery note, as well as the ongoing work on developing a template on cost recovery in the water practice.
- IEG agrees that the increasing number of water PERs would serve as a useful tool for the clients in allocating the required budget for the sector, and welcomes the ongoing knowledge product on water PERs.
- Updates on the following activities have not been included in the MAR: (i) The Water Anchor and Regions had agreed to conduct a study on lessons learned about government payment for water services; (ii) Regions agreed to continue to explore fees, tariffs, and other options (metering, water rights, and the like) for demand management in Bank projects; and (iii) Regions would pilot evapotranspiration (ET)-based rights and community-based approaches to water resource management. A key priority of the Thematic Group on Water Resource Management, with the support of the Water Anchor, would be to document lessons learned on demand-management approaches.

IEG rates the level of adoption as Medium.
13. POVERTY REDUCTION SUPPORT CREDITS: AN EVALUATION OF WORLD BANK SUPPORT

LIST OF RECOMMENDATIONS

13.1 Phase out the PRSC as a separate brand name for development policy lending or clarify when it is appropriate to use it.
- Convergence in the design and content of PRSCs and other development policy lending suggests that there is no rationale for the separate existence of the PRSC today. However, there are also implicit criteria backing the PRSC brand name. If the PRSC brand name is seen to still be important, clear guidelines (which are currently lacking) and criteria for eligibility should be spelled out and applied.

13.2 Simplify the language of conditionality for PRSCs/DPLs by eliminating the term “triggers” and by transferring program benchmarks to the monitoring framework
- In line with its use of the term “prior actions,” the Bank could further simplify its lending framework by dispensing with the term “triggers” and substituting the term “indicative prior actions for future lending.” Lending would then be based simply on prior actions already achieved and indicative prior actions for future lending. This would exhibit greater flexibility and improve understanding. To clearly delineate legally binding conditions from program benchmarks, which are still referred to as binding and nonbinding conditions by clients and others in the aid community, program benchmarks should be removed from the policy matrix/Performance Assessment Framework and, instead, combined with the program monitoring framework.

13.3 Enable more effective participation of the Bank in a multidonor budget support lending framework by better synchronizing Bank internal process with donor processes.
- At present, Bank financial commitment to support, in a multidonor framework, must sometimes be made before the Bank’s internal review of the PRSC. This can limit the Bank’s substantive contributions and comments on program content. Synchronizing the Bank’s internal processing schedule with country and donor processes would ensure Bank input in PRSC/DPL formulation.

13.4 Underpin operations with comprehensive diagnostics
- PRSCs (and DPLs) should reflect country-specific growth diagnostics, which are undertaken based on analytic underpinnings that identify an overall growth strategy reflecting the linkages among growth, poverty-reduction, and broader social development.

13.5 Strengthen PRSC/DPL results frameworks and link them with the underlying PRS / national development strategy and increase their poverty focus.
- Results frameworks of PRSCs should be consistently linked to those in the PRS or national development strategy and its annual reviews, and simplified to a small set of core outcomes. Adequate baseline and intermediate indicators and pro-poor results indicators should be required and built on country monitoring systems to the extent feasible.

13.6 Focus sector content in policy loans on high level or cross-cutting issues.
- PRSC/DPL sector content should focus on areas where it has been consistently effective: cross-sectoral or central ministry issues critical to facilitating key sectoral reforms and strengthening sector budget processes. Complementary parallel sector lending, linked to PRSC/DPL, remains necessary to address detailed technical issues and facilitate program ownership by line ministries.
**Status of Implementation**

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<thead>
<tr>
<th>Recommendations</th>
<th>Level of Adoption</th>
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<tr>
<td>13.1 Phase out the PRSC as a separate brand name for development policy lending or clarify when it is appropriate to use it.</td>
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<tr>
<td>13.2 Simplify the language of conditionality for PRSCs/DPLs by eliminating the term “triggers” and by transferring program benchmarks to the monitoring framework</td>
<td>Difference of Opinion/ Not tracked</td>
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<tr>
<td>13.3 Enable more effective participation of the Bank in a multidonor budget support lending framework by better synchronizing Bank internal process with donor processes.</td>
<td>Substantial</td>
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<tr>
<td>13.4 Underpin operations with comprehensive diagnostics</td>
<td>High</td>
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<tr>
<td>13.5 Strengthen PRSC/ DPL results frameworks and link them with the underlying PRS / national development strategy and increase their poverty focus.</td>
<td>High</td>
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<tr>
<td>13.6 Focus sector content in policy loans on high level or cross-cutting issues.</td>
<td>High</td>
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**Management Response 2011**

13.1 **Original Response:** Agreed. All operational policy and guidance on development policy lending were unified with the introduction of OP/BP 8.60 in 2004. OP/BP 8.60 and operational guidance do not list PRSCs as a separate option. Since 2004, therefore, PRSCs have not had a separate existence. Poverty Reduction Support Credit (or Grant) is simply a title given to operations, usually programmatic, to signal their alignment with a PRSP. Management will emphasize this in training activities and guidance to staff to eliminate any remaining misunderstandings on this matter. Management is not prepared to object, however, if a government wants to call the development policy operation that it receives from the World Bank a PRSC. Management considers this action complete, as subsequent to the evaluation we have clarified this in DPO guidance.

**MAR 2011:** As indicated in the Management Response, all operational policy and guidance on development policy lending were unified with the introduction of OP/BP 8.60 and operational guidance do not list PRSCs as a separate option. Since 2004, therefore, PRSCs have not had a separate existence. Management has revised its guidance on DPOs to eliminate any remaining misunderstandings on this matter and clarify that a Poverty Reduction Support Credit (or Grant) is a title given to an operation, usually programmatic, to signal their alignment with a PRSP.

13.2 **Difference of Opinion/ Not tracked**

13.3 **Original Response:** Agreed in principle. More effective participation of the Bank in multidonor budget support (MDBS) groups would be valuable in helping countries achieve their development goals. Management agrees that it would be optimal to achieve such synchronization. However, MDBS lending frameworks are prepared and implemented in tandem with other development partners, and there can be tradeoffs and limits to Management’s ability to commit to a particular operation in the absence of Senior Management and Board approval. As indicated in the 2009 DPL Retrospective, Management agrees to review its experience with MDBS frameworks and derive lessons from these collaborative engagements and to use these lessons to identify ways to do better in the future. This action will be completed when the proposed review of experience with MDBS frameworks agreed to in the DPL Retrospective has been concluded and lessons disseminated.

**MAR 2011:** Management has agreed in principle with this recommendation. Management agrees that it would be optimal to achieve such synchronization and most programmatic DPOs to IDA countries in the Africa Region are embedded in a MDBS lending framework. However, full synchronization is not always possible or feasible as
MDBS lending frameworks are prepared and implemented in tandem with other development partners, and there can be tradeoffs and limits to Management’s ability to commit to a particular operation in the absence of Senior Management and Board approval. As indicated in the 2009 DPL Retrospective, Management agrees to review its experience with MDBS frameworks and derive lessons from these collaborative engagements and to use these lessons to identify ways to do better in the future. This action will be completed when the proposed review of experience with MDBS frameworks agreed to in the DPL Retrospective has been concluded and lessons disseminated.

13.4 Original Response: Agreed. As discussed in the 2009 DPL Retrospective, Management fully agrees that the policy and institutional actions supported by a DPO should be underpinned by comprehensive analytic work. However, Management would like to note that diagnostic work needs to be related to the content of the operation. For example, a DPO that focuses on the health sector should be underpinned by comprehensive analytic work on health. Management will monitor and report on progress in strengthening the diagnostic underpinning of DPLs in the context of its periodic DPL Retrospectives.

MAR 2011: Management agreed with this recommendation and considers that it has been completed. As highlighted in the 2009 DPL Retrospective, the policy and institutional actions supported by a DPO should be underpinned by comprehensive analytic work that needs to be related to the content of the operation. Guidance to staff has been revised to clarify how to explain the extent to which analytic work has informed the design and the content of a DPO. Furthermore, Management has agreed to continue monitoring and reporting on progress in strengthening the diagnostic underpinning of DPOs in the context of its periodic DPL Retrospectives.

13.5 Original Response: Agreed. As discussed in the 2009 DPL Retrospective, DPOs have become increasingly results focused, but there is scope for further improvement in their results frameworks. Management agrees with the recommendation to strengthen DPL results frameworks with the adequate use of baseline and results indicators that are linked to the actions supported by the operation. Management notes, however, that the results frameworks of DPOs need to be more specific than those prepared for a PRSP or a national development strategy. In the context of its 2009 DPL Retrospective, Management has agreed to update guidance to staff on how to design results frameworks. This action will be considered completed when the revised guidance to staff agreed to in the DPL Retrospective has been completed and disseminated.

MAR 2011: Management agreed with this recommendation and considers that it has been completed. As indicated in the Management Response, Management agreed to undertake this recommendation by updating its guidance to staff on how to design results frameworks. A revised Good Practice Note on Results in Development Policy Lending reflecting the findings of the 2009 DPL Retrospective has been posted in OPCS’s website.

13.6 Original Response: Agreed. Management agrees with this recommendation to focus sector content of DPOs on areas that can enhance the effectiveness of the reforms supported by the Bank and with the provision of parallel sector lending necessary to address specific sector issues that cannot be addressed by the DPL instrument in isolation. Management will continue to monitor the content of DPOs in the context of its periodic DPL Retrospectives.

MAR 2011: Management agreed with this recommendation and considers that it has been completed. Management has reviewed the experience with sector-specific DPOs in its 2009 DPL Retrospective which concluded that DPOs with sector-specific content support policy and institutional actions considered necessary to address specific sector issues to enhance the effectiveness of the reforms supported by the Bank. Management has agreed to continue to monitor the content of DPOs in the context of its periodic DPL Retrospectives.
13.1 Phase out the PRSC as a separate brand name for development policy lending or clarify when it is appropriate to use it.

- Convergence in the design and content of PRSCs and other development policy lending suggests that there is no rationale for the separate existence of the PRSC today. However, there are also implicit criteria backing the PRSC brand name. If the PRSC brand name is seen to still be important, clear guidelines (which are currently lacking) and criteria for eligibility should be spelled out and applied.

**Level of Adoption: Substantial.** IEG considers that there has been progress towards the clarification of what PRSCs are, reflecting their programmatic nature and links to a PRSP. Current guidelines (2010-11-18) state that “Programmatic development policy operations in IDA-eligible countries that support the implementation of a country's Poverty Reduction Strategy (PRS) are called poverty reduction support operations (credits or grants)”. Management has stated that in two recent training activities: Nuts and Bolts, and Customization of DPOs, guidance has been given to staff to emphasize this. The OPCS website points out that the PRSC is a title given to programmatic development policy operations in IDA-eligible countries that support the implementation of a Poverty Reduction Strategy.

The revised wording does not comment on other implicit attributes of PRSCs that have been associated with the ‘brand name’: their orientation towards better performing countries, their broad scope, the focus on social sectors and poverty related issues. It is to be noted that the notion of a PRSC as being a part of a programmatic series reserved for better performing countries and signaling long term Bank support and engagement still remains. It has a signaling content not only within the Bank but also to external audiences. Changing the practice within the institutions as well as changing external perceptions is a difficult process though the need for such a more broad based concept of response to the recommendation should be kept in mind. If PRSCs are now indistinguishable from other DPLs, evidence of this, comparing recent PRSCs with other DPLs from management would be welcome.

13.2 Difference of Opinion/ Not tracked

13.3 Enable more effective participation of the Bank in a multi-donor budget support (MDBS) lending framework by better synchronizing Bank internal process with donor processes.

- At present, Bank financial commitment to support, in a multi-donor framework, must sometimes be made before the Bank’s internal review of the PRSC. This can limit the Bank’s substantive contributions and comments on program content. Synchronizing the Bank’s internal processing schedule with country and donor processes would ensure Bank input in PRSC/DPL formulation.

**Level of Adoption: Negligible.** Management response for the MAR 2011 is no different from the original response. There is no reported progress, conclusion or dissemination of the review of Bank experience with MDBS frameworks, which Management has flagged is a prerequisite to the adoption of specific steps in this direction. An update on progress is requested. However IEG notes that challenges in MDBS frameworks are noted and discussed in the 2009 DPL Retrospective.

13.4 Underpin operations with comprehensive diagnostics

- PRSCs (and DPLs) should reflect country-specific growth diagnostics, which are undertaken based on analytic underpinnings that identify an overall growth strategy reflecting the linkages among growth, poverty-reduction, and broader social development.

**Level of Adoption: Medium.** The 2009 DPL retrospective indeed highlights the need for a comprehensive analytical underpinning of a DPL, IEG notes that the 2009 DPL Retrospective describes the need for an appropriate macroeconomic framework and spells out its core elements. Management notes also that guidance to staff has been revised to clarify how to explain the extent to which analytic work has informed the design and the content of a DPO. If there are additional Guidance documents to staff on the analytical framework for a DPL they are requested.

There is also a need to demonstrate the results; i.e. the extent to which there is a real improvement in the macroeconomic framework or analytical underpinning since the revision of guidance. In the absence of such
evidence it is difficult to judge the outcome.

13.5 Strengthen PRSC/DPL results frameworks and link them with the underlying PRS/national development strategy and increase their poverty focus.

- Results frameworks of PRSCs should be consistently linked to those in the PRS or national development strategy and its annual reviews, and simplified to a small set of core outcomes. Adequate baseline and intermediate indicators and pro-poor results indicators should be required and built on country monitoring systems to the extent feasible.

**Level of Adoption: Medium.** IEG notes that Management has stated that it has revised its guidance to staff on how to design results frameworks, and affirms that the following document has been issued: GOOD PRACTICE NOTE FOR DEVELOPMENT POLICY LENDING - RESULTS IN DEVELOPMENT POLICY LENDING; issued in January 2011. IEG points out however that what is needed is a demonstration of achievement of better results frameworks, and that revised guidance is just a first step towards this. An assessment of achievement can be incorporated in the upcoming DPL Retrospective.

13.6 Focus sector content in policy loans on high level or cross-cutting issues.

- PRSC/DPL sector content should focus on areas where it has been consistently effective: cross-sectoral or central ministry issues critical to facilitating key sectoral reforms and strengthening sector budget processes. Complementary parallel sector lending, linked to PRSC/DPL, remains necessary to address detailed technical issues and facilitate program ownership by line ministries.

**Level of Adoption: Medium.** While Management has indeed included a review of sector specific content of DPLs in its 2009 DPL Retrospective, IEG does not perceive a discussion of the need for, or consideration of, a focus on high level or cross-cutting issues with regard to sectors, in broad based DPLs.
WORLD BANK IMPLEMENTATION REPORT 2011
14. COUNTRY FINANCIAL ACCOUNTABILITY ASSESSMENTS AND COUNTRY PROCUREMENT ASSESSMENT REPORTS: HOW EFFECTIVE ARE WORLD BANK FIDUCIARY DIAGNOSTICS?

LIST OF RECOMMENDATIONS

14.1 Gear CFAAs and CPARs more directly to the fiduciary goal
- Agree on a common definition of "fiduciary risk that would be applied consistently in all PFM diagnostic instruments.
- Develop a comprehensive and integrated risk analytical framework that would include a standardized methodology for aggregating country-level PFM risks; and
- Guide staff on how risk assessments should influence the design of Bank assistance both at the project and program level, and revise guidelines as needed.

14.2 Enhance the quality of the diagnostics.
- Issue revised guidelines jointly prepared by the three sector boards on undertaking integrated diagnostics; and
- Develop and implement an integrated training program for staff from all three Networks on implementing the "Strengthened Approach".

14.3 Improve the outcome and impact of fiduciary work and associated outcomes.
- Ensure that the Bank supports clients in preparing a single integrated, prioritized, costed, and monitorable set of actions within an agreed framework for PFM reform even though the diagnosis may be undertaken using multiple instruments.

STATUS OF IMPLEMENTATION

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<th>Level of Adoption</th>
<th>Status Rating</th>
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<td>IEG</td>
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<td>14.1 Gear CFAAs and CPARs more directly to the fiduciary goal</td>
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<td>14.3 Improve the outcome and impact of fiduciary work and associated outcomes.</td>
<td>Substantial</td>
<td>Medium</td>
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MANAGEMENT RESPONSE 2011

14.1 Original Response Mostly Agreed In Management’s view, the Bank’s operational policies and guidelines provide sufficient guidance to staff on taking into account country PFM performance and fiduciary risks in decisions on and design of development policy operations and investment lending (see OP 8.60, Development Policy Lending; “Good Practice Note: Financial Management Issues in Development Policy Operations,” “FM Practices Manual,” and “Revised Instruction for Carrying out Assessment of Agency’s Capacity Assessment to Implement Procurement, Setting of Prior-Review Thresholds and Procurement Supervision Plan”). The integrated approach to PFM work and use of the PFM performance measurement indicators help provide a holistic view of country PFM performance and risk, covering all dimensions of the PFM system. Management suggests that the emphasis now should be on further operationalizing these measures, including providing further guidance to staff on assessing fiduciary risks in the use of country PFM systems in Bank-supported operations Management will consider its agreed actions to be complete with the issuance of updated guidance to staff on assessing fiduciary risks in the use of country PFM systems in Bank-supported operations.

MAR 2011. As stated in the 2010 Management Response, the Financial Management (FM) Sector Board has issued Interim Staff Guidelines for assessing fiduciary risks in the use of country FM systems in investment lending operations.
events for multilateral development banks (December 2005 and December 2006). More training programs are planned for bilateral donors (September 2005; June and November 2006; January, May, October and November 2007) and training on the “strengthened approach” delivered in collaboration with the PEFA program have included workshops for Bank staff and other development partners on the PFM performance measurement framework and the “strengthened approach,” in addition to the Bank’s regular core PFM courses that focus on PFM concepts, applications, and cases. The forthcoming Fiduciary Forum will devote a substantial time to PFM learning. Management will consider its agreed actions to be complete with the issuance of updated guidance to staff on CPAR preparation, and the continued implementation of the learning program for staff. Management will report on the state of its PFM work in its Annual Reports to the Audit Committee.

MAR 2011: A joint memorandum for staff was issued on July 25, 2005, that endorsed the use of integrated PFM work and the use of the PEFA Framework and strengthened approach. Further guidance on implementation of this memo has not been seen as necessary. Training on the PEFA tools and the strengthened approach are jointly delivered on a regular and on-going basis.

FM, Procurement, and PREM share membership on each other’s Sector Boards. The FM and Procurement anchor units are under the same Director in OPCS who also chairs joint sector board meetings. All of these provide the basis for strong coordination, especially on activities that benefit from such coordination. In addition, the two sector boards (FM and Procurement) organize a joint Fiduciary Forum every two years. The last Fiduciary Forum was held in March 2010. The Fiduciary Forum included joint plenary sessions dealing with common issues before the FM and Procurement anchor units. The joint work on the ORAF (mentioned in 1.1) strongly evidences the true collaboration between the FM and Procurement sectors and the sector/country teams, not only at the project level but also at the sector and country levels.

14.3 Original Response: Ongoing/Agreed. Building on the investment over the past few years, Management has taken steps to strengthen the Bank’s PFM work, emphasizing (a) country ownership of PFM reforms; (b) prioritizing and sequencing of PFM reforms; (c) better measurement and monitoring of PFM performance and progress using the PFM Performance Measurement Framework developed by the PEFA partnership program; (d) coordinated work by the three Bank operational teams (FM, PR, and PREM-Public Sector Governance); and (e) coordination with other development partners (see “Strengthening the Bank’s PFM Work,” July 25, 2005, Memorandum issued by the Vice Presidents of the PREM and OPCS Networks). These measures are being implemented. Management will continue to emphasize these aspects, thus helping improve the outcome and impact of the Bank’s PFM work. Management notes that this is a continuing, longer-term effort and will consider it complete when the “strengthened approach to PFM work” is followed in a majority of active countries. Management will report on the state of its PFM work in its Annual Reports to the Audit Committee. The Annual Reports for FY07 include capacity building as a follow-up to CFAAs and CPARs as a central theme.

MAR 2011: After the mainstreaming of the PEFA framework among key donors, including the Bank, there are increasing efforts in helping partner countries prepare a single integrated action plan of PFM reforms, which then becomes the basis for donor support. These central principles were clearly articulated in the above-cited joint VP memo to staff. However, as the focus of our work at the country level differs, each sector manages the development of tools it uses to determine risk associated with the work in the sectors. We have all come together in the PE Working Group that sup-
ports the PEFA tool and work closely when applying the indicators at the country level. For procurement, the OECD/DAC benchmarking tool has become an integral part of the CPAR, allowing countries to prepare a single action plan and better integration of procurement findings with PSM issues. This has been further emphasized in the methodology developed for selecting pilot countries in the UCS procurement piloting program. The assessments and action plans cover issues not only related to procurement but also issues related to inter alia, financial governance, budget preparation, internal and external controls and contract management within the broader public sector and governance frameworks. Wherever feasible, the Bank is encouraging Integrated Fiduciary Assessment (IFAs) pairing Financial Management and Procurement as one of the customized diagnostics being used at the country level.

**IEG Response 2011**

14.1 Agreed. However, the ORAF is at the project level.

14.2 The continued utilization of individual diagnostics such as the CFAA and the CPAR calls for continued vigilance in undertaking such diagnostics within an integrated PFM framework. Thus, the need for integrated guidance remains. However, this recommendation is retired.

14.3 Previously, Management had noted that “this is a continuing, longer-term effort and [that Management] will consider it complete when the “strengthened approach to PFM work” is followed in a majority of active countries.” It would be helpful if the explanation could provide more evidence that the strengthened approach is indeed being followed in the majority of the countries. For example, how many IFAs have been prepared?
15. A DECADE OF ACTION IN TRANSPORT: AN EVALUATION OF WORLD BANK ASSISTANCE TO THE TRANSPORT SECTOR, 1995-2005

LIST OF RECOMMENDATIONS

15.1 Ensure that the focus of the Bank’s transport operations goes beyond intercity highways and gives more attention to issues of growing urgency, including environmental damages, energy efficiency and climate change, traffic congestion, safety, affordability, and trade. This could entail a trade-off between a portion of the traditional highway business and the newer, more complex challenges.

15.2 Prepare a Bank Group transport strategy with a sixfold emphasis:
   - Greater attention to air and water pollution and realizing environmental gains;
   - Achieving greater synergies across relevant sectors—building on the merging of the Bank’s ESSD and Infrastructure Networks;
   - Enhancing knowledge sharing and analytical and advisory services and their contribution to country strategies;
   - Continuing to support private sector participation through close coordination among the Bank, IFC, and MIGA;
   - Increasing attention to governance and corruption issues; and
   - Redeploying staff and budget resources accordingly.

15.3 Build up the sector’s monitoring and evaluation efforts and align them with the new strategy:
   - The development over the next year of relevant intermediate indicators applicable to the broad range of projects;
   - The launching of an enhanced program of rigorous impact evaluations for selected programs;
   - A comprehensive self-evaluation of the experience with SWApS within 3 years; and
   - An independent overview of the SSATP Program within 2 years.

STATUS OF IMPLEMENTATION

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MANAGEMENT RESPONSE 2011
15.1 Original Response: Management agrees with the recommendation and its implication, which is at the core of the transport strategy update now being finalized under the title Safe, Clean, and Affordable Transport for Development. This implies specific enhancements to sector activities to promote increased road safety and appropriate policy response to linkages among transport, energy efficiency, vehicle emissions, short-term public health impacts, and long-term greenhouse gas outcomes, and to overcome physical or service quality transport bottlenecks to regional and international trade in goods and services. However, this evolution, already under way, should not be at the expense of support for high-return and in-demand highway operations.

MAR 2011: While the sector saw some rebalancing between modes in FY08, with roads & highways coming down to 57%, FY09 showed a return of the prominence of the road sub-sector, largely the consequence of the Kazakhstan Roads project, the largest-ever loan made by the Bank in Transport at $2.2 billion, which was by itself 35% of FY09 total transport lending. But the robustness of the rebalancing trend is evident in FY10, which ended up with more than $9 billion in lending, with roughly 50% for Roads and Highways, 30% for Urban Transport, 15% for Railways, and 5% distributed between Ports and Air Transport. Moreover, the energy efficiency and climate change aspects are much more proactively included in projects, in particular in Urban Transport where issues of congestion and modal shift monitoring are now systematically addressed. Once the policy paper Towards a Low-Carbon Transport Sector is published in FY11, we can expect this trend to be mainstreamed across the whole transport portfolio. Generally speaking, more integration is also taking place between Transport and Urban operations in the context of promotion of the sustainable cities concept, where urban transport, mobility and overall climate impact are deeply interwoven. Similarly, transport projects are reaching out more systematically towards social inclusion objectives (accessible transport for all, including people with disabilities), health targets (road safety as a global public health issue, fight against the spread of HIV-AIDS), and trade competitiveness aspects (trade logistics and facilitation), with a particular growth noticeable in cross-border and regional operations. Implementation of this recommendation is therefore considered complete.

15.2 Original Response: Management agrees with the recommendation and will address it as follows:
(i) The Transport Strategy Update will spell out the necessity to widen the application of key environmental issues and mainstream them into the lending portfolio.
(ii) The sector will continue to strengthen coordination between transport professionals and other Bank Group units in all relevant areas such as urban planning, rural development, energy, gender, health and education, private sector participation, trade, and transport facilitation.
(iii) The Transport Sector Board will encourage concentration of resources to obtain maximum impact by a series of Transport Flagship Reports designed to provide policy and practical guidance while maintaining operational application for development effectiveness. Also, to provide better support to countries preparing poverty-reduction strategies and Bank country teams preparing Country Assistance Strategies based on those strategies, the Transport Sector Board will lead the preparation of specific guidelines on how to address transport sector issues in public expenditure reviews. And to help scale up urban transport operations, the Transport Sector Board will lead the production of operational guidelines on how to implement the vision spelled out in Cities on the Move.
(iv) The update to the sector strategy will reconfirm the continuation of the ongoing collaboration both within Bank teams and with IFC and MIGA units to make the most of each entity’s advantage in mobilizing the appropriate private sector skills and resources in support of sustainable transport development operations.
(v) Special attention will be given to working across infrastructure sectors to reduce corruption risk in Bank-financed projects, while supporting wider country initiatives to reduce corruption in the transport sector as a whole, and to producing sector-based operational guidelines to enhance project resilience to corruption.
(vi) The Environmentally and Socially Sustainable Development Network will lead a strategic staffing and budget review for transport to make the most of network integration, taking into account the skills mix needed under the updated strategy and reflecting operational demand.

MAR 2011: Following the March 10, 2008 CODE meeting where the Transport Business Strategy 2008-2012 was discussed, the strategy was published and launched on May 21, 2008. Presentation and discussion sessions have been organized with large audiences including a wide variety of stakeholders from both the public and private spheres, in London in May 2008, in Manila in September 2008, and in Paris in November 2008. More dissemination activities have taken place throughout CY09 and CY10, and adjustments to the skills mix in the Bank Transport community have been implemented with new hirings carried out in the field of urban transport, logistics, railways, road safety and social inclusion, both in the Regions and in the Anchor. Implementation of this recommendation is therefore considered complete.
15.3 Original Response: Management agrees with this recommendation, as progress and accountability in transport and development require more effort to improve measurement of the performance of transport systems, of the results of Bank-financed transport projects, and of the impact of alternative transport policies. Specifically:

(i) The transport anchor is leading the development of transport results indicators, both at the sector and project level; these will be implemented across projects and subsectors.

(ii) As part of the Development Impact Evaluation Initiative, in collaboration with the Development Economics Department, the transport sector will pilot impact evaluations of selected rural transport operations.

(iii) Management agrees and will plan accordingly, because increasing Bank transport lending made through programmatic approaches is one of the proposed priorities of the updated transport strategy.

(iv) Management agrees and will plan accordingly in coordination with SSATP donors and partners.

Management will consider all of its agreed actions complete after the discussion by Executive Directors of the transport strategy update, the launching of the pilot rural transport impact evaluations, and the self-evaluation of SWAPs. The SSATP program is a partnership, so management’s commitment is to encourage and support partners to undertake the recommended action. Management will report on implementation results in the context of the sectoral component of the planned regular operational results reports.

MAR 2011

(i) Intermediate indicators for projects and programs are being mainstreamed as a result of the dissemination of the Transport Business Strategy. (See also the required Core Indicators included in roads projects as of July 1, 2009.) The Transport Sector Board is following up on operational implementation as part of regular portfolio monitoring activities, using the strategy’s Implementation Action Plan as a baseline. (ii) A comprehensive independent evaluation of the Global Road Safety Facility was carried out in FY09 and concluded positively on the development impact of the program, while suggesting some administrative strengthening, which has been implemented in FY10, in particular with the hiring of a full-time Program Coordinator. (iii) Comprehensive evaluation of experience with SWAPs: because of a strong demand from the Regions to start with a review of the experience with output and performance-based contracts in the sector, an exercise that is now underway, the SWAPs review will be undertaken in FY12. (iv) As per the second long-term development plan of SSATP, approved in November 2007, an independent strategic review of the program was planned to be undertaken in CY2010. However, delays in hiring a new Program Manager, who just came on board in April 2009, led to postponement in the launching of the plan’s activities, so the independent review will now take place in CY2011.

IEG RESPONSE 2011

15.1 IEG agrees that in FY10 there is evidence of a strong re-balancing between the various transport modes in the portfolio as recommended by IEG. It is unlikely that the percentage for roads will fall much lower than 50 percent because of strong client demand, especially in the Africa Region which is still more rural than urban in nature. More attention has also been given to energy efficiency and climate change aspects and there is now good integration between transport and urban operations. The level of adoption is rated high and is therefore completed.

15.2 This recommendation concerning strategy was rated high last year and is considered completed.

15.3 Although substantial progress has been made with this recommendation on monitoring and evaluation, the work is still incomplete. IEG notes that mainstreaming of the core indicators and regular portfolio monitoring has been mainstreamed and that the administrative strengthening recommended in the IEG evaluation of the Global Road Safety Facility has been carried out. However, IEG confirms that two activities are still outstanding. The independent strategic review of the SSATP has been delayed and is only scheduled for completion in FY11, while the SWAP review is only scheduled for FY12. The level of adoption is thus rated substantial.
16. WORLD BANK ASSISTANCE TO AGRICULTURE IN SUB-SAHARAN AFRICA

LIST OF RECOMMENDATIONS

16.1 Focus attention to achieve improvements in agricultural productivity:
   • Establish realistic goals for expansion of irrigation and recognize the need to increase productivity of rain-fed agriculture through improvements in land quality, as well as water and drought management.
   • Help design efficient mechanisms, including public-private partnerships, to provide farmers with critical inputs, including fertilizers, water, credit, and seeds.
   • Support the development of marketing and transport infrastructure.

16.2 Improve its work in agriculture:
   • Increase the quantity and quality of analytical work on agriculture and ensure that policy advice and lending are grounded in its findings.
   • Support public expenditure analyses to assess resource availability for agriculture and to help set Bank priorities.
   • Rebuild its technical skills, based on a comprehensive assessment of current gaps.

16.3 Establish benchmarks for measuring process:
   • Improve data systems to better track activities supported by the Bank.
   • Strengthen M&E to report on project activities in various agro-ecological zones and for different crops and farmer categories, including women.
   • Develop a system to coordinate agriculture activities in a country with road access, market proximity, and soil conditions.

STATUS OF IMPLEMENTATION

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MANAGEMENT RESPONSE 2011

Original Response:

16.1 Agreed with the following qualifications: Management agrees to take the following actions, which fit with the spirit of IEG’s recommendations but are grounded in the world of country ownership, alignment, and harmonization in which the Bank works:
   • The Region has developed a draft Business Plan for Irrigation that identifies priority countries and projects in which irrigation can be expanded in the period fiscal 2008–12. The plan will be discussed with partners and, with their agreement, embedded in future Country Assistance Strategies.
   • Through agricultural technology operations and support to farmer organizations, the Region is supporting matching grants and various forms of smart subsidies for purchase of improved inputs from the private sector. It is using policy-
based operations to assist countries with the regulatory framework for input supply.
• In fiscal 2007, executive directors approved more than $2.5 billion in new lending to Sub-Saharan Africa for infrastructure, much of which serves rural areas. Management notes that, for example, it is now common practice for African governments seeking support from the Bank in the transport sector to involve the agriculture ministry in identifying priority investments.

Going forward, explicit attention will continue to be given in fiscal 2008–10 to synergies between infrastructure and commercial agriculture in Bank support.

16.2 Agreed with the following qualifications: The priority in Africa is assistance to countries in developing their own comprehensive programs to improve agricultural productivity.
• The Bank will concentrate on assisting governments to design, cost, and mobilize the resources needed to implement comprehensive programs of agricultural development.
• As an analytic priority, by fiscal 2010 the Region will assist clients in at least five countries to assess agricultural public expenditure and identify expenditure gaps relative to growth targets for the sector. This work is innovative and methodologically complex, and will be pursued jointly with the Agriculture and Rural Development Department and with other development partners and in the context of the CAADP Roundtable process.
• The Region regularly reviews skill needs and gaps. At present the major gap is in knowledge of issues related to sectoral public spending, both operational practices and analysis.

16.3 Agreed with the following qualifications:
• All projects from the Africa Region presented to the Board for approval now require baseline data for the results framework.
• A set of core indicators at the national level has been developed to monitor progress under the Africa Action Plan (AAP).

For agriculture, these indicators include five-year moving average data on growth in agricultural GDP, productivity per hectare, and productivity per worker.
• The Region is experimenting with M&E systems based on GIS (Geographic Information Systems) tracking of data. This may allow collection of information on agro-ecological zones and links with transport.

All of the actions noted above in response to the three IEG recommendations are elements of the agricultural productivity component of the AAP (one of the flagship operational constituents of the AAP). Management will consider its agreed actions complete with their successful implementation over the next three years. Management will report agricultural productivity results to executive directors as part of overall monitoring and reporting on the AAP.

MAR 2011: The information provided in the Management Response 2010 remains valid, and activities are ongoing, consistent with commitments made in the context of the original Management Response (where Management’s commitments were based on some qualifications to agreement with parts of IEG’s recommendations, given the country ownership and partnership context in which the Bank operates generally, including in Sub-Saharan Africa). The Comprehensive Africa Agriculture Development Programme (CAADP) process, supported by the CAADP Multi-Donor Trust Fund (MDTF), has gained momentum under strong support of the AU, ECOWAS, and COMESA. The process has been held as a model for countries in other regions that wish to seek financing pledged by the G8 countries at L’Aquila, and subsequently. Details can be found at http://www.nepad-caadp.net/. Twelve African countries submitted proposals to the Global Agriculture and Food Security Programme MDTF, accounting for about two-thirds of requested resources, and five of these were accepted for funding. Details can be found at http://www.gafspfund.org/gafsp/content/call-proposals-october-2010. The contribution of the WB to these efforts is recognized by clients and partners. Sectoral spending is being tracked, as shown below, and studied in detail in PERs in selected countries. Results frameworks for new WB projects include core indicators where relevant and impact indicators disaggregated by gender. Regional projects in West and East Africa support generation and dissemination of agricultural technologies, including availability of improved seeds. National projects support adoption of technology through matching grants and/or vouchers to defray costs of fertilizer and seed. Although work under way in each of the three areas of recommendation above is adequate to warrant a rating of “high,” ratings of “substantial” are maintained in recognition that the agricultural scale-up in Sub-Saharan Africa, as illustrated below, is a long term process that will require continued attention.
Focus attention to achieve improvements in agricultural productivity. IEG’s recent evaluations confirm that both the focus on agricultural productivity and agricultural lending more broadly have increased in Africa during the last few years. IEG also recognizes the country ownership, alignment and harmonization context in which the Bank has scaled up its support for African agriculture. It will be particularly important to give greater attention to the adequacy of funding for operations and maintenance and to working with clients to ensure sustainable financing for irrigation, transport and research and extension services to contribute effectively to the development of the sector. The recent (2010) IEG Agriculture and Agribusiness evaluation found that sustainability remains a considerable concern for projects focusing on promoting agricultural growth in Africa. Further, most cultivation in Sub-Saharan Africa is carried out under rain-fed conditions. Yet, by not tracking projects that are promoting rain-fed agriculture, as noted by IEG’s Agriculture and Agribusiness evaluation, the Bank is missing an opportunity to deal strategically with the subject. IEG agrees with Management on the “Substantial” rating of this recommendation and a status rating of “Complete and archived.”

Improve its work in agriculture. The fact that sector spending is being tracked and studied in PERs is an important step forward. However, several institutional constraints could handicap the effectiveness of the Bank’s increased effort in the sector and need urgent attention. Analytical work critical for the diagnosis of issues and the suggestions of possible solutions, has declined. A FY 10 ARD Review of the Agriculture and Rural Development Portfolio found that the number of ARD AAA in Africa declined from an average of 18 a year over FY06-08 to 12 in FY09 and 6 in FY10. Bank Management, in their response to IEG’s recent Agriculture and Agribusiness evaluation (2010), note that the number of Bank analytical products declined from a peak of 183 in 2000 to 131 by 2008 which was a period when lending more than doubled. According to Management, the number of agricultural sector staff within the institution has remained relatively constant, and more time spent on project preparation and supervision to meet rising demand and improve portfolio quality, has reduced the resources available for analytical work and this trend has actually worsened since the end of the review period of the Agriculture and Agribusiness evaluation i.e. FY 2008. IEG’s Agriculture and Agribusiness evaluation had also found that for the years over which data was available the decline in technical skills was most pronounced in Sub-Saharan Africa. Recent ARD updates on implementation of the World Bank Group Action Plan note that ARD Sector Board will conduct periodic staffing reviews in the context of ongoing and emerging business work programs. However, it is not clear whether similar reviews informed the scale up in lending that has already taken place in Africa. IEG rates adoption as “Medium” and status rating as “Incomplete and archived per the 3 year rule.”

Establish benchmarks for measuring process: Management had noted in their response in 2010 that the Bank is improving M&E at the project level and has made significant investment in impact evaluations. The fact that improvement of M&E in Bank projects in Africa is being given priority is an important step forward. However, the FY 10 ARD Review of the Agriculture and Rural Development Portfolio found that ARDSB projects in Africa, MNA and SAR have problems with M&E between six to 10 percentage points higher than other projects in each region. Inadequate tracking
of rain-fed agriculture activities already noted above remains a serious concern. Further, in their original response to the Agriculture in Africa evaluation Management had also noted that a set of core indicators has been developed for the agriculture sector at the national level to monitor progress under the Africa Action Plan. A recent review of the agriculture sector undertaken as a part of the IEG evaluation of the Africa Action Plan found reporting to be poor on these core indicators. While recent ARD updates on implementation of the World Bank Group Action Plan note that informal internal networks have been used to strengthen synergies across Bank units it is too early to tell whether and how the effort is contributing to coordinating agriculture activities in a country with road access, market proximity and soil conditions. IEG rates adoption as “Medium” and status rating as “Incomplete and archived per the 3 year rule.”
17. **The Development Potential of Regional Programs: An Evaluation of World Bank Support of Multicountry Operations**

**List of Recommendations**

17.1 **Establish regional program strategies and integrate them into Country Assistance Strategies**
- Develop, in consultation with clients and donor partners, medium-term assistance strategies that identify opportunities for high-priority regional programs and the support they would require.
- Integrate regional programs into relevant Country Assistance Strategies.
- Provide adequate analytic and advisory assistance to help countries assess the benefits and costs of regional approaches to the achievement of their natural development priorities.

17.2 **Work to strengthen the international architecture for financing regional development programs**
- Engage with partners to put together the financing packages required for individual programs based on each partner’s comparative advantage and harmonize assistance processes.
- Align the allocation of its loan, credit, and grant resources with the execution of its regional program strategies.

17.3 **Increase the impact of the Bank support for regional partnerships**
- Enter in such partnerships only when their program objectives are aligned with its regional strategic plans.
- Maintain its support only on the basis of positive findings of periodic evaluations.
- Require credible plans for sustaining program activities.

17.4 **Strengthen corporate incentives and capacities to provide effective regional program support**
- Build a base of knowledge on regional program experiences and incorporate lessons into program design, implementation, and evaluation.
- Develop guidance for staff on legal frameworks for regional programs and determine if changes are warranted in the Bank’s legal and policy frameworks.
- Prepare periodic reviews on how the Bank is implementing its regional program strategies and partnering with other donors and the results achieved.

**Status of Implementation**

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MANAGEMENT RESPONSE 2011

17.1 Original response: Agreed in part. Management agrees on the need to be strategic in the use of its resources in support of regional programs. However, there is no regional equivalent of a country poverty strategy and few regional organizations with strong credibility among member governments. There are also large differences across Regions in terms of country numbers, country size, geographic features, and the prevalence of opportunities for regional activities. In some cases, being prepared to support regional activities when opportunities arise, without a formal written strategy, may be the best approach. Therefore, management plans to leave the decision on whether or not to develop a formal regional program strategy up to Regional vice presidents and their management teams, and to monitor experience, including in Regions that do not opt for regional strategies. When Regions do prepare regional or subregional strategies they will be expected to consult with client and donor partners in the process. All Regions will be asked to follow best practice in selecting, budgeting, delivering, and evaluating regional programs, building on experience with priority setting for Regional ESW.

Management will consider its agreed actions complete when each Region reviews its approach to regional programs and partnerships, drawing on best practice experience in identifying priorities for Regional ESW. Regions will report on their approach as part of their fiscal year 2008 Regional Briefing to executive directors.

MAR 2011. Management only agreed in part to the above recommendation. It did not agree to develop formal regional program strategies across the board, given the wide variation across Regions. Instead, it committed to leave the decision of whether or not to develop a regional program strategy to each Regional unit and report results to Executive Directors, notably in the context of overall Regional strategy discussions. Management considers its actions against its commitments as, at a minimum, substantial. Management continues to work proactively and systematically on regional program strategies, formally in some cases and informally in others.

The Sub-Saharan Africa Region has opted for a formal strategy, given the well-known relative importance of regional action in the Sub-Saharan African context. The Regional Integration Assistance Strategy (RIAS) for Sub-Saharan Africa, reviewed by the Board in 2008, continues to guide the regional investment and analytical program in the Africa region. An update of the RIAS is being prepared for presentation to the board in February, 2011 to review the continued relevance of the RIAS strategic pillars and make adjustments as needed to reflect economic, political and analytical developments since the RIAS was drafted. A sub-regional implementation action plan (IAP) has been prepared for West Africa in collaboration with client countries, regional bodies and donor partners. The IAP adapts the continental-level strategic pillars identified in the RIAS to the specific context of West Africa and identifies a corresponding support program to guide implementation. Based on the experience in West Africa, IAPs will also be prepared for Central Africa and Eastern and Southern Africa (based on the EAC-COMESA-SADC tripartite arrangement). Regional solutions and regional integration have also been identified as one of the key implementation tools for the new Africa Region Strategy to be presented to the Board this Spring. Ongoing analytical work such as the Africa Infrastructure Country Diagnostic (AICD) and Southern Africa Investment Climate Assessment have been used to illustrate concrete, quantifiable benefits of regional solutions, helping foster greater demand at the national level.

The South Asia Region has identified regional integration as part of its overall regional strategy and has a Program Director for Regional Integration. Regional programs, projects and strategies to expand regional cooperation in South Asia are explicitly or implicitly incorporated in several country strategies in South Asia (Afghanistan, Bangladesh, Pakistan, Nepal, India). Two regional projects are in an advanced stage of preparation (scheduled for Board in FY11) and, aided by the flexibility provided by horizontal APLs (which allows achieving regional integration in bilateral project steps), the pipeline of regional projects is growing. The evolving regional program leverages the Bank groups country and sector-level engagements and relationships, and seeks to respond quickly to providing design and implementation support to promising project opportunities emerging from bilateral and multilateral political processes. Upstream analytical work seeks to inform the political processes about costs and benefits of regional cooperation (or lack thereof), and foster discussions and confidence at different levels (using these processes to identify “low-hanging” project-type activities (some of which are then developed for investment support). Regional integration and associated projects/programs are a cross-cutting theme of the Bangladesh CAS (FY11-14) while the country strategies for Afghanistan, Pakistan, Nepal, and India all include lending operations to improve cross-border cooperation (e.g. in energy, trade, transport); With IDA financing of critical electricity transmission infrastructure in Afghanistan (complementing financing from India and ADB), Uzbekistan initiated supply in April 2009 of 40 MW of electricity to Kabul and towns along the Uzbekistan-Kabul transmission corridor, markedly improving lives and economic activities. Supply was increased to 140 MW in 2010; In Afghanistan, building on the IDA-funded Emergency Customs and Trade Facilitation Project (2003), the IDA
funded Customs Reform and Trade Facilitation Project (May 2010) and non-lending support for Customs-to-Customs cooperation between Afghanistan and Pakistan have helped ease trade bottlenecks and have shaped the recently-signed (October 2010) Afghanistan-Pakistan Trade and Transit Agreement. Other activities are underway, such as Strengthening Regional Cooperation in Wildlife Protection Program; Creating a Northeast Electricity Transmission and Trading System; Northeast Trade and Transport Facilitation Program; Creating a Central Asia-South Asia Regional Electricity Market (CASAREM); Central Asia-South Asia (CASA) Electricity Transmission Project and the The South Asia Water Initiative (SAWI), supported by DFID, AUSAID and NORAD, and the associated Abu Dhabi Dialogue, continues to ramp up its facilitation of knowledge generation and sharing among think tanks, government officials, etc. in Afghanistan, Pakistan, Nepal, Bangladesh Bhutan and China around water resource development, management and sharing; The DFID-supported South Asia Food Security and Nutrition Initiative (SAFSNI), started in 2010, is identifying regional approaches to improving food security and innovative approaches to addressing malnutrition.

In MENA there is now a Director for Regional Strategy and Programs, with a small team, created in early FY11. MENA’s regional programs form part of the Arab World Initiative, launched in 2007 as one of President Zoellick’s six strategic themes, and substantially increased in scope and accelerated in implementation in the past 12-18 months. Integration of AWI into country partnership strategies has been recently enhanced, most notably in the latest CPS for Jordan. AWI covers multiple regional cooperation programs covering a range of sectors and themes: notable examples include the Quality of Education Initiative, Arab Financing Facility for Infrastructure, Concentrated Solar Power Scale-up, Micro and SME Financing Facility, Mashreq Cross-border Trade Facilitation and Transport Program, and a number of regional reports. Initiatives are designed on both a pan-Arab and sub-regional level. AWI is subject of regular formal discussion with the Arab Governors as well as with the Arab financing institutions, Islamic Development Bank, and OPEC Fund, as well as other donors, and most of the programs are multidonor. AWI has also engaged with the League of Arab States (an MoU governing cooperation was recently signed), and was endorsed by the January 2011 Arab Heads of State Summit on Economic and Social Development. AWI has also recently launched its own website.

ECA’s Post-Crisis Strategy features sub-regional approaches to many issues with a specific focus on creating regional institutional frameworks particularly for lower income countries in the Region. The Central Asia Regional Partnership Framework will be presented to the Board in FY11 together with the sub-regional Hydrometeorology Modernization Project. A major element of the Framework is ECA’s approach to water and energy management in the sub-region that was summarized in the Board discussion of ECA’s Post-Crisis Strategy. Several sub-regional programs are under implementation and are featured in Country Assistance Strategies where relevant. These include Roma Inclusion, Corporate Financial Reporting Reform in Central and Southeastern Europe, and Management of Water and Energy Resources in Central Asia. The sub-regional portfolio has expanded. Ongoing projects include the Lake Akhoder Integrated Ecosystem Management project in Albania and Montenegro; the Central Asia AIDS Control project; and the Neretva/Trebisnjica River Basin Management project. In addition to the Hydrometeorology Modernization Project, the FY11 pipeline projects include the Southeast Europe and Caucasus Catastrophe Risk Insurance Facility, and the Tien Shan Ecosystem Development Project and Improving Blood Safety Program in Central Asia.

While most EAP programs continue to be country-focused, the Region has developed a number of partnerships with regional organizations, including ASEAN, the EAS grouping, APEC, the Pacific Forum, GMS/MRC and ESCAP, notably supporting the strengthening of regional organizations. In particular, EAP works closely with ASEAN and APEC to strengthen regional approaches on intra-regional trade integration, the green growth agenda and finance, food security, aging and fiscal sustainability, growth and innovation and gender and development. In 2011, the APEC support program is being continued at the request of the US government focusing on public investment management, infrastructure, financial inclusion, women’s empowerment and gender. In 2010, EAP strongly supported Korea during its role as G20 Chair. EAP maintains a strong relationship with the Pacific Forum, providing analytical support, TA for sub-regional initiatives in the Pacific and assistance in preparing the regular meetings of officials, Ministers and Heads of State. Specific support to GMS/MRC relates to energy, power and water initiatives. For ESCAP, (the UN’s regional development arm), WB participates in conferences/workshops and provides TA across the range of issues it covers.

In LCR, too, most programs continue to be country focused. However, LCR is currently working on sub-Regional strategies for Central America and the Eastern Caribbean and supports sub-Regional organizations in each case.

17.2 Original Response: Agreed in part. As noted above, Regions that decide to prepare regional or subregional strategies will be expected to consult and coordinate with partners. This consultation and coordination will include discussions on financing mechanisms. On a task-by task basis, the Bank will engage with partners on financing packages for individual operations. Management will include regional support issues in its overall work with clients and donors on
alignment and harmonization of assistance processes. With regard to the Bank’s own loan, credit, and grant facilities, management sees this alignment as taking place in the context of the work outlined above on best practice in selecting, budgeting, delivering, and evaluating regional programs, building on experience with priority setting for Regional ESW. Management will consider its agreed actions complete with discussion of regional support internationally in connection with ongoing work on alignment and harmonization and the work outlined above by Regions. Management will report to executive directors in the fiscal 2008 Regional Briefings and the next update on alignment and harmonization.

MAR 2011 Management agreed only in part to this recommendation and did not commit to a major initiative on the international aid architecture for regional programs. However, it did, as committed, work with clients and donors on financing issues in the context of individual operations and more broadly in many cases.

In Africa, efforts to engage donor partners, at both the individual operation level and a wider strategic level have allowed the Bank to leverage significant co-financing and collaboration for priority regional operations, particularly in infrastructure. Much of the co-financing and collaboration has come from traditional multilateral partners (AfDB, the EC, EIB and EBRD) with well established relationships on regional programs. In addition to these traditional players, there has been a concerted effort to attract partnerships with the private sector through PPP arrangements (particularly in ICT and energy) and bilateral donors such as USAID. Umbrella frameworks are increasingly being utilized to harmonize donor efforts around major initiatives, allowing for shared analysis, alignment with the priorities identified by regional institutions and national governments, and allocation of responsibilities and financing based on comparative advantage of participating donors. Work under such donor coordination frameworks is quickly moving from planning to implementation as the first phase of the Bank’s $500 million commitment under the North-South Corridor program in Eastern and Southern Africa will be submitted to the Board for approval in FY11, and work under the Comprehensive African Agriculture Development Program (CAADP) framework has begun in all four sub-regions in Africa. The Bank has also worked to increase the flexibility of its own financial instruments for regional programs. The first regional IDA grants to regional institutions will be submitted for board approval in January 2011. IBRD resources will be leveraged for the first time in Africa in a regional operation to support the inclusion of Gabon under the Central Africa Backbone APL program. The possibility of a regional policy lending instrument is also being explored.

Over the past year, ECA has worked to mobilize international financing to support the management of energy and water resources in Central Asia. Also, ECA and the EurAsEC Anti Crisis Fund (ACF) have prepared and will shortly enter into an agreement to strengthen ACF’s capacity to monitor and evaluate the impact of their programs.

As mentioned above, Bank teams have collaborated with Government of India and the ADB in the Uzbek-Afghan power supply project (IDA under the Emergency Power Rehabilitation Project), and Bank teams are leveraging donor support for the South Asia Water Initiative and the South Asia Food Security and Nutrition Initiative. DFID is supporting the preparation of the Northeast electricity and trade/transport projects (and may consider expanding its support for trade and infrastructure integration in the region); Proposed IDA support for the Nepal-India electricity transmission project is driven by growing private investor interest in developing Nepal’s hydropower resources to serve electricity demand in Nepal and India; The IDA focus on new electricity transmission and trade/transport integration opportunities between Bangladesh and India rides on bilateral agreements and financing arrangements; IDA strategy for enhancing regional cooperation between Central Asian Republics, Afghanistan and Pakistan ride on bilateral and multilateral programs (and potential financing) to improve social and economic conditions in Afghanistan and Pakistan as part of broader strategies to enhance security and political stability in the sub-region. ADB’s decision to exit from the CASA Project in 2008-9, ostensibly due to other priorities, caused a set-back in project preparation and has left a gap in project financing. The World Bank, IFC and the US State Department have stepped in to fill the gap in preparation funds; the Islamic Development Bank remains committed to financing about 20% of project costs and other financiers will be approached in 2011 to fill the financing gap left by ADB.

See above for the many donor and client alignment activities in MNA.

17.3 Original Response Agreed in part. Management will work to increase the impact of its support for regional partnerships. (As noted in the full Management Response, management has questions regarding the sample size and methodology and whether the evidence is sufficient to conclude that partnerships are typically less successful than regional projects.) The work outlined above on sharing best practice in selecting, budgeting, delivering, and evaluating regional programs, building on experience with priority setting for Regional ESW, will cover regional partnerships.

With advice from IEG, management has moved to require an independent evaluation every 3–5 years of programs that receive Development Grant Facility funding, using an evaluation template developed in consultation with IEG; and IEG
selectively reviews these evaluations. On evaluation findings, it may not be cost effective to drop important initiatives on the basis of one poor evaluation. In some cases, management may want to use the findings to strengthen the initiative, setting clear targets for measuring progress against an action program, rather than abandon the partnership. With regard to sustainability, management sees the need to experiment. In some cases, innovative ideas need to be tested and validated before addressing issues of sustainability. Moving too quickly on sustainable funding may make it more difficult to exit. The same applies to the program objectives of regional partnerships. While it should be true in most cases that these partnerships are aligned with regional plans, there are times when a Region may see the potential in an experiment outside of that framework, as long as the experimental nature of the partnership is made explicit.

Management will consider its agreed actions complete after each Region reviews its approach to regional programs and partnerships, drawing on best practice experience on identifying priorities for Regional ESW. Regions will report on their approach as part of their fiscal 2008 Regional Briefing to executive directors.

**MAR 2011:** Again, Management only agreed in part to this recommendation and was quite explicit regarding the actions to which it committed. Notably, since it did not commit to regional strategies across the Board, it could not commit to aligning those strategies with regional partnerships—especially given the nacent state of regional partnerships in many cases. It also continues to question the cost-effectiveness of dropping programs on the basis of one evaluation when restructuring might be more appropriate. More broadly, Management continues to believe that support for regional activities require learning and experimentation to develop better models and to support what are in many cases still nacent regional organizations. Against its commitments, Management believes that it has delivered at least at the substantial level.

Partnerships in Africa have been strengthened most concretely in the past year through decentralization of the Africa Regional Integration Director to Addis Ababa, seat of the African Union, NEPAD and headquarters of the Economic Commission for Africa, allowing for more regular and direct engagement with leadership and opportunities for partnership with these institutions. A new 15 million GBP partnership with DFID and Finland has also been formed under the Support for West Africa Regional Integration Program (SWARIP), administered by the Bank to harmonize and coordinate donor partner interventions in support of regional integration in the sub-region, in particular strengthening of the regional bodies, supporting trade integration and facilitation – a key pillar of the Regional Integration Assistance Strategy for Sub-Saharan Africa, and boosting the knowledge base on the benefits and costs of integration to allow for greater selectivity of interventions and build constituencies for reform. Additional partnership information highlighted in response 11.2 (above).

Regional partnerships in South Asia (for example South Asian Association for Regional Cooperation) have established broad frameworks for regional cooperation in areas such as energy and trade but are still at early stages of securing the necessary political support to be effective partners in promoting regional cooperation. The Bank approach for the moment is more bottoms-up, building on robust country-level programs and relationships in certain sectors to leverage potential high-impact and confidence-building opportunities across borders. The Bank is presently a more active partner in the CAREC (Central Asia Regional Economic Cooperation) program than in SAARC although it has participated in selected SAARC for a/conferences. CAREC includes Afghanistan and recently inducted Pakistan as a member.

The proposed Russia Capacity Building Trust Fund, which will be effective towards the end of FY11, includes funding for the preparation of sub-regional projects.

17.4 **Original Response** Agreed. The Africa Region, through its Regional Integration Department, together with the Global Programs and Partnerships Unit in the Concessional Finance and Global Partnerships Vice Presidency, will take the lead in building the knowledge base on operations and partnerships, respectively, and sharing experience across Regions. Sector families will play a vital knowledge management and knowledge-sharing role, notably on issues such as regional transport, energy, and water management. In connection with this work, the Bank’s Legal Vice Presidency is developing good practice guidance for lawyers on legal frameworks and implementing arrangements for regional operations and a related database on legal issues, and their resolution with regard to regional operations. Management will consider this action complete with the establishment of the knowledge base on regional operations, including the good practice guidance on legal frameworks, and the continued expansion of the knowledge base on regional partnerships. Management will report to executive directors on progress in connection with its update on the IDA pilot program in fiscal 2008.

**MAR 2011:** Periodic reviews of regional programs Bankwide and in the Africa region are serving as a means to eva-
luate progress and take corrective measures to address problems identified. The most recent assessment, the IDA15 mid-term review of the regional IDA program found that “Following-up on the recommendations at the IDA14 Mid-Term Review (MTR) and the 2007 IEG report, Management has implemented several actions to address challenges facing the implementation of regional projects. These include: improving strategic alignment of projects with regional strategies and CASs; strengthening management oversight and operational support in legal, procurement and financial matters; improving projects’ results-orientation and analytical underpinnings; and building the institutional capacity of regional institutions. While progress has been made in these areas, important weaknesses remain.” Those weaknesses included a high proportion of problem projects and low disbursement rates, particularly for infrastructure projects. In response, action plans were developed for all problem projects (in line with the findings of the 2009 portfolio review where applicable) and close monitoring of procurement and disbursements was adopted, raising the disbursement rate of the regional portfolio from 6.5 percent in FY09 to 14 percent in FY10. Further emphasis has also been placed on quality at entry and capacity building of implementing agencies, and increasing resources to support supervision.

As previously mentioned, an update of the Regional Integration Assistance Strategy for Sub-Saharan Africa (RIAS) is underway, to be presented to the Board in February 2011. The update will provide an opportunity to further review the effectiveness and strategy guiding support to regional operations going forward.

Just as a reminder, the work promised by the Bank’s Legal Department (LEG) was completed shortly after the IEG evaluation and is available to all LEG staff for their work in support of regional operations. Beyond what was promised originally, Management also plans to propose to the Board the extension of eligibility for access to the Project Preparation Facility to regional entities in connection with its update of investment lending policy.

IEG RESPONSE 2011

The Management Response cites continuing positive trends and initiatives in the analysis and financing of regional (multi-country) programs in the Africa Region and increased regional analytical work and operations in other Regions. With this expansion in regional programs work, as well as progress in the integration of regional programs in CASs—as cited in the case of AFR, SAR, and ECA, and the development of new regional (or sub-regional) integration strategies or frameworks in several Regions, IEG considers management to be ‘substantially’ responsive to its recommendations to capture the development potential of regional programs for its clients overall. IEG agrees with management’s assessment that more needs to be done at the corporate level to support these kinds of programs.

IEG rates Recommendation 17.1 as ‘substantial’ reflecting trends in regional operations, CAS integration, and funding for upfront analytical work in most Regions. Implementation status is rated “incomplete and archived” reflecting the continuing effort needed to broaden the integration of regional operations into CASs.

IEG rates Recommendation 17.2 as ‘substantial’ reflecting primarily the availability and use of IDA15 funds on a grant basis, as well as the co-financing initiatives made notably by AFR, EAP, MENA, and SAR. IEG notes, however, that Management might usefully have indicated that the funding for the needed analytical work is heavily dependent on trust funds. Implementation status is rated “incomplete and archived” reflecting the dependence on trust fund financing which is itself unpredictable over the medium and long-term that is typically required for regional programs.

IEG rates recommendation 17.3 ‘medium’ reflecting the growing number of evaluations of regional partnership programs, but the absence of evidence on plans for sustaining regional program activities. Implementation status is rated “incomplete and archived” reflecting IEG’s “medium” rating for the level of adoption to-date.

IEG rates recommendation 17.4 ‘medium’ reflecting the improvements cited in strategic alignment, CAS integration, and management oversight, but the absence of evidence on steps taken at the corporate level to resolve Regions’ concerns with the adequacy for these kinds of operations of lending instruments and process, Bank systems, and implementation support (particularly for operations involving low capacity countries). Implementation status is rated “incomplete and archived” reflecting both Management and IEGs “medium” rating for the level of adoption to-date.
18. Development Results in Middle-Income Countries: An Evaluation of the World Bank’s Support

List of Recommendations

18.1 Draw on MIC capacity
- To promote greater country ownership of the Bank's work, and to create better opportunities for the Bank to learn from MICS and share their experience with LICs, Bank support needs to more systematically draw upon and develop each country's own expertise. To this end Management should require that country assistance/country partnership strategies and significant analytic and advisory activities (AAA) assignments plan clearly to do this.
- The Bank ought to identify incentives and obstacles to MICS' involvement in the governance of global programs. This could involve producing an inventory of governance arrangements for global programs which it supports, and conducting a formal consultation exercise with MICS (and other developing countries).

18.2 Demonstrate Best Practice
- To deliver the maximum impact from the Bank's limited financial role in MICS, in partnership with clients the Bank's projects and programs must be selected to go beyond conventional approaches and clearly demonstrate how they will add to best practice development activity in the respective country setting. They should also show whether, when, and in what way they are expected to play a catalytic role, being scaled up using resources beyond those initially provided by the Bank.
- Country programs, prepared in full partnership with MIC clients, must pay renewed attention to achieving greater effectiveness in three pressing and complex issues: combating corruption; reducing inequality; and protecting the environment. Programs need to draw on the full range of Bank and other resources available to meet these challenges.
- The Bank could more actively share best practice and encourage arrangements for knowledge transfer across countries, regions, and sectors. Three specific measures to do this would be: (i) giving more weight to this goal in strategically managing staff rotation; (ii) ensuring that research and policy work goes beyond general principles and focuses on specific country-by-country needs; and (iii) reviewing the performance of the networks on this dimension.

18.3 Become More Agile
- To help the Bank more quickly and easily adapt its services and areas of focus for MICS' evolving needs, it needs to set up a program to test new approaches for a selected group of countries. The first element of the program would be a much more decisive push on the existing slow-moving pilot for the use of country systems in the execution of Bank lending, and significantly increasing the number of countries and projects actually implementing the new approach on-the-ground by mid-FY08.
- The trial program would do well to go further and offer the selected MICS, each with strong institutional capacity, a new menu of support incorporating features such as fast-track procedures, faster response times, and more flexible strategies.
- The Bank should continue efforts to expand the choice of services it offers. This can be done by accelerating the development and deployment of: (i) new financial instruments such as those helping countries manage and reduce vulnerability to external shocks; (ii) existing and new products which help tackle subnational challenges; and (iii) new arrangements-with clear, consistent, and user-friendly guidelines-for fee-for-service technical expertise, including that for project design and supervision.

18.4 Make the Most of Bank Group Cooperation
- The Bank Group must develop a more pragmatic approach to cooperation across the Bank, IFC, and MIGA, to successfully offer clients a more effective package from its combined resources. This approach could include new incentives or channels for cooperation such as piloting single country management arrangements. In cases where joint country strategies are appropriate they should be prepared more rigorously, and followed through with performance monitoring designed to trace through the net gains from cooperation. Any new approach must be communicated to and gain the support of staff, who ultimately determine the extent and success of such cooperation.
### Status of Implementation

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### Management Response 2011

**Original Response**

18.1 **Substantially agreed.** Management is preparing a note on World Bank responsiveness to demand for global public goods, to be discussed with executive directors in fiscal 2008. That note will include its plans for involving MICs (and other developing countries) in setting priorities and in drawing on MIC expertise. Part of this process will involve consultations with MICs. Management will also prepare a guidance note for staff on country partnership strategies with MICs that will address the issue of systematically drawing on developing MIC expertise, notably with regard to strategy development, economic and sector work and other AAA, and global program priorities. Lastly, management is preparing a partnership program to increase the use of MIC expertise and institutions. The fiscal 2008 Country Assistance Strategy (CAS) Retrospective will report on implementation. Management will consider the above agreed actions completed with that report.

18.2 **Substantially agreed.** Management support MICs through four actions: (i) stronger country partnership strategies developed jointly with MICs; (ii) improvements in the range of services offered to MICs, notably financial services and the blending options, with a goal to better leverage Bank support; (iii) stronger links between Bank research and MIC needs; and (iv) better management of the pool of Bank expertise across all networks to ensure timely delivery of cutting-edge support. However, although all MICs want and deserve innovative options, in many MICs there will remain a demand for more standard support that the IBRD will need to meet. Management will consider the agreed actions complete with the full report to executive directors in the fall of 2007 on implementation of the action plan to strengthen the World Bank’s engagement with IBRD countries.

18.3 **Substantially agreed**

Management is taking a range of actions to increase the Bank’s agility in support of partner countries. The Bank will offer MICs an expanded menu of support options through a more flexible portfolio of access to expertise and financing. A major step, outlined above, is giving more flexibility to country teams in producing and implementing country partnership strategies, encouraging them to use it, and monitoring that use. Work on country systems, which will add to agility and reduce the cost of doing business, is advancing with Board endorsement in June 2007 of a plan to accelerate progress. To provide greater agility, management will continue to improve internal Bank procedures with a streamlining of investment lending during fiscal 2008. As partners’ needs have changed, IBRD’s role in providing financial services to MICs has evolved considerably beyond traditional lending. To help countries manage risks from interest rate, currency, and commodity price volatility, IBRD currently offers flexible loan products as well as derivative/risk-management tools for application to IBRD and in some cases non-IBRD liabilities. It offers related debt management advice and wealth management/ advisory services to assist countries in protecting their development resources. Management is accelerating the implementation of the provision of customized financial solutions support to borrowers through an enhanced internal review process. The Deferred Drawdown Option instrument is being reviewed to improve its effective-
ness. As part of its MIC strategy the Bank has been engaged in developing new market-based solutions to help countries deal with catastrophic events, with a recent launch of the first ever Regional insurance facility, for Caribbean countries, as the initial result of this effort. Work is under way to mainstream and scale up public sector financing at the subnational level under a newly established department, as a joint initiative of the IBRD and the International Finance Corporation.

Finally, management will develop a consistent framework for interested partners to draw on the Bank for fee-based advisory services and technical assistance in project implementation. Management will consider the above agreed actions complete with the report on the use of country partnership flexibility in the CAS Retrospective; the approval of the streamlined policy for investment lending; continuation of ongoing efforts to customize financial solutions and expand choice of financial services, such as those for managing external shocks and subnational financing; and the introduction of the new framework for fee-based services for interested partners. Management will report on overall progress periodically to executive directors, starting with the report to executive directors in the fall of 2007 on implementation of the action plan to strengthen the World Bank’s engagement with IBRD countries.

MAR 2011 The Management Response in 2007 indicated that management was in basic agreement with all the IEG recommendations, and outlined the actions to which it committed. Management has continued to fulfill its commitments as follow-up to the Action Plan to Strengthen Bank Engagement with IBRD Partner Countries, which adopted recommendations endorsed by the Development Committee in September 2006. The Bank has continued to produce higher quality, more focused and flexible CPSs, reflecting a flexible portfolio of expertise (best practices) and financing. Through a combination of AAA and knowledge embedded in its lending, the Bank has supported innovations that, when replicated on a broader scale, have provided benefits that far exceed the direct benefits of the individual projects. Management has also made significant improvements in the range of services offered to MICs, and links between Bank research and MIC needs have been strengthened. Management considers all the agreed actions completed.

A new Bank’s Knowledge Strategy, which was discussed last April, will have important bearing on our engagement with middle income countries. The implementation of the Knowledge Strategy will help strengthen partnerships with think tanks and regional/country institutions and expand collaboration with clients in knowledge products and project designs. It also help country offices to reinforce local ownership of the knowledge agenda and help to surface innovations and implementation lessons; and for the Bank to open its communities of practice to external partners, and integrate outside partners more closely into Global Expert Teams. The Bank has already established partnerships with researchers and analysts of MICs such as the China Center for Economic Research, the New Economic School (NES) in Moscow, the Economic Research Forum (ERF) in Cairo, and others. A South-South Experience Exchange Facility has been set up with the aim of deepening South-South experiences (from UMICs to LMICs/LICs).

Cooperation across the WBG has also been strengthened. The majority of IBRD CASs are prepared jointly with IFC. The pilot IDA-IFC CAS has been completed and joint Bank/IFC guidance for staff is being widely disseminated and also used in the CAS Academy, thus reaching a key target group. IBRD countries are also increasingly making use of the foreign investment services of the joint IFC-Bank unit, FIAS. Crisis-response cooperation is exemplified by Bank-IFC joint support for Eastern European countries.

The global financial crisis compelled Management to rethink its relationship with many MIC clients, and the Bank, working with IFC and MIGA, has demonstrated agility, best practice, and ability to draw on MIC capacity in responding to the MICs’ immediate and pressing needs, without neglecting their longer term development priorities. Work is underway to lay out a framework to strengthen World Bank’s engagement with middle-income countries in the post-crisis period.

IEG RESPONSE 2011

18.1 Draw on MIC capacity. The evaluation called for the Bank to more systematically draw upon and develop each country’s own expertise by integrating this objective into country strategies and preparation of analytical work. In its original response, Management was to consider actions complete upon delivery of the FY2008 CAS retrospective. A CAS retrospective was delivered in September 2009 (FY2010), and it mentions in passing that the Bank has engaged in “more joint (with the country) knowledge generation,” but without any evidence supporting that claim.
The February 2010 Knowledge Strategy calls for putting some of this recommendation into practice, for instance, asserting that “at the country level, the Bank will strengthen partnerships with think tanks and regional/country institutions and expand its collaboration with clients in knowledge products and project design.” While new partnerships with researchers and analysts are welcomed and should be commended, and more country strategies in middle-income countries are now formulated as partnership strategies and there seems to be a shift toward the treatment of clients as true partners, Management does not provide evidence that it has drawn upon MIC expertise in a systematic way in the service of projects or analytical work. Because there is some evidence of partnership at the strategic level and a plan to utilize local capacity at the level of individual projects and analysis, adoption is considered substantial. It should be noted, however, that drawing on MIC capacity is an ongoing challenge, and so the recommendation will only be fully adopted once this full partnership has become standard practice among Bank staff.

18.2 Demonstrate best practice. The evaluation called on the Bank to deliver the maximum impact from the Bank’s limited financial role in MICs by demonstrating how projects and programs will go beyond the conventional and add to best practices, while showing clearly whether, when, and in what way they are expected to be scaled up using resources beyond those provided by the Bank. In its original response, Management was to consider agreed actions complete with the report to the Executive Directors on implementation of the action plan to strengthen engagement with IBRD partner countries. This update was delivered to the Board, but it did not address the core issues raised in this recommendation. Here, Management claims that “the Bank has supported innovations that, when replicated on a broader scale, have provided benefits that far exceed the direct benefits of individual projects,” but provides no evidence to underpin this claim. To IEG’s knowledge, there is no new guidance on how country programs should contribute to good practice in a country, support innovation, or scale-up operations using non-Bank resources. On the other hand, there has been a rebound in the share of IBRD operations that are rated Highly Satisfactory by IEG—projects that are considered good practice and often worth replicating—rising from 3% of operations closing in FY2003-05 to 5% in operations closing in FY2007-09. While this falls short of the level of nearly 10% achieved in the late 1990s, it does indicate a substantive reversal of the previously downward trend. This achievement, combined with anecdotal evidence of spillover effects in some countries from previous years, provides the basis for a substantial rating.

18.3 Become more agile. To help the Bank more quickly and easily adapt its services and areas of focus for MICs' evolving needs, the evaluation called on the Bank to test new approaches for a selected group of countries, including on using country systems, offering a new menu of support (including fast-track procedures and more flexible strategies), and expanding its choice of services (including new financial instruments, sub-national support, and fee-for-service activities). The Bank has gone a long way in this regard. On the new menu of support, the Bank has revised its procedures for investment lending and expects preparation of low-risk operations to proceed at a faster pace. Moreover, the CAS Retrospective notes that country strategies in MICs have become more flexible, allowing for adaptation as country circumstances and demands evolve. Its expansion of services has been impressive, with a growth of fee-for-service activities and new financial instruments. But the pilot program for using country systems has continued to face delays in implementation. All things considered, the Bank responded with agility to the global financial crisis in MICs, utilizing some new-found flexibility in CASs and accelerating preparation timeframes. The level of adoption of this recommendation is high, but this should not be considered the end of the implementation of this recommendation: the Bank should continue to develop new ways to stay agile as the needs of its clients and its operating environment continue to evolve.

18.4 Make the most of Bank Group cooperation. The evaluation called for a more pragmatic approach to cooperation across the Bank Group—focusing on those few areas in a given country where cooperation might have a substantial impact on development and tracing through activities to outcomes. Management asserts that Bank Group cooperation has been strengthened. It notes that most CASs in IBRD countries are prepared jointly with IFC, but the FY2010 CAS Retrospective found that “while the majority of Bank CASs is prepared jointly with IFC, there are few good practice examples of Group-wide collaboration at the strategy level” (although these few examples were in MICs). Management indicates that joint Bank/IFC guidance is being been widely disseminated based upon lessons from a pilot exercise for IDA countries, but it remains true that no comparable agenda has been developed for operations in middle-income countries and it is unclear whether experiences in IDA countries can be extended to MICs. With limited evidence of a concerted effort at understanding where and when Bank Group cooperation is working, but some examples of good practice, the level of adoption of this recommendation is rated medium.
IFC
MANAGEMENT ACTION RECORD 2011
19. IFC IN PAKISTAN

LIST OF RECOMMENDATIONS

19.1 Pursue a more diversified portfolio
- IFC should pursue a more diversified portfolio in terms of sectors and subsectors, to help broaden IFC’s reach, to help manage both business cycle risks and portfolio concentration risks, and to help grow investment operations. Furthermore, IFC should try to increase the use of quasi-equity instruments in the context of possible low domestic interest rates continuing and limiting the spreads and profitability of its senior loans.

STATUS OF IMPLEMENTATION

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MANAGEMENT RESPONSE 2011

Management Response:
We appreciate this recommendation. IFC has recently initiated an investment and TAAS program that will, among others, result in a more diversified portfolio. IFC is carrying out a comprehensive mapping and business development exercise across the sectors of the economy and a number of investment opportunities are under review. The private sector is a major source of investment in the country’s health and education sectors and IFC expects to invest in these sectors in the near future. With the recent liberalization and opening of the country’s telecommunication sector, IFC is in the process of providing investment support to companies in the sector. Following the country’s economic revival, there is a growing demand for private equity attributable to privatization (energy, industry/services), new projects (telecom, power, infrastructure, manufacturing), restructuring of existing projects, and trade sale activity (multinationals repositioning by selling non-core assets, generational changes in private companies and local groups repositioning). IFC is expected to invest in a private equity fund to help address this gap which should have a significant demonstration effect in the country’s equity sector. In addition to that, IFC is pursuing select quasi-equity investments as appropriate opportunities come up.

Management Comment 2011:
In 2009/10, IFC continued working on diversifying its portfolio in Pakistan, in spite of serious security and political risks. In 2009, Pakistan was faced with serious macroeconomic challenges resulting from global financial crises, increase in fuel and food prices and the Country had to go to IMF for a bail out. Also, the Country faced acute power and energy deficit, which in turn adversely impacted the manufacturing and agribusinesses. Another issue faced by IFC in Pakistan is its inability to provide local currency financing to companies with revenue base in local currency. The Central bank so far has not agreed to this.

Our FY 09/10 strategy focused on playing a counter cyclical role by supporting our existing clients, removing constraints in energy sector and providing access to finance to MSMEs through GTFP and direct investments.

Our portfolio diversification took place within the sectors. For example in 2004, 100% of CIN portfolio comprised investments in thermal power generation mainly based on fuel oil. By 2010, only 28% of our CIN portfolio was in thermal power generation (that too in gas fired projects and not fuel oil based), whereas the remaining 82% was in transport and logistics power distribution sectors. Going forward, further diversification in the power sector in taking place by replacing fuel oil based generation with renewable based generation and increased footprint in the transport and logistics.
Similarly, in 2004 our financial markets focus was on supporting the financial infrastructure of the Country, whereas by 2009/10 it had shifted to providing A2F to MSMEs in manufacturing and agri sectors through trade finance and direct interventions through equity positions/sub debt in banks supporting MSMEs.

The Advisory arm of IFC continued to complement the investment work in the financial markets and other areas.

Our business development efforts in the health and education sectors had yielded two mandates, which are currently in process.

We now have short term instruments available and are working to use these through financial intermediaries to diversify our portfolio in the real sectors especially manufacturing, health and education and agribusiness.

Compared to other countries in the MENA region, in 2010 Pakistan's committed portfolio was one of the most diversified with 38% in infrastructure, 15% in oil, gas, mining and petrochemicals, 15% in general manufacturing and 32% in financial markets.

**IEG Response 2011**

*Investments.* In FY09-FY10, investment commitments were more diversified than FY04, comprising development finance (59%), pulp & paper (11%), chemicals (12%), hydro renewable energy generation (8%), port operations (7%), and natural gas distribution (1%). In contrast, investments in FY04 comprised general banking (56%), technical services (39%), and private equity funds (5%). In early FY11, $30m in quasi-loans have been committed, comprising 6% of total net commitments. In contrast, there were no quasi-loans in FY04. IFC’s trade finance amounted to $638m comprised 80% of net commitments in FY09-10, and has been made available since FY06 to help clients overcome liquidity constraints in view of the continued political and security risks in Pakistan.

*Advisory Services.* There were 7 advisory services in FY09-10, and are diversified in number per business line: access to finance (2), sustainable business advisory (3), and investment climate (2). In terms of total funding managed by IFC, the advisory focus is clearly on SBA (64%), followed by IC (23%), and A2F (13%). By sub-sector, the SBA and A2F advisories are focused on MSMEs and the manufacturing sectors.
20. IEDR 2007

LIST OF RECOMMENDATIONS

20.1 Develop a deeper, more differentiated Country Approach
- As IFC decentralizes, it has the opportunity to adopt more tailored country strategies to complement its strong sector and regional approach. This strategy might include, in consultation with the Bank and country governments, the development and pursuit of a set of country-specific private sector development indicators (such as for the level of private, gross, fixed capital formation; banking sector capacity; and private provision of infrastructure).

20.2 Place an emphasis on Rural Development
- In its country strategies, IFC may consider flagging opportunities to work on the nexus of rural poverty and sustainable natural resources, on which poor people depend, and to identify and develop high-impact agribusiness and rural microfinance projects with widespread demonstration effects, while simultaneously providing leadership in promoting socially and environmentally sustainable practices.

20.3 Pursue new initiatives and mechanisms to enhance cooperation with the World Bank in areas of synergy
- To enhance cooperation with the World Bank in areas of synergy, IFC could (i) consider new incentives and mechanisms to complement the CAS process (with the Bank); and (ii) identify investments at approval that were facilitated by Bank policy or regulatory assistance, and track them throughout the project cycle (through DOTS or other means) in order to judge their success.

20.4 Manage the trade-offs inherent in the decentralization process to achieve the highest possible work quality
- IFC will need to monitor the decentralization process closely to ensure that its work quality remains robust, and support this with a rigorous training program for new investment staff.

20.5 Ensure sound risk-management system and develop risk-mitigation products
- IFC will need to make continued efforts to improve its risk-management systems and to prepare for the next correction in the international markets, including perhaps the extended use and development of new risk-mitigation products.

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Recommendations | Level of Adoption | Status Rating
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| **20.5 Ensure sound risk-management system and develop risk-mitigation products** | High | Active (to be made inactive) | Active (to be made inactive) |

**Management Response 2011**

**Management Response:**

**20.1** Management agrees with the recommendation to develop a more differentiated country approach. Current IFC strategic processes already involve developing country level strategies that feed into Country Assistance Strategies (CASs) and into IFC’s regional strategies that form part of IFC’s Strategic Directions Paper. Because of the commonality of certain characteristics, regional departments are also able to group countries with similar needs and issues for the purpose of developing a coordinated approach. For example, in Sub-Saharan Africa, countries are grouped in four categories: (i) post-conflict (such as the Democratic Republic of Congo and Liberia); (ii) natural resource rich (such as Nigeria and Tanzania); (iii) middle income (such as South Africa and Mauritius); and (iv) others (such as Mali and Niger). Similar approaches are used in other regions. Building on this base of activity, IFC is seeking to strengthen its country focus. As discussed in IFC Strategic Directions, FY08-10: Creating Opportunity (chapter 2), IFC is working to develop greater systemic approaches to its activities, which will be done at the country or sector level. In addition, increased IFC staff country presence through its phased decentralization should also facilitate a more country-focused strategic approach. With respect to the suggestion to develop macro private sector development targets, we need to study this more carefully to determine what is feasible and meaningful, considering the difficulty in attributing country-wide macro indicators to IFC operations. IFC could also benefit from IEG-IFC findings on which private sector development target indicators have worked in other institutions. In the meantime, IFC is working on advancing its metrics on outcomes and impacts that can clearly be attributed to IFC’s projects, advisory activities, and systemic approaches. These metrics could serve as IFC targets, but they will have to be tried on perhaps one or two countries on a pilot basis. There may be some issues with respect to the burden on clients for certain types of reporting. Therefore, IFC will need to assess the feasibility of this approach. In addition, IFC has on-going work with the World Bank in providing broad indicators that countries may use to track private sector development. The joint World Bank/IFC annual Doing Business report is one example which has been increasingly used by many countries in setting targets in their reform agenda for improving investment climates. Another joint World Bank/IFC initiative in indicator setting is the on-going development of the “Private Sector at a Glance” tables. These one-page per country tables cover almost 60 key private sector indicators encompassing: (i) economic and social context (such as inflation rate and size of labor force); (ii) investment climate (such as ease of doing business ranking and number of procedures to start a business); (iii) private sector investment (such as private participation in infrastructure and net private FDI); (iv) regulation and taxes (such as time dealing with government officials and corporate tax rate); (v) finance and banking (such as total financial system deposit and bank branches per one hundred thousand people); and (vi) infrastructure (such as paved roads and electric power outages).

**20.2** In the FY08–10 Strategic Directions paper, IFC incorporated agribusiness into the five strategic priorities. Over the past five years, IFC’s commitments in the agribusiness sector have grown significantly and development outcomes have also improved. IFC is now intending to further increase its involvement in this sector by, for example, developing wholesale financing solutions using financial intermediaries, processors, and traders. IFC is also doing some rural microfinance. However, beyond agribusiness and a few rural microfinance projects, further study is needed to understand how to be effective in rural areas, given that the results so far appear to be mixed. Management would welcome IEG-IFC’s input on lessons learned from successful models of private sector rural finance to inform this recommendation. With respect to the suggestion of providing leadership to promote socially and environmentally sustainable practices, IFC addresses this through its sustainability pillar. Following Board approval and formal launch of the performance standards in 2006, IFC’s focus has been on sound implementation of the performance standards. To maintain its environmental and social sustainability leadership, IFC will continue to provide support for the...
further adoption and implementation of the Equator Principles. In addition, IFC is committed to scaling up its activities in renewable energy and energy efficiency sectors.

20.3 Management agrees with the recommendation of enhancing cooperation with the Bank. Leveraging the strengths of the whole World Bank Group will become more important as IFC aims to increase its development impact and increase its systemic interventions. In past years, IFC has taken several steps in this direction, from increased focus by IFC Senior Management (including inviting senior World Bank staff to IFC’s strategy discussions), to including World Bank Group cooperation as part of the performance appraisal for managers in Sub-Saharan Africa, to a World Bank Group review of advisory services to assess synergies. In addition, the World Bank and IFC have a joint Vice Presidency Unit (VPU) for Financial and Private Sector Development; the Vice President of this VPU is also IFC’s Chief Economist. There are also joint departments in a number of core sectors: oil, gas, mining, information and communication technology, and subnationals. Going forward, IFC envisages increasing cooperation with the World Bank as the Corporation adopts systemic and programmatic approaches to scaling up activities. Typically, a systemic approach to a sector would start with upstream advisory work on the business-enabling environment and/or privatization, often building on efforts of the World Bank and the government. IFC can then participate in the financing of associated projects, as appropriate. In addition, IFC and World Bank cooperation will be enhanced by the implementation of IFC’s phased decentralization program. This should provide more opportunities for increased World Bank-IFC staff contacts in the field. With respect to the recommendation to identify and track performance of investments with World Bank/IFC cooperation, IFC will consider this along with the other work it is doing on metrics, such as DOTS, systemic metrics, and advisory metrics. An important issue to consider is the extent to which the performance of projects can be partly attributed to good World Bank Group cooperation.

20.4 Management agrees with the recommendation of ensuring that work quality remains high as IFC implements its phased decentralization. IFC is taking a number of steps to help ensure sustained work quality. More experienced/senior industry staff will be located in regional operations centers to mentor and provide leadership to more junior investment staff. Credit officer(s) will similarly be stationed in operations centers and will be involved in field-based investment decisions. Field presence of environment and social specialists will be increased to further mainstream sustainability into IFC’s investment work, mitigate environmental and social risks, and ensure sustainability in clients’ operations. In addition, as discussed below, IFC is undertaking several steps to enhance its risk management function in connection with the decentralization. Finally, the decentralization is being undertaken in a phased approach, first in Asia, and then in other regions over three years. This approach allows IFC to learn from experience and revise implementation processes, as needed, based on these experiences. IFC is also developing a knowledge management initiative to maintain global expertise as decentralization deepens. This would include department-level training at entry (on-boarding) and structured activities for sharing knowledge. This initiative would complement the current IFC induction program and credit courses, which have proven to be effective.

20.5 Management agrees with this recommendation. IFC has in the past responded well to such crises by supporting its portfolio projects and undertaking countercyclical investments such as trade financing, as well as debt and equity funding. IFC’s FY08-10 Strategic Directions paper acknowledges that current conditions in markets where it operates could change should there be financial crises. IFC’s growth strategy takes into consideration the need to maintain financial capacity to accommodate the impact of possible financial crises. IFC stands ready to play a countercyclical role, with instruments such as trade lines and other support, including advisory services, to select clients. IFC is undertaking several steps to improve overall risk management and thereby better prepare IFC for the next crises. As part of the decentralization initiative, the risk-management function will be transformed to facilitate improved client service and efficiency, while retaining appropriate checks and balances on decentralized decision making. Steps in this direction include: (i) the ongoing Business Process Review to streamline and strengthen operational procedures; (ii) shifting credit review and, eventually, most aspects of risk management decision-making to the field; (iii) enhanced corporate tools for risk management, including improved risk-rating systems; (iv) integration of development-impact metrics with financial risk-return metrics; (v) enhanced reporting of all metrics; and (vi) strengthening of information technology (IT) for more efficient and effective document
IFC MANAGEMENT ACTION RECORD 2011

processing and management.

Management Comment 2011:

20.1 IFC rated the Level of Implementation of this recommendation in CY2010 as “High” with a Status of “Active (to be made inactive) largely because IFC has taken the action to implement this recommendation, i.e., lessons from the enhanced joint CAS pilots have been endorsed by IFC management for mainstreaming. In FY2010, both Bank (through OPCS Vice Presidency) and IFC adopted a new approach to joint CASs based on lessons learned from the CAS pilots. Furthermore, as indicated in the Management Response, IFC’s current strategic processes already involve developing country level strategies that feed into Country Assistance Strategies (CASs) and into IFC’s regional and sub regional strategies that form part of IFC’s Corporate strategies (Road Map). In addition, IFC regional departments regularly prepare strategy presentations on select countries for internal discussion with members of senior management.

20.2 In last year’s update of the implementation status of this recommendation, IFC demonstrated (and IEG concurred) its growth over the years in investment commitments and advisory services in agribusiness, rural MSMEs through FIs and renewable energy/energy efficiency in agribusiness. Going forward, IFC’s overarching poverty reduction theme and continued focus agribusiness/food security and access to finance should further enhance rural development. For example, on a global scale, IFC will address food security in the context of the World Development Report 2008 and the WBG Agriculture Action Plan FY10-12, and implementation will focus on, among others, food security – with the aim to raise agricultural productivity growth. In addition, the WBG’s/G20’s Global Agriculture and Food Security Program (GAFSP) private sector window that IFC is developing is intended to help reach large numbers of farmers with a combination of seed or first loss money, debt, equity and grants for innovation, and advisory services. On a regional scale, IFC’s new agribusiness strategic thrust in Africa, for example, focuses on increasing rural incomes, improving food security, and diversifying exports through inclusiveness, wholesaling, processing, and large-scale agriculture.

20.3 WBG cooperation remains essential in achieving WBG corporate goals. IFC continues to build on its close cooperation in the areas of strategy, policies and systems, and projects. At the corporate strategy level, IFC’s focus areas and current initiatives support the WBG’s strategic priorities as defined in the WBG Post Crisis Directions paper. At the sector and thematic levels, IFC is an integral part of the WBG’s strategy in, among others, climate change, knowledge management, investment climate, palm oil, water, and food security. At the country level, IFC and the WB are implementing enhancements to the Country Assistance Strategy process in accordance with the recommendations of the IDA-IFC Secretariat. In policies and systems, IFC is actively engaged with the World Bank in a number of areas, including the ongoing compensation review and development of WBG integrated communication platform as part of the WBG Information Management and Technology (IMT) strategy. Further, the World Bank (WB) and IFC business continuity management teams continue to work closely together to develop and coordinate effective responses to business disruptive events globally and to jointly develop management tools and systems that meet the requirements of each organization. The IDA-IFC Secretariat was mainstreamed in December, 2010 with a number of accomplishments and recommendations poised to increase WBG collaboration through existing WB and IFC structures. The WB and IFC staff continue to stay engaged in sector, thematic, region, and country issues through regular consultations.

On knowledge management, IFC and the Bank continue to learn from each other and explore common approaches to knowledge retention and expertise via membership on several of each others’ committees and practice groups. The Bank’s and IFC’s decision in 2010 to acquire licenses for the technology underlying iCollaborate (a platform that supports knowledge-sharing, innovation and virtual team work) paved the way for the Bank Group to work together on a common collaboration platform – a historic first.

On AS coordination, IFC has an internal policy mandating consultation with WB whenever the client is government. In addition, IFC’s Investment Climate and Access to Finance Business lines are under the oversight of a joint WBG VP, further reinforcing coordination.
20.4 IFC continues to build on the progress in ensuring continued focus on work quality while implementing IFC 2013. Reassignments of key directors, managers for investment and portfolio, and investment/portfolio staff, were completed in the Fall of 2010 with minimal interruptions in operations. These were complemented by the simultaneous reallocation of investment projects and realignment of IT and budget support. Client relationship management was enhanced with relationship manager assignments completed for more than 1,900 clients/partners (two-thirds of IFC’s total) to date. These steps all contribute to bringing IFC supervision closer to the clients for improved client responsiveness and enhanced overall supervision.

On knowledge management, the recently established Knowledge Strategy Committee (comprised of VPs and Directors) is overseeing a strategic agenda for KM synergies across regions, investment departments and Advisory Services business lines in order to leverage organizational changes. A Global Knowledge Office has also been created and is responsible for executing the knowledge strategy and work program, via a multi-pronged approach: (i) benchmarking existing knowledge in key business networks; (ii) using social media technology to collaborate; (iii) monitoring department-level KM programs through systemic metrics; (iv) incentivizing KM work via Knowledge-related performance objectives; (v) professionalizing the Knowledge Officer career stream; (vi) building capacity through a KM practice group; and, (vii) providing communication and outreach regarding KM best practices throughout the organization.

20.5 In line with IFC’s decentralization strategy (as reconfirmed in the IFC 2013), there is an increased shift of risk review functions to key field offices and a mapping of DC-based risk specialists to regions. In recent years, IFC increased risk management staffing and placed credit risk and special operations officers and other risk oversight disciplines in the Hong Kong, Istanbul and Johannesburg regional hubs in order to improve the timeliness and quality of the risk decision process. At the same time, risk standards and controls will continue to be centrally managed. Risk governance has been enhanced by the establishment of Regional Operations Committees (ROC) and a Regional Risk Director role, to align with the 2013 reorganization, and by the creation of a Development Impact Department (CDI). Business processes and IT framework have been realigned in accordance with 2013 institutional structure.

IEG RESPONSE 2011

20.1 As assessed in 2010, IEG considers implementation to be at an early stage.

20.2 Investments. In FY09-10, at least 53 new investments amounting to $1.35b (9% of total net commitments) were committed in agribusiness, renewable energy, and rural development projects. Of $1.35b, $0.96b (71%) was committed in agribusiness, $0.345b (26%) in renewable energy, and $0.52b (4%) in rural development. By number of projects, the focus was on agribusiness (38), followed by renewable energy (12), and rural development (3). By sub-sector, the 53 projects are widely spread across the value chain: agriculture (10), food (11), transport & warehousing (8), fertilizers (3), retail distribution (2), renewable hydro (5), renewable wind (2), renewable bio-mass (2), renewable solar (2), renewable electric power through FI (1), rural finance (1), rural funds (1), and electric power to rural areas (1). Source: MIS Extract File as of end-June 2010.

Advisory Services. In FY09-10, at least 64 new advisory projects with donor funding amounting to $62.3m (17% of total funding) had clear agribusiness (34, $28m), renewable energy (12, $22.4m), and rural finance & development components (18, $11.9m). Agribusiness projects included food safety and agri-financing. In Africa, at least 10 projects with a total of $7.4m donor funding were undertaken, comprised of agribusiness (4, $3.2m), renewable energy (1, $1.4m), and rural finance & development (5, $2.9m). Source: Advisory Services Database as of end-June 2010.

Summary Lessons Learned on Rural Finance: These were culled from financial market XPSRs evaluated by IEGPE

- Vietnam: In transition economies, neither under-estimate the speed at which competitors can establish themselves, nor the extent of the competitive pressures which could arise from below market pricing policies, particularly where the State dominates a large portion of the financial sector and price signals do not work adequately.
- **India:** An integrated approach to micro-finance including fee based advisory services can be a sustainable business model with higher development impact. An integrated approach to micro-finance including fee-based advisory services, rather than just micro-credit, can be a sustainable business model while at the same time having a higher development impact. This approach, however, can be fairly resource intensive, including higher staff quality, leading to higher operating costs and a slower asset growth.

- **India:** A commercial approach to microfinance is possible with the right combination of sponsor, governance, management and operational policy. The success of Basix underscores the viability of a commercial approach to micro-finance. Professional management, good corporate governance standards, committed sponsors & management, best practice operating policies and strong risk management systems are key ingredients for a successful commercial micro-finance operation.

- **India:** Economies of scale cannot necessarily be realized if a microfinance company’s customers are spread over a large geographical area. Operating costs for micro-finance institutions may be less sensitive to the scale of operations especially if the target market comprises rural customers over large geographical areas. Given the high transaction costs of such microfinance operations, quick scaling up of activities will not provide the expected efficiency gains. Estimation of operating costs for microfinance institutions should be conservative given their potentially significant impact on the overall profitability.

- **Serbia & Montenegro:** Robust credit analysis expertise, strong commitment, and first-mover advantage are critical factors for a bank to successfully grow its business in a high risk sector. Robust credit analysis expertise and strong commitment are critically important factors for a bank to successfully grow its business even in the high risk sector.

20.3 IEG agrees that management has taken many steps to identify and enhance synergies with the World Bank as well as with MIGA.

20.4 IEG recognizes management’s progress with regard to the implementation of systems such as knowledge management and the placement of credit of credit officers in field offices. However, feedback from staff has been mixed. IFC’s senior management team correctly responded by establishing an IFC 2013 Task Force to systematically solicit feedback and hear the concerns of IFC staff. As of March 24, 2011, management has not laid out a clear as to how the ongoing implementation of the IFC 2013 plan will be affected or modified to accommodate staff suggestions and concerns.

20.5 IEG agrees with Management’s assessment.
21. MSME-FI - 2007

**LIST OF RECOMMENDATIONS**

### 21.1 Encourage development of specific and prudential regulatory regimes for microfinance intermediaries in developing countries
- IFC needs to take a more proactive approach in encouraging other development partners who have substantial engagements with the developing country governments, to promote the establishment of specific and prudential regulatory regimes, and associated government supervisory capacity, for microfinance intermediaries in developing — particularly frontier — countries, in order to create conditions that will facilitate the transition of MFIs out of donor dependency, especially through their development of a savings deposit base and achievement of economies of scale by expanding their client base and the establishment of branch offices.

### 21.2 Enlarge the scope of technical assistance to MSME-FIs
- IFC could enlarge the scope of its technical assistance to MSME-FIs beyond the present focus of improving lending techniques and loan portfolio risk management, to also help selected MSME-FIs who have achieved good risk management practices to: (i) better meet the need for savings and other banking services (for example, remittances) by poor households and small businesses; (ii) implement best practice liquidity management procedures; and (iii) in the case of MFIs, help expand their client base to also reach small-size enterprises.

### 21.3 Give a high priority to improving ESHS supervision and ESHS compliance for MSME-FI projects
- IFC give a high priority to improving the environmental, safety, health and social (ESHS) supervision, as well as the ESHS compliance rate, of MSME-FI projects. In particular, IEG recommends that IFC set a goal to be achieved within a defined period of time, to improve its satisfactory ESHS supervision rate, and the ESHS compliance rate, of MSME-FI projects.

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### MANAGEMENT RESPONSE 2011

Management Response:

21.1 Management agrees with IEG’s assessment on the importance of the appropriate regulatory framework for microfinance institutions. IFC, mostly through its Donor Funded Facilities (e.g., PEP MENA, MPDF, PEP China, PEP in Central Asia) has been selectively involved in a high-level dialogue with governments, often in collaboration with the Consultative Group to Assist the Poor (CGAP), to help develop a favorable regulatory environment for microfinance. IFC’s microfinance strategy stresses, however, that the Corporation should selectively engage in these types of advisory assignments and only with the objective of helping to remove binding constraints that hinder access to finance in target markets. Overall, this is a role that CGAP is best positioned to fulfill in view of its mission and staffing profile. Regarding the second part of the recommendation that MFIs need to develop a savings deposit base and to achieve economies of scale
by expanding the client base and branch offices, we believe that microfinance institutions have an important role to play in providing payment and savings services to the poor. It is an important aspect of expanding access to finance, beyond microcredit. Nonetheless, this should also be done selectively, given that not all markets have clear prudential frameworks for MFIs’ deposit-taking function and, even in markets that have the necessary frameworks, not all MFIs are suitable institutions to raise funding through deposits, in particular from their client base, which tends to be of lower income. Because deposits can represent lifetime savings for some clients, it is important to distinguish those financial institutions that have the risk management capabilities, governance structure, and capital base to raise deposits and act in a fiduciary responsibility, from those that have insufficient institutional capabilities.

21.2 Management agrees that IFC’s technical assistance should be made available for a wide range of challenges faced by MSME-FIs. However, IFC should not be routinely prescribing strategic changes to our client institutions. Whether additional banking services should be offered to poor households and small businesses is a business judgment best left to the management and board of each FI. Should IFC face demand from its client institutions to help them develop new banking products, or to better manage their liquidity, then it would be appropriate for IFC to consider providing technical assistance responding to that specific need.

21.3 IFC Management gives a high priority to improving the ESHS standards of all projects, including those through MSME-FIs, and this was the rationale behind the comprehensive policy changes brought about with the new IFC Sustainability Policy Framework, which has been in implementation since May 2006. Among other features, IFC Sustainability Policy Framework includes a sophisticated risk-based appraisal and supervision of FIs. This risk-based approach allows IFC to be more cost effective by allocating more resources in high-risk projects than in low-risk projects, instead of taking a one-size-fits-all approach. The risk-based approach entails an analysis of the FI’s portfolio and is carried out during appraisal, to establish the risk level of the FI. The portfolio analysis and the performance of the FI’s Environmental Management System are captured in an Environmental and Social Risk Rating (ESRR) measure that is established at appraisal and will be tracked by IFC during project supervision. Under the 2006 framework, IFC actively engages with the client FI upfront, during the investment appraisal stage, and an ESHS plan is established and included in the covenants of the investment agreement between the client FI and IFC. This new approach is a significant improvement over the 1998 policy in which the client was required to establish an Environmental Management System after attending training conducted by IFC. IFC’s ability to conduct training for clients in all regions/countries was limited due to staffing and geographical constraints. IFC now makes available one-on-one guidance to high-risk clients, while moving the standardized training to an e-learning platform for greater efficiency. Furthermore, the team strength of ESHS specialists working on FI projects has doubled since 2006, and there is a formal supervision plan which entails 100-percent annual supervision of high-risk FIs as well as poorly performing ones. With the above measures already operational, we expect to see a substantial improvement in the ESHS performance of FIs going forward. This view is consistent with IEG’s independent finding in the report, which indicates that the new IFC ESHS Safeguard Policies and Performance Standards, IFC’s ESHS mainstreaming initiative, and the creation of an ESHS specialist team dedicated to financial markets operations are expected to improve ESHS supervision of financial intermediary projects.

Management Comment 2011:

21.1 On the policy-level, IFC continues to cooperate closely with the World Bank and CGAP in providing the appropriate financial infrastructure to support sustainable, inclusive and responsible microfinance. This cooperation has been amplified through the selection of IFC and CGAP, in November 2010, as key implementing partners of the G20 Global Partnership for Financial Inclusion. In addition to its own work in tackling enabling environment barriers to sustainable microfinance (such as support for the establishment of credit bureaus and collateral registries), in partnership with IDB and EIB, IFC has commissioned two annual benchmarking surveys of the microfinance business environment: *Global Microscope on the Microfinance Business Environment*. Regarding savings, IFC is actively supporting the microfinance sector in a number of ways, including rolling out an advisory program to support mobile banking. Meanwhile, a risk management toolkit tailored to MFIs has been developed to assist MFIs with financial and credit risks, thereby helping to stabilize and strengthen financial institutions so that they become profitable deposit taking
21.2 Overall, IFC advisory support to MSME-FIs has been increasing. Total project spend of IFC advisory services in the MSME-FI space (delivered by the Access to Finance business line) were $41 million in F10, compared to $30 million in FY07. By FY14, the equivalent expenditures are expected to be in the region of $68 million.

Within this increased business, IFC has expanded its product offerings in a number of important directions:
- In the non-credit space, rolling out a program of support to retail payment institutions, which are supported by complementary macro level work of the WB A2F team to improve remittance systems.
- In risk management, helping clients address liquidity management, internal control, and capital risks through advice on best practices. And also introducing a risk management toolkit—covering liquidity risk management, among others—for MFI CEOs and risk managers.
- Supporting microfinance networks, as opposed to single institutions, so as to increase financial inclusion reach, but also to create the conditions for MFIs to move into the SME space.
- Introducing a new, weather based micro-insurance product (Global Index Insurance Facility)
- Increased its support for housing finance.

21.3 Starting FY08, IFC (through CES) has managed E&S support and prioritized supervision for FI projects through development of an annual workplan and supervision strategy. Supervision scores have improved substantially with numbers for FY08 at 170% of plan (actual: 51, plan: 30) and for FY09 at 152% of plan (actual: 125, plan 82). As a result, the knowledge gap, the percentage of non-reporting projects in the portfolio, has been reduced dramatically for FI projects. The knowledge gap went from 18.3% in FY08 to 6.8% over FY09 to 5% in FY10. It is presently at 2% with efforts underway to continue to reduce this over FY11. IFC’s decision to support capacity development initiatives for FI clients resulted in the development of the Sustainability Training & E-Learning Program (STEP) for FI clients. This web-based, capacity development initiative was released in May 2009 and is designed to help FIs better understand E&S risk management and sustainability-related business opportunities. To date, 505 participants have enrolled, 275 of which are clients. Other capacity development initiatives include the CES and CGF sponsored study on “The Factors Affecting the Environmental, Social, Health & Safety Performance of Financial Intermediaries in 6 Sub-Saharan Countries,” conducted by Triodos Facet. The study is being finalized and the recommendations will be developed into a wider capacity building program for FIs in CAF. Finally, Financial Institutions Resources Solutions and Tools FIRST26 for Sustainability, the IFC-supported web site for clients, is in the final stages of development. Once launched in May 2011, FIRST will become a global one-stop resource for FIs on E&S risk management. The dissemination and implementation of FIRST will be achieved through the establishment of a global partnership network of regional capacity building partners that will be developed by the end of FY14. CESI has doubled the team supporting FI projects from FY08 to date. The team is also highly leveraged through the use of short-term consultants who also support investment operations

IGE Response 2011

21.1 During the period, IFC has continued to support financial inclusion and regulatory environment for microfinance intermediaries both at policy and micro level. As indicated in the management comments, IFC increased its role in these areas through two new partnerships with other development partners (i.e., EIB, IDB and G20). These partnerships intend to help countries put into practice the principles for financial inclusion and provide a basis for benchmarking the business conditions for microfinance industry, including regulatory framework and capacity.

In FY10, IFC supported microfinance institutions with 28 new advisory services projects. These services mainly sought to expand access to finance to underserved and rural populations, improve operational effi-

26 Financial Institutions Resources Solutions and Tools
Microfinance industry in many developing countries still lacks established regulatory regimes. Moreover, recently, microfinance industry is under scrutiny by development community because of the regulatory issues of the industry and ambiguous impact on poor. Therefore given that IFC has made progress towards reaching this recommendation, IEG archives this specific recommendation but suggests further engagement beyond the scope of the original recommendations.

21.2
- MSME-FI projects is the largest services in both value and numbers in access to finance portfolio. At the end of FY10, around 60 percent, (148 out of 248 projects and $94 million of $158 million) of the projects in the portfolio were direct support to SME banking and microfinance institutions. Even though, support for MSMEs dominates access to finance portfolio, the impact of them on poverty is not clear. Going forward IFC needs to balance between sector wide approaches that deepen financial markets and direct approaches to MSMEs.

- IFC has increased its scope of MSME-FIs products, particularly knowledge products. For example Benchmarking Best Practices In SME Banking, Housing microfinance toolkit, Global Microscope (Microfinance business environment), WB-IFC remittance price database are some of the MSME-FI related products.

- Access to Finance business line has committed to achieve by 2013 greater financial inclusion by providing more diversified financial services and by deepening. In addition, two of the IFC development goals target MSMEs; “increase access to financial services for MSME clients” and “help MSMEs to increase their revenues”. These suggest IFC’s continued commitment to outreach to MSME clients with an increase scope of assistance.

21.3 Since 2006, CES staff for FI sector has increased from two to seven E&S specialists and eight consultants, which is reflected in improved supervision work quality for FI projects that is now statistically at the same level (success rate 72% between 2008-2010) as in real sector projects (77%). IFC has established a number of standard requirements for FI sector projects; in the 2010 XPSR sample four quarters demonstrated good performance in meeting host country laws and exclusion list, but only half of applicable FIs complied with IFC’s requirement for subprojects to meet EHS guidelines, and SEMS implementation is still a problem area. Thus capacity building is necessary to improve Environmental and Social Effects success rate in FI projects that was on average about 64% between 2008 and 2010. However, IFC should not rely only on web-based solutions; hands-on training by CES specialists during site visits to FIs and their subprojects, and regional or country-wide training and capacity building are also needed (see also IEG comment 20011-STD036REC02).
22. PEP-ECA 2007

LIST OF RECOMMENDATIONS

22.1 Improve the quality of M&E indicators, data collection methods, and cost accounting.
- Improving the quality of M&E indicators, data collection methods, and cost accounting. Project-specific M&E targets should be tailored to country situations and conditions as part of project preparation, verified as part of the project approval system, and monitored during project implementation. More rigorous survey techniques and data collection methods should be developed to establish baselines and enable comparisons across time and across countries where possible. The proper utilization of the indicators and techniques should be closely monitored to derive lessons and ensure data quality. A more comprehensive expenditure accounting and tracking mechanism should be introduced, which would not only enhance M&E, but provide a useful project management tool for benchmarking costs of different activities and developing Advisory Services pricing and client contribution strategies. This would also provide data for analysis of benefits and efficiency of the programs and their components.

22.2 Account for the full cost of Advisory Services interventions
- Accounting for the full cost of designing, implementing, and supervising the Advisory Services intervention, including IFC’s overhead and administration costs. This will derive the entire cost of the Advisory Services intervention and enable more thorough assessment of the effectiveness of the Advisory Services intervention, and adequate comparison among various projects and programs.

STATUS OF IMPLEMENTATION

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MANAGEMENT RESPONSE 2011

Management Response:

22.1 IFC has made major advances in M&E since the review period. IFC has identified and implemented sets of standard performance indicators of output, outcome, and impact for each product under its five business lines and is developing incentives for the use of these indicators. IFC has undertaken 20 experimental trials to understand the impact of selected projects better, and the findings are being fed back to advisory staff. IFC is also undertaking project reviews, conducted using external experts, to improve program design and implementation where 11 such reviews have been completed. Furthermore, IFC is currently developing a tailored approach to advisory cost-benefit analysis as a means of better linking M&E to project cost accounting.

22.2 21.2 IFC already has a major program under way to upgrade its advisory project budgeting further. This program, once complete, will see IFC apply a standardized approach to all of IFC’s advisory project budgeting. This approach will also ensure that every IFC advisory budget accounts for all program elements, including the costs of design, implementation, and supervision.

Management Comment 2011:

22.1
- IFC has developed the standard performance indicators of output, outcome, and impact for each prod-
IFC is piloting a set of Development Goals (IDG) which will guide IFC to reach a double bottom line of financial sustainability and development impact.

IFC is developing an evaluation framework aimed at identifying evaluation priorities; integrating the impact assessment in the project life cycle and feeding the evaluation results into the decision making process.

IFC is developing a new financial management system (AS FM System) for IFC’s Advisory Services aimed at better tracking the project cost for each component. This AS FM System will help the project managers carry out the cost-benefit and cost-efficiency analysis.

22.2 In FY11, IFC AS streamlined its cost allocation methodology and reduced the 9 standard AS activities to 3 common categories of Project Expenses, Program Management & Support and General & Administrative Expenses. A detailed methodology on allocating staff time and other direct expenses was developed and training was rolled out to AS staff in all units and regions. A methodology on allocating overheads will be implemented in FY12. Once completed, these two improvements will allow a full understanding of project costs on a consistent basis.

IEG RESPONSE 2011

22.1 On the first recommendation STD032REC04, indeed major improvements have been made in terms of developing and rolling out standard core indicators (SCI) for output, outcome and impact for each product. However, there are problems that still need to be addressed with the SCI:

a. these SCI are often blindly adopted by teams because they are largely required and as such they are not always appropriate in terms of relevance to the individual project objectives and frequently other, non SCI, are needed to actually assess a project's achievement but which are not included. The outcome of this situation is that sometimes projects are claiming credit for SCI results which cannot be attributed to the project (because they did not undertake activities aimed at influencing such SCI) and the SCIs cannot help shed light on what the project actually set out to achieve. In such cases a more customized approach in terms of indicator selection.

b. definitions of these indicators are still unclear in some areas and even problematic in some instances because they are interpreted and measured inconsistently across staff and teams. More detailed definitions and examples of usage are still needed.

c. data collection, baseline and reporting is still problematic. Presumably the new idesk system for AS to be rolled out will offer a chance to correct a lot of these issues, but the proof will be in the pudding.

22.2 The new system to be launched sounds promising. However IEG cannot validate the improvement until the system is fully rolled out and the quality of such information in PCRs is demonstrated and validated via IEG reviews.
23. INDONESIA 2007

LIST OF RECOMMENDATIONS

23.1 Help enlarge the role of the private sector in infrastructure development
   - IFC can help enlarge the role of the private sector in infrastructure development by advocating more transparent contracting practices, and by partnering with the WB and other MDBs to pursue contracting process reforms to make these transparent and politically sustainable.

23.2 Help develop a long-term local currency debt market
   - IFC can focus on helping Indonesia develop a long-term local currency debt market; but to do so, needs to work with the WB and other development partners to encourage further reforms in the bond market and the life insurance and pension systems.

23.3 Diversify agribusiness project operations
   - IFC can scale-up and diversify its agribusiness project operations and continue to focus on stronger linkages with SMEs, farmers and rural communities, while insuring sustainable ESHS practices.

23.4 Scale up support for SMEs
   - IFC can scale up its support to SMEs in underserved regions of the country through regional SME-oriented commercial banks.

23.5 Improve ESHS supervision
   - IFC can improve the ESHS compliance rate of the Indonesian portfolio with better ESHS supervision.

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MANAGEMENT RESPONSE 2011
Management Response:

23.1 IFC agrees that competition and transparency is central to achieving the type of efficient infrastructure services that Indonesia’s development needs, and that this is particularly important during the contracting process. IFC is committed to supporting infrastructure development and was one of the major sponsors and organizers in an “Infrastructure Summit” held in Jakarta in November, 2006, attended by top government officials and representatives of the private sector. Among the outcomes was proposal by the Government of Indonesia to have IFC prepare and structure the first 10 infrastructure projects in cooperation with the country’s Project Planning Department (KKPPI). IFC has been working with the World Bank and the Government in identifying model transactions to be prepared for examination, and the quality of the procurement process is a key issue for joint review with the Government. IFC believes that the reforms are most likely to be adopted broadly when the benefits are demonstrated through actual projects. IFC is in the final stages of agreeing on a major advisory services mandate to bring infrastructure best practice to the bidding for a large power project. IFC is also working on other advisory roles in the power sector and is cooperating with the World Bank and the Government of Indonesia to establish a specialized financial institution, currently called the Indonesian Infrastructure Financing Facility (IIFF). Those activities and transactions will seek to demonstrate the gains from transparent and competitive contracting processes.

23.2 In the financial sector, IFC has been supporting the consolidation and strengthening of the banking sector, and strengthening the capacity of rural banks and microfinance institutions. IFC has disbursed nearly $150 million in long-term Rupiah loans, most of which will be used for local credit to SMEs. With respect to the local currency bond market, the World Bank, the Indonesian Ministry of Finance, and the Capital Market Supervisory Authority (BAPEPAM) have held a series of conferences and a policy dialogue on non-bank financial markets, including Rupiah bonds in 2007. The dialogue has revealed a number of policy and capacity issues for which IFC can play a role in filling the gaps. These include tax policy, the lack of an active secondary market, the lack of liquid repurchase and derivative markets, and a need to strengthen mechanisms for registration, trading and settlement. Addressing these issues will help build the confidence of institutional investors in the local currency bond market, thereby increasing its liquidity particularly for corporate issuers. IFC will consider how it can effectively play a role in building these markets through demonstration transactions as well as advisory support.

23.3 Management agrees and is strongly supporting linkages between SMEs and lead firms in key domestic commodity based sectors, focusing on supply chains in agriculture, fisheries and forestry. IFC will expand its focus on value chain approaches in all IDA countries in East Asia starting with Vietnam, but extending to Indonesia and Cambodia, as the benefits both in terms of development impact and investment are clear. In that context, IFC will make sure that those projects will pursue environmentally sustainable practices. In Indonesia, the linkages advisory work has led to increased sales in markets for several agricultural products. As an example, IFC has supported a cluster of 20 SMEs to increase sales of acacia furniture based on sustainable harvested wood. IFC will seek to scale up this work in other agribusiness supply chains. To ensure focus, the Country Manager is now responsible for both investments and advisory services.

23.4 IFC has a focus on this area. Management considers rural banking crucial, and it will ensure that greater attention is given to SME development in “non-Java” regions of the country. Management has started in Java as there are financial intermediaries that can be utilized. Efforts are being undertaken to reduce or eliminate policy impediments to effective rural banking, including restrictions on support from foreign parties and limitations on the number of branches per province. Similar to the commercial banking sector, IFC is working on efforts to consolidate the many small and weak institutions into more effective ones that can make the technology and human capital investments needed to effectively serve SMEs sector in the regions. Only in the event that the Government improves these policies (on which IFC is providing help) will IFC be in a position to scale up SME operations in outlying areas. Until then, IFC’s involvement will be limited.
23.5 In Indonesia, a number of investments went into jeopardy during and post crisis, and legal action had to be sought against sponsors. This has contributed to the lower than average EHS compliance rates. Management agrees that improvements in supervision can be gained and it has been implementing an increased supervision program for the past 18 months. Management is increasing the number of projects physically visited and has been steadily increasing the knowledge of the portfolio. The on-going decentralization is expected to further strengthen client contacts and help collect, monitor and improve EHS in the client companies.

Management Comment 2011:

23.1 IFC has been providing advisory services for structuring and implementing the Central Java IPP Project transaction since May 2008. Prequalification of applicants was completed in November 2009 resulting in seven qualified bidders. Consultations with bidders on the PPA, the RFP and the guarantee structure took place. The PPA is complete and final draft is ready for issuance, subject to coordination with the Guarantee Agreement. The Presidential regulation on guarantees (delaying the earlier target bid date of August 2010) was issued on Dec 29, 2010. Consequently, the bid submission date has been extended to end of March 2011, financial close in June 2012, commercial operations of both units in Dec 2016 (one unit in June 2016). IFC is discussing with government counterparts a mandate to advise on the structuring and tendering of a number of geothermal sites. Together with the Government of Indonesia, the World Bank, ADB and DEG, IFC invested in IIF in 2009 to launch this new NBFI to provide long term capital and advice for infrastructure development.

23.2 IFC has been leading discussions with the Government to allow supranationals to issue long term local bonds to broaden and deepen the bond market. In so doing, IFC is working with Government agencies to address specific technical constraints. IFC is leading a combined approach with IBRD and ADB. The response from the Government had been delayed at the Tax Authorities. However, repeated enquiries and meetings have led to progress and now the Ministry of Finance is finalizing its position regarding an approval.

23.3 There are 6 investment projects, involved in the grains and milling sector, fruits and vegetables, and other food sectors. IFC investment services committed portfolio in agribusiness amounts to US$ 95.65 million. In addition, there are 3 advisory projects: ALFI (2 commodities: peanuts, cocoa) which aims to link smallholder farmers to lead firm supply chains to increase farmers and lead firms’ revenue and improve environmental and social sustainability; ECOM which focuses on establishing a Farmer Training Center (FTC) and building the capacity of farmers on sustainable coffee practices; and Agribusiness Investment Climate, aiming to promote increased investment by firms and smallholders in sustainable agribusiness by identifying and removing key impediments in the enabling environment for sustainable cocoa.

23.4 There are projects with 8 MSME-oriented financial institutions in frontier regions. Investment projects result as of September 2010: Bank Internasional Indonesia's SME portfolio amounted to US$ 1.34 billion; Bank Danamon's microfinance portfolio amounted to US$ 4.9 billion, with a year on year growth of 41%; Bank Danamon's SME portfolio amounted to US$ 2.06 billion, with a year on year growth of 26%; WOM Finance's portfolio amounted to US$ 540 million, with the number of loans disbursed in 2010 estimated at 489,000; OTO Finance's portfolio amounted to US$ 1.13 billion, with the number of loans disbursed in 2010 estimated at 933,000; BTPN's microfinance portfolio as amounted to US$ 470 million; Advisory Services project results: Sahabat Bank's number of outstanding loans: 125,937 valued at US$ 52,544,900; Investment & advisory project results: Bank Andara's number of outstanding loans to Microfinance Financial Institutions: 192, valued at US$ 16,796,400; Hana Bank’s portfolio as of Sep 2010 amounted to US$140 million.
23.5 Environmental supervision has been enhanced. IFC performed 59 ESRRs from FY2006 to FY-2010 for the 22 active Indonesian investment projects. Projects that present a sufficient level of portfolio risk are visited, at a minimum of one supervision visit per year.

IEG RESPONSE 2011

23.1 IFC has been very active expanding its infrastructure presence in Indonesia through advisory and investments. It successfully implemented in partnership with WB and other MDB’s, a specialized financial institution to support infrastructure and has been working with the government to implement a BOO power project. However, progress remains to be monitored as no projects have been approved under the facility and the Java transaction has not been finalized yet.

23.2 While efforts have been done to develop a long-term local currency debt market, results are yet to be seen in these areas.

23.3 Investments. In FY09-10, there were no new investment commitments in Indonesia’s agribusiness sector. However, there are active projects in the agribusiness portfolio totaling $240m, particularly in crop production ($1.30m), forestry ($0.92), and food & beverages ($238.7m). Source: Committed Balances, MIS Cubes.

Advisory Services. In FY09-10, out of 12 advisory projects undertaken in Indonesia with a total donor funding of $11.41m, there were 5 projects in the agribusiness sector with a total donor funding of $6.66m (58% of total donor funding), composed of sustainable business (2, $2.18m), access to finance (1, $0.10m), ESS (1, $3.76m), and investment climate (1, $0.62m) advisory. Source: Advisory Services Database as of end-June 2010.

23.4 Investments. In FY09-10, there were 6 new operations in the financial markets sector for $212m focused on servicing MSMEs in frontier regions, of which 1 (Andara) would be through a financial intermediary. As of FY10, there are active projects in IFC’s Indonesia financial markets portfolio that provide microfinance ($5m), and banking services to MSMEs ($72.5m).

Advisory Services. In FY09-10, there was one A2F advisory undertaken with a total donor funding of $1.14m to increase access to financing for rural & MSME clients in frontier regions.

23.5 In Indonesia, the Environmental and Social Effects success rate of 11 projects evaluated 2005-2009 was 88%, much above the 33% success rate of six projects evaluated between 2001 and 2003 and above IFC’s long-time average 67% across all regions. Thus projects’ Environmental and Social Effects in Indonesia have improved significantly during the past years. However, in three projects out of 11 evaluated 2005-2009, there was not sufficient information for Environmental and Social Effects rating and thus they were rated No Opinion Possible (NOP).
24. IEDR 2008

LIST OF RECOMMENDATIONS

24.1 Measuring Advisory Services Performance
- IFC should continue, with input from IEG, to strengthen the steps it is taking to improve the data on the performance of advisory services operations, including efforts to improve understanding among staff about results measurement, quality assurance by managers, as well as performance monitoring beyond project close.

24.2 Additionality in Lagging Regions, Sectors, and Client Groups
- IFC should carry out further analysis of additionality in lagging regions, sectors, and client groups, in order to identify what specific steps are required to enhance performance.

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MANAGEMENT RESPONSE 2011

Management Response:

24.1 Management agrees with the recommendation to strengthen measures to improve the data on performance of advisory services operations, in consultation with IEG-IFC. IFC is currently taking a number of steps to improve the quality of data in the project supervision and completion reports, through further streamlining of core indicators by product line, promoting baseline data collection, increasing oversight by evaluation staff, and increasing training and knowledge sharing. Together with IEG-IFC, the IFC results measurement team is organizing a two-day course on monitoring and evaluation of private sector advisory programs at the International Program for Development Evaluation Training in June 2008. As part of knowledge sharing, two annual conferences are organized each year, in which lessons learned from evaluations and evaluation methodologies are shared among the broader World Bank Group, donors, academics, and other multilateral development banks. Partnerships in evaluation have been established with leading experts from institutions such as the MIT Poverty Action Lab, and with foundations such as the German Marshall Fund. Forums on results measurement are being held for donors and multilaterals as well as for foundations in May 2008. Competencies for monitoring and evaluation staff are being developed to strengthen the cadre. IFC will continue to consult with IEG-IFC on developing guidance for identifying, at approval, projects that would require post-completion monitoring so that appropriate frameworks and plans can be established at the outset. IFC would welcome IEG-IFC’s efforts to institute a mechanism to provide feedback to staff on Project Completion Report (PCR) ratings as soon as possible, as is being done in the case of the Expanded Project Supervision Report (XPSR) system on the investment side. (PCRs and XPSRs are IFC’s project-level self-evaluation reports for advisory services and investment operations respectively).

24.2 We note the report’s conclusion that its review of IFC’s additionality raises a number of questions. In this regard, we support the suggestion to do further evaluation of IFC’s delivery of additionality with a view to identifying areas where IFC’s additionality can be enhanced. This review should consider both analyses of areas where IFC has been strong and areas where IFC has been lagging.
Management Comment 2011:

24.1
- To strengthen IFC focus on measuring and evaluating development results, a new department - Development Impact Department (CDI) was created in Sept 2010. The new department consolidates two teams currently dedicated to results measurement for the Investment Services and Advisory Services, aligning their measurement and evaluation systems.
- Quality review of project Approval, and Supervision and Completion reports is regularly conducted by CDI. The results are shared with AS management and staff via quarterly operations reports. These results also constitute an important part of biannual portfolio reviews.
- PCR review meeting has been introduced by to ensure and improve the project quality completion report.
- Agreement with IEG has been reached regarding projects that should be excluded from a DE rating.
- A working group is set up in developing the post completion monitoring framework and guidelines.
- All existing practices and guidelines regarding the AS operations governance are in the process of formalization.
- CDI is developing a corporate guideline on data aggregation.

24.2 DOTS 2, launched in October 2009 includes a mechanism for tracking IFC’s additionality. Data on expected additionality for all active projects committed from FY08 to the present. As these projects mature, additionality achievement ratings will be determined from each active project. IFC will therefore be able to better analyze and articulate the value it adds, and faster feedback to management will better inform strategy, operations, and incentives.

IEG Response 2011

24.1 IEG recognizes that much has been done to improve M&E system shortcomings, but that implementation has yet to show fruits of efforts.

24.2 DOTS 2 now captures additionality at the beginning and also tracking during the project cycle. Not yet reporting in Annual Report / PPAR.
25. GUARANTEES 2008

LIST OF RECOMMENDATIONS

25.1 Revisit its approach to risk-sharing facilities (RSFs) to increase flexibility and improve the attractiveness of the product.

- The rigid approach to structuring RSFs has limited IFC’s ability to fully exploit the benefits of partnering with local and international financial institutions. This rigidity and high transaction costs have discouraged utilization of the instrument. More flexible structures should be considered to make the product more attractive to partner financial institutions. IFC has accumulated the data and the experience to give it the comfort needed to simplify processes and to give flexibility to partners to use their strengths while at the same times strengthening those processes intended for risk management and social and environmental safeguards.

25.2 Scale-up successful models in energy efficiency, education, and capital market development based on the use of guarantee structures.

- IFC has developed models based on guarantee structures in the areas of energy efficiency, SME financing, education, and capital market development. Limited replication has taken place so far. IFC needs to assess its experience with these products, simplify, standardize, and bring them closer to market practices to enhance prospects for scaling up in line with its programmatic approach.

STATUS OF IMPLEMENTATION

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<td>25.2 Scale-up successful models in energy efficiency, education, and capital market development based on the use of guarantee structures.</td>
<td>High</td>
<td>Active (to be made inactive)</td>
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</table>

MANAGEMENT RESPONSE 2011

Management Response:

25.1 Agreed with respect to simplifying the process - IFCs position with respect to first loss in RSFs is not about willingness to take risk but about the appropriateness of the project structure. Whether an off-balance sheet securitization or an on-balance sheet RSF, the approach risk is the same. However there are some broader issues with respect to the implementation and replication of RSFs in a timely and efficient manner that management is addressing. As management develops more of these structures, it is becoming more efficient with respect to processing and documentation, and management is now working to simplify and standardize these structures to the degree possible.

25.2 Agreed on scaling up in these sectors, not agrees on limiting scope to guarantee products - IFC is pursuing programmatic approaches as a way to increase the development impact and additionality of operations by extending IFC activities beyond the individual project into a program of projects and advice. A key approach to this is through wholesaling, where IFC is combining its financial sector and industry expertise to enable the wholesaling if IFC financial products for specific industries through local banks. The education sector is one of the key areas where this is being done. In energy efficiency, IFC has been a leader in the development of financing programs through financial intermediaries designed to deliver environmental benefits, including clean energy. Management expects to scale up in this area. A number of capital market products that include guarantees are being explored that would address such needs as access to
housing finance and agribusiness and which will be facilitated using short-term finance, local currency financing, and risk-sharing products.

Management Comment 2011:

25.1 Simplification and standardization achieved as follows:

A. Models:
- IFC’s Structured Finance Dept (CSP) completed the development, validation by the Integrated Risk Dept, and deployment of the (1) Generic RSF Model used for extensive risk analysis specifically for Investment Review Meetings and (2) simplified loss allocation model for external client proposals.

- IT infrastructure for the deployment was launched in April 2010 (see this link--http://ifchq14.ifc.org/ifcint/treasury.nsf/Content/SF_CSPAnalyticTool) where we are able to have model version control and monitor usage.

- CSP also produced and launched 7 e-Learning Modules for the RSF product and made them available in Learning Management System as part of its knowledge-sharing and mainstreaming efforts. To date, there have been 115 registrants, 86 of whom completed all modules. The learning modules have been effective in expanding the understanding of RSFs, as 70% of the 86 individuals completing all of the modules to date are based in country offices.

B. Due Diligence:
- CSP created 11 Generic Questionnaires and client data analysis guidelines. The CSP analytics team also developed generic SAS tools for organizing and calibrating data for use in the simplified model. These tools have been placed on a website for easy access by investment staff throughout IFC. In addition, a Vintage Tool Analysis (an Excel add-on) and user guide were also developed to make the Statistical Analysis Software (SAS) interface more user-friendly.

C. Credit Policy:
- IFC-internal approach for rating and pricing RSFs agreement has been reached based on the on the quantitative RSF models described above.
- IDA-IFC also have reached agreement on standard operating procedures to facilitate scaling up of RSF utilizing the IDA funds at Board requests

25.2
- In FY10, IFC’s commitment using RSFs in energy efficiency and education sector doubled to $64mn compared to FY09 which amounted to $31mn.
- In FY11 YTD, IFC commitment amounted to $212mn under the Global Trade Liquidity Program (GTLP) II program—a trade-product utilizing the RSF framework—with additional mobilization of $429mn from third party.
- RSFs application expanded to include the telecom/distributor finance sector, for commodity hedging assets, and for surety bond assets with both individual companies and re-insurers
- For capital markets:
  - IFC credit enhanced Titulizadora Peruana’s (TP)—a Peruvian securitization company—its first residential mortgage backed securities (RMBS) issue and the first after the crisis
  - IFC completed its first remittance-backed securitization transaction in El Salvador
  - IFC invested in a diversified payment rights (DPR) securitization by Akbank, an existing IFC client in Turkey. IFC investment allowed client to successfully relaunch its existing DPR securitization program after the financial crisis.
25.1 The actions taken are in the spirit of the recommendation and the issue it seeks to address. They are also consistent with the agreed indicators. The actions seem to strike the right balance between careful managing of risks and simplification of procedures.

25.2 The actions taken are in the spirit of the recommendation and are appropriate given the issues they seek to address. They are consistent with the agreed indicators.
26. ES HS 2008

LIST OF RECOMMENDATIONS

26.1 IFC should continue to develop systems with its Community Learning initiative.
- IFC should continue to develop systems with its Community Learning initiative to improve accountability and transparency among Equator Principles signatories. It should also encourage and support environmental consultants and develop and institutionalize market-driven training to help them master IFC’s Policy and Performance Standards on Social and Environmental Sustainability. IFC should focus its Advisory Services and capacity building efforts on regions and sectors with low environmental performance, especially on Sub-Saharan Africa and the textile, food and beverage, tourism, and agriculture sectors. IFC should continue supporting market transformation towards sustainability with its Advisory Services and direct and financial intermediary investments, emphasizing technology transfer and development in clean production, energy efficiency, and sustainable supply chain management.

- IFC and the Bank should better coordinate policy dialogue with governments to enhance structural reforms aimed at public private partnerships in water, wastewater, and waste management, reuse, and recycling sectors, and ensure that industry views in these and other environmentally relevant and sensitive sectors are present in the national and sectoral policy dialogues.

26.3 Reporting and monitoring of performance criteria in IFC projects.
- Reporting and monitoring of performance criteria in IFC projects should include specific emissions and mass flows in addition to the present system that monitors pollutant concentrations. These indicators should be determined before and assessed afterward for all relevant projects to track their impacts on such matters as the abatement of effluent discharges and dust and greenhouse gas emissions. For environmentally sensitive IFC agriculture and forestry projects, especially in areas of high biodiversity, carefully designed baseline studies should be done to identify indirect, induced, and cumulative (as well as direct) environmental and social impacts. Adequate plans to mitigate any negative effects should be designed, implemented, and carefully monitored. Sustainability of supply chains with certification schemes and third-party monitoring should also be enhanced.

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</tr>
<tr>
<td>26.2 Better coordination between IFC and the World Bank on policy dialogue.</td>
<td>High</td>
<td>Active (to be made inactive)</td>
</tr>
<tr>
<td>26.3 Reporting and monitoring of performance criteria in IFC projects.</td>
<td>Substantial</td>
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</table>
Management Response:

26.1 No Comments

26.2 The recommendation would have been more solidly grounded and of greater clarity if it were substantiated with the findings drawn from a systematic evaluation of IFC World Bank coordination. Regardless of this shortcoming, increased World Bank Group collaboration is strategic IFC goal, and IFC departments have laid specific plans to enhance Bank Group synergy. However, it is important to recognize that the Bank works on a country demand-driven basis, and such collaboration is dependent on specific country demand.

26.3 No comments

Management Comment 2011:

26.1 Quality assurance, outreach and knowledge product development are core elements of IFC’s approach to social and environmental sustainability, all of which contribute to further strengthening the dissemination and adoption of the Performance Standards as a global public good. IFC has consulted with EPFIs Executive Committee throughout the process of review and update of the Performance Standards. The final report from the scoping study titled ‘Factors Affecting the Environmental and Social Performance of Financial Institutions in Sub-Saharan Africa’ identified the need for a market-wide capacity building program and put forth recommendations for a program tailored to the reality and needs of African FIs.

26.2 IFC has actively engaged in the development of the World Bank Group Environment Strategy and Energy Sector Strategy. IFC has contributed to 11 joint analytical papers that underpinned the Environment Strategy and contributed with integration of the private sector feedback from consultations events. The WBG Energy and Environment strategy were presented to the SDN Council in January 2011.

26.3 IFC is actively involved in the new WBG Environment Strategy and is leading several technical papers under the Pollution Management Thematic Group. The Quality Assurance unit is coordinating efforts with Development Impact Department to track Environmental and Social Performance (E&S) against 25 performance E&S performance indicators that are included in Development Outcome Tracking System 2 (DOTS 2).

IEG Response 2011

26.1 The agenda of Community Learning meeting on July 2010 focused mainly on Performance Standards update. However, Equator Principle Financial Institutions (EPFIs) have launched a Strategic Review late 2010 to address e.g. transparency in the EPs by requesting annual reports on EPFIs. However, as for IFC’s projects with high E&S risks, IEG recommends a jointly agreed third party verification process for EPFIs. For example, a certified body or consultant would evaluate once in five years performance of EPFIs in regard to compliance with EPs (process, organization, SEMS, EP adherence) and select a random sample of subprojects for compliance analysis. The report summary would be disclosed at EP web page.

IEG welcomes the study ‘Factors Affecting the Environmental and Social Performance of Financial Institutions in Sub-Saharan Africa’, which aligns with IEG earlier studies on importance to build client capacity in countries with weak E&S regulatory regime and with clients who lack awareness on E&S issues. IFC should develop tools, guidance and best practices for E&S risk management for the financial sector in the region, using AS for local consultants and TA providers that are interested to assist FIs, and identify key...
local FIs who will participate in and support this work.

26.2 The World Bank Group Environment Strategy is expected to be completed mid 2011 and IEG will review after completion how WB-IFC coordination in policy dialogue with governments has been addressed in the Strategy.

26.3 IFC’s E&S supervision relies heavily on client reporting, supported by E&S specialists site visits. IFC’s key supervision tool is the Annual Monitoring Report (AMR) for real sector projects and Annual Environmental Performance Report (AEPR) for Financial Intermediary (FI) projects. The present AMR system does not provide IFC with consistent, reliable information on clients’ performance. AMRs should be further developed in light of IEG’s earlier recommendations and increasing portfolio of corporate loans and equity investments, where IFC proceeds are often used for multiple project sites instead for earlier clearly ring-fenced project finance. The present design and client’s reporting with AMRs has not responded to these challenges. IFC should overhaul the AMR system focusing on a limited number of key indicators that can be easily benchmarked against industry best practices, IFC’s and local requirements. The reports should summarize the overall corporate performance in projects with multiple facilities, using trend figures that would cover the project timeline. IEG is aware of the AMR update process and would like to continue dialogue with IFC management on updates.
27. NIGERIA 2008

LIST OF RECOMMENDATIONS

27.1 Infrastructure and non-oil growth
- IFC needs to diversify areas of intervention in Nigeria to: (i) help address development challenges related to poor infrastructure (in particular power and roads) and excessive dependence on the oil sector; (ii) contribute to trickle-down effects of oil-driven growth; and (iii) expand viable private sector activities beyond the present narrow confines of operations in terms of sectors. This would involve: (i) more strategic and effective deployment of advisory services, particularly in infrastructure and related areas; and (ii) close cooperation with the World Bank to help improve the business environment.

27.2 Country Strategy
- IFC needs to improve the process of developing country assistance strategies for key countries such as Nigeria by: (i) strengthening the country focus of IFC’s strategy process including enhanced coordination with the World Bank; (ii) formulating country objectives in terms of expected development impacts; and (iii) linking objectives with the allocation of organizational resources.

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<td>27.1 Infrastructure and non-oil growth</td>
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<td>27.2 Country Strategy</td>
<td>High</td>
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</table>

MANAGEMENT RESPONSE 2011

Management Response:

27.1 Agrees with the thrust of the recommendation - IFC is actively engaged in seeking effective means of engaging in the real sectors and expect a greater progress in the future as reforms continue to take hold. IFC agrees to focus their efforts on infrastructure on the power sector and key services sectors. IFC has deployed its advisory services in a more strategic manner with the advent of PEP - Africa from 2005.

27.2 Agrees with the Recommendation - IFC has initiated a new country strategy process in Nigeria, piloting the structured strategy formulation framework that IFC uses at the corporate and regional/sectoral department level in the country level. This process is expected to complete in the second quarter of FY09, and will then assess whether this provides, the best framework for the country strategy formulation. It is expected that this process would feed into the broader World Bank Group (and DFID) joint CPS. There is an ongoing dialogue with the Bank at the corporate level on how to make the private sector development focus and IFC role in joint Country Assistance Strategy (CAS)/CPS more effective, which we also expect the Nigeria experience to inform.

Management Comment 2011:

27.1 IFC began making progress on this objective, increasing real sector shares in FY 10, both in terms of volumes and projects:
### Commitments $ 2009 2010 2011 YTD

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<tr>
<th></th>
<th>2009</th>
<th>2010</th>
<th>2011 YTD</th>
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<tr>
<td>Nigeria all</td>
<td>547</td>
<td>689.4</td>
<td>638.5</td>
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<td>Real Sectors</td>
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### Commitments # 2009 2010 2011 YTD

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<tr>
<td>Nigeria FM</td>
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<td>Real Sectors Share</td>
<td>27.3%</td>
<td>37.5%</td>
<td>12.5%</td>
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2011 YTD at 2/28/2011; full year results will show additional real sector projects.

However, beginning in FY 10 IFC purposely departed from this strategy and refocused on the financial sector to assist the country’s emergence from a banking crisis. This resulted in less progress than planned, and will result in a decline in real sector shares in FY 11 in particular. Beginning FY 12, we will resume making progress, having completed the crisis response strategy.

#### 27.2 IFC reformulated the Nigeria Country Strategy during FY 10-11 to respond to the banking crisis.

This was done in explicit consultations and agreement with the WB, which also initiated additional financing to assist with the crisis response. The new strategy incorporates explicit development impact targets for financial and infrastructure sectors.

IFC reformulated the Nigeria Country Strategy during FY 10-11 to respond to the banking crisis. This was done in explicit consultations and agreement with the WB, which also initiated additional financing to assist with the crisis response. The new strategy incorporates explicit development impact targets for financial and infrastructure sectors.

Beyond Nigeria, IFC and the WB launched a new approach for developing joint WB/IFC CASs in FY11. This new approach builds on lessons learned from the six FY09-10 CASs that served as pilots for enhancing CASs. It includes a more focused and in-depth strategy formulation on two to four priority sectors, participation in results matrix, and continued WB-IFC engagement beyond the CAS process. IFC’s participation in the results matrix is consistent with the IEG recommendation of formulating country objectives in terms of development outcomes.

In addition, IFC’s Road Map Paper includes brief summaries of strategies in key countries and country clusters. These summaries are based on recent CASs and on in-depth country and sub-regional ground up and top down internal strategy discussions in IFC.

#### IEG RESPONSE 2011

27.1 IFC’s progress towards meeting the objective remains marginal and the modest trend seems to be even reverting in FY11. However, given the impending financial crisis and the size of the financial markets portfolio in Nigeria, it was appropriate for IFC to make determined efforts to protect its investment portfolio, particularly knowing the adverse effects that past crises had on IFC’s portfolio. On the other hand, a crisis can present good opportunities for impact through new investments. So while the re-focused strategy has been adequate, a continue effort to a more diversified portfolio would have been appropriate as well. While the Mgmt response indicates that IFC has deployed AS in a more strategic manner with PEP-Africa, except for a few initiatives in Health, not much has been done to diversify the portfolio.
27.2 It has been positive to use country strategic thinking to reformulate the Nigeria Country Strategy, to have a new approach to Joint/IFC CASs in FY11 and to have included strategies of key countries such as Indonesia and Brazil in the IFC’s Road paper. However, more time is needed to assess if changes with regards to country strategy focus and enhanced coordination are sustained and effective in the longer term.
28. BROE 2008

**LIST OF RECOMMENDATIONS**

### 28.1 Enhancing measurement of impact and additionality at the country level.
- IFC should consider developing more robust and consistent metrics for monitoring and assessing its additionality and development impact at the sector and country levels as IFC transitions to a more programmatic approach to interventions. To start, IFC may wish to focus on sectors and countries in which it has taken a programmatic approach, and there has been a critical mass of IFC activities.

### 28.2 Achieving better coverage of IFC’s portfolio in reporting on results.
- IFC should aim to expand the coverage of IFC’s portfolio in reporting on results. It should improve the portfolio coverage of reach indicators and report the development results of its entire mature portfolio.

### STATUS OF IMPLEMENTATION

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<tr>
<td>28.1 Enhancing measurement of impact and additionality at the country level.</td>
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<td>Inactive (already implemented)</td>
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<td>Substantial</td>
<td>Substantial</td>
<td>Active (rated)</td>
<td>Active (rated)</td>
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### MANAGEMENT RESPONSE 2011

**Management Response:**

28.1 IFC has made significant efforts to ensure that additionality considerations are an integral part of its business development and implementation activities. The underlying analytical framework for additionality was presented to IFC’s board of Directors in November 2007. IFC had issued a additionality primer to help staff develop, assess, and communicate IFC’s role and additionality systematically. IFC has also launched additionality training for staff as part of the more extensive credit training course. For tracking the additionality systematically, the enhanced version of DOTS (DOTS II) will be introduced later in the year. For assessing additionality at the macro level, IFC is following IEG- IFC’s own methods for conducting sector and country - level evaluations, which are still evolving. Management does not agree that where IFC has sufficient critical mass, it makes sense to try assessing IFC’s developing results at the country level. IFC is working through the IDS- IFC Secretariat on measuring results and to enhance the articulation of the role and expectations of IFC’s activities in CAS, starting with a few pilots in Key IDA countries. It plans to work closely with IEG to enhance its contribute in the CAS Completion review process.

28.2 DOTS cover all the active companies in IFC’s investment portfolio (over 1200), and internal reporting to IFC management covers all active companies. In the Annual Report, IFC focuses on the 6 - yeat time slice of operations, similar to IEG’s approach for its Independent Evaluation of Development Results. The Annual Reports clearly articulates what is covered and why. Since DOTS covers projects untill closure, IFC will eventually report on both the active and closed projects, but in its current early stage, coverage of closed projects is too limited to be meaningful. IFC is committed to further increase the coverage of our portfolio with reach indictors, particularly in Sub Saharan Africa. The introduction of (DOTS-II) is expected to enhance the technological platform to enable staff and management to report, track and analyze reach information real time.
Management Comment 2011:

28.1 IFC rated the Level of Implementation of this recommendation in CY2010 as “High” with a Status of “Active (to be made inactive) given action IFC took to implement the recommendation, i.e. launch of DOTS2 which tracks IFC additionality in addition to development impact. To date, backfilling of additionality in DOTS2 for projects dating back to FY08 has been completed and inputting of additionality for FY11 projects is in progress.

28.2 With the implementation of DOTS 2, IFC reported at least 80% coverage for 10 out of 13 mandatory reach indicators for its active portfolio. All mandatory MSME reach indicators achieved at least 80% coverage.

The coverage ratios of the rest of the mandatory reach indicators were nevertheless very close to 80%. IFC is well on its way to achieve 80% coverage for all mandatory indicators (with some exclusion).

IEG RESPONSE 2011

28.1 See IEG’s 2010 comments above. DOTS 2 has been introduced, however it will take some time for IFC to backfill information going back to FY08 and aggregate meaningful data.

28.2 Progress made in DOTS 2 for wider coverage. Continue to improve coverage.
29. IEDR 2009

LIST OF RECOMMENDATIONS

29.1 Improve execution of the Advisory Services (AS) pricing policy.
   - Over the longer term, it would be important to seek client contributions that reflect value and impact, i.e. not just cost, to create a true test of client demand, incentives for better AS delivery, and ensure IFC is being additional.

29.2 Strengthen Advisory Services (AS) performance measurement and internal knowledge management.
   - In the short term, it would be important to have more hands-on M&E support in the field, post-project completion follow up, capturing of lessons from dropped or terminated projects, and more arms-length facility, product and project reviews. In the medium term, it would pay to introduce an XPCR system (akin to the XPSR system for investment operations, and carried out later than the PCR to better capture impacts), more programmatic impact evaluation and impact research, setting results-based targets for AS in its corporate scorecard, and regular benchmarking of IFC AS activities and systems with other providers of knowledge services, including other multilateral development banks and commercial providers. In the longer term, the aim could be to establish a specialized research unit focusing on generating and bringing together private sector development knowledge work.

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<tr>
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<td>Medium</td>
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MANAGEMENT RESPONSE 2011

Management Response:

29.1 Management agrees that our pricing policy is an important tool to strengthen the impact of our AS interventions, but differs with IEG on parts of their analysis and recommendations. IFC has been charging clients for some of its advisory products for many years. Since 2007 this policy was broadened to embrace the full range of our advisory services. The policy was intended to strengthen the clients’ commitment to implementing the advice. Moreover, since our AS is focused on addressing market failures, pricing approaches based on the value or impact of our AS will often not be relevant or practicable. IFC intends to keep the operation of our AS pricing policy under regular review, and will continue to refine the implementation of the policy based on experience.

29.2 IFC agrees on the importance of effective performance management and internal knowledge management, and is committed to improving its performance in both areas. IFC introduced its M&E system for advisory in 2005. The M&E function in IFC is decentralized, with every region staffed with one or more M&E officers. Going forward, Management would be very supportive of the development of an XPSR instrument. Management has recently launched a major KM initiative for IFC as a whole. In addition, the joint World Bank. IFC Vice Presidency for Finance and Private Sector Development engages in a substantial research with internal and external partners. Against this background, management does not believe that a specialized IFC unit focusing on private sector development knowledge work is necessary over and
above the current initiatives.

Management Comment 2011:

29.1 IFC AS continues to elaborate and refine its pricing and client contribution policy including drafting more specific procedures and guidelines for both operational and finance staff. Early in FY11, additional guidance was issued to staff for (i) Clarification of nature, form and valuation of client contributions; (ii) Requirements for recognition of in-kind and indirect contributions; and (iii) Use of legal agreements. A training program for all AS staff on client contributions and pricing will be rolled out in late FY11 / early FY12.

29.2
- A working group is forming to develop the post project completion framework for tracking the long term development impact of the AS operations.
- CDI is undertaking a comprehensive analysis of KM operations with an objective to develop an M&E framework to better track the results of KM operations.

At the Corporate level, a comprehensive knowledge strategy was formulated and presented to Management in 2010. Based on this, the Global Knowledge Office has been implementing a multi-pronged KM work program that is comprised of benchmarking and analytics, tools, technology, behavioral change, incentives, knowledge products (including lessons learned and flagship products), KM competencies, communications and outreach. The Knowledge Strategy Committee was elevated to a corporate committee with delegated authority in February 2011. An IFC Knowledge Strategy is expected to be presented to CODE and to the Board in FY12.

IEG Response 2011

29.1 IEG recognizes that progress has been made with regard to AS pricing. The institution-wide implementation of a pricing policy will be enhanced once the AS staff training can be effectively designed and implemented. This should provide more clarity to staff on how to categorize and assess appropriate and meaningful client contribution to AS projects. IEG should consider adjusting the status of this recommendation after the training has been conducted.

29.2
- This is a process which has begun and improvements are being made over time. Despite the introduction of standard core indicators, implementation has been difficult due to (i) lack of common definitions across regions of SCI, (ii) use of SCIs even if not relevant to a given project, which ultimately overstates results which are not attributable, (iii) general problems of attribution of results being claimed—for example, an advisory to FM project which claims ‘credit’ for all increased lending, instead of a realistic increment of lending, and (iv) too much focus on SCI at the expense of using indicators that more appropriately capture expected outcomes and impacts. Management is currently working on the attribution aspect with the introduction of the IDGs which is a step in the right direction, yet more can be done to strengthen definition and selection of indicators, as well as idesk data reporting.
- IFC has increased M&E presence in the field in all regions, yet the quality of M&E capacity, and the support they have from regional management, differs across regions. Hence effective improvements are more tangible in some regions, while others continue to lag.

List of Recommendations

30.1 Expand support for innovative approaches and viable business models.
- Expand support for innovative approaches and viable business models that demonstrate private sector solutions to improve the health of the poor, including expansion of investments in low-cost generic drugs and technologies that address health problems of the poor.

30.2 Support public-private partnerships.
- Support public-private partnerships through Advisory Services to government and industry and through its investments, and expand investments in health insurance.

30.3 Improve collaboration and joint sector work with the World Bank
- Improve collaboration and joint sector work with the World Bank, leveraging Bank sector dialogue on regulatory frameworks for health to engage new private actors with value added to the sector, and more systematically coordinate with the Bank’s policy interventions regarding private sector participation in health.

30.4 Improve incentives
- Improve incentives and institutional mechanisms for an integrated approach to health issues across units in IFC dealing with health, including the way IFC is organized.

30.5 Enhance its results orientation
- Enhance its results orientation by developing clearly specified baseline indicators and an evaluation framework that adequately measures IFC’s health sector objectives and results.

Status of Implementation

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<th>Level of Adoption</th>
<th>Status Rating</th>
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<tr>
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<td>Mgmt</td>
<td>IEG</td>
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<tr>
<td>30.1 Expand support for innovative approaches and viable business models.</td>
<td>Medium</td>
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<tr>
<td>30.2 Support public-private partnerships.</td>
<td>Substantial</td>
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<tr>
<td>30.3 Improve collaboration and joint sector work with the World Bank</td>
<td>High</td>
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<td>30.4 Improve incentives</td>
<td>Substantial</td>
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<tr>
<td>30.5 Enhance its results orientation</td>
<td>High</td>
<td>High</td>
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Management Response:

30.1 Management agrees with working on innovative approaches and helping private providers to move down-market to serve lower-income groups and markets. IFC has several initiatives already under way to
build on its work to date. Some examples include: • Health in Africa initiative. • Working with clients to invest expertise and capital from high-income to low- and lower-middle income countries, e.g., Saudi-German Hospitals, based in Saudi Arabia, opened hospitals in Yemen, Egypt, and Ethiopia with IFC finance, creating a South-South investment. • Output-based aid projects in Yemen and Nigeria, in which poor people get subsidized care in IFC-financed private facilities that otherwise would not exist. • Creating finance facilities for health care small and medium-size enterprises in low-income countries by use of structured finance, combined with technical assistance, that IFC pioneered with banks in Africa and elsewhere to finance education facilities, and building on that knowledge to apply it in health. • Working with clients to move down-market within their country, e.g., working with Apollo Hospitals in India to create hospitals in secondary cities.

30.2 IFC has supported pioneering health public-private partnerships (PPPs) in Romania and Lesotho and continues to work in this area. While health PPPs are a relatively recent development in emerging markets, there is increasing interest in health PPPs as a means to expand and improve services for the public. The work in Lesotho is at the leading edge for emerging-country health PPPs in several aspects. From the investment aspect, partners in health PPPs to date have often been construction companies rather than health providers and have not required capital from IFC. In some of the few cases where it is truly health services, rather than construction and facilities management, that have been provided by the private sector, IFC has financed providers of renal dialysis services and diagnostic services to public health systems. Many of IFC’s clients who provide health services have prepayment schemes for health care in operation and this makes the most business sense. In some instances, by creating more low-cost local capacity, IFC health-provider clients have made it possible for health insurers to offer new products with lower premiums. Experience to date has shown that the business case for direct investment in stand-alone private health insurance does not exist to the extent envisaged when the 2002 IFC health strategy was devised. The few health insurance operations found to date that actually needed capital have needed only very small amounts, too small to be viable transactions. This segment of the sector is intended to be addressed by the health-sector financing facilities now being developed and in early implementation. For the balance, typically the health insurer is one arm of a larger insurer that is well capitalized from its other operations such as life insurance or is a subsidiary or joint venture of a well-capitalized foreign parent company.

30.3 In some situations, such as the Health in Africa initiative and the Lesotho healthcare PPP, IFC and the World Bank are collaborating very closely. In practice, there are times when this is practical and possible and times when it is not. The imbalance in the size of human resources working on health in the two organizations, with the World Bank having many more people dedicated to health, requires IFC to be judicious in how it allocates its resources to work with the Bank.

30.4 IFC is currently going through a period of reorganization aimed at achieving a number of goals. As part of this, industry clusters have been created and Health and Education are in the same cluster with Global Manufacturing and Services, which contains IFC’s pharmaceutical activities. Communication and collaboration between teams working on health care and pharmaceuticals are frequent and ongoing. The market reality is that it is rare for one organization to invest in both health care provision and pharmaceutical manufacturing. The knowledge needed to work with these clients is also very different. Information is also exchanged between the Infrastructure Advisory group, advising on health PPPs, and the Health and Education investment department. Care has to be exercised that such information is exchanged only at appropriate points in project life cycles to avoid conflicts of interest that could arise in being both advisor to a bidding process and financier of a winner of a bid. Integrating these two functions too closely would create a conflict for PPP work.

30.5 At the project level, IFC has implemented the Development Outcome Tracking System toward the end of the period under review. Over time, this is expected to improve such results orientation and specifying of baseline indicators. IFC also agrees that where there is a sufficient critical mass of projects in the health sector in a specific country, it makes sense to try to assess IFC’s development impact in the sector beyond aggregating project-level results. While recognizing that attributing sector development to IFC’s intervention is an issue that needs to be carefully addressed, IFC is looking into ways of measuring results beyond the project level. Among others, the work IFC is undertaking with the IDAIFC Secretariat in reviewing the CAS results
matrix could lead to the establishment of a country-level sector development results framework that could be used in countries where IFC has a critical mass of projects in health. IFC is also exploring setting development impact and reach targets for investment departments, including health and education.

Management Comment 2011:

30.1 IFC remains committed to leveraging wholesaling facilities to reach a larger number of patients receiving medical care through small and medium size health care companies. In FY 2010, we committed four facilities: i) US$50 million to Banca Transylvania in Romania (IFC Project # 28708), which is expected to reach 6000 SMEs in health sector, of which 2300 are in rural and frontier regions of Romania., ii) US$25 million Bic Banco (Project # 28626), creating access to finance to 80 SMEs, (iii) US$50 million for FBN in Nigeria - Health, Education and Agribusiness (Project #28220), increasing access to finance to 455 SMEs and; iv) US$25 million for Yapi Kredi in Turkey ( Project #29117), reaching about 550 SMEs. The investment part of the Africa Health Program led to the establishment of a new health focused Equity Fund for Health in Africa and debt facilities through commercial banks in most of the involved focus countries. These activities are occurring in parallel to a continuation of traditional IFC investment activities in Africa. We remain engaged in developing additional opportunities, especially in Africa. IN FY 2011, we committed US$11 million Vinati Organics in India (FC Project #29888), the world's largest supplier of a key active substance to make for ibuprofen, which is expected to increase access to affordable and quality drugs in India and Africa. In addition, we are actively exploring the use of shorter term supplier finance to support Life Sciences companies.

30.2 On the advisory side, as of 02/28/11, C3P (responsible for PPP transaction advice) had successfully closed 16 health PPP transactions (3 in FY11 to date), with 8 active mandates and 10 more in the pipeline (active discussions with client governments). Each transaction is estimated to result in additional access of 100,000-300,000 public patients annually (depending on the type of transaction) and private investment of $20-100 million. A new multi-donor advisory funding facility is expected to be established by end FY11, which will enable further scaling up. There will be even greater focus on IDA countries and targeted PPPs which reach the poor and enhance maternal/child health. C3P will also broaden its activities to include contracting for health services for communities linked with extractive industries and large agro-plantations.

30.3 The health in Africa program, in its third year, has led to a successful coordination across the World Bank group with policy analysis being undertaken jointly by the World Bank HNP staff and CIC health industry staff (integrating an investment climate, business environment and regulatory simplification focus) both in HQ and out of the Africa based hubs in Kenya and Senegal. The advisory services part of the program, which is highly client focused has also led to Bank Group work in Kenya, Nigeria, Ghana, Uganda, Tanzania, Burkina Faso and the Congo. The initiative is being expanded to India and South Asia. The investment part of the program led to the establishment of a new health focused Equity Fund for Health in Africa and debt facilities through commercial banks in most of the involved focus countries. These activities are occurring in parallel to a continuation of traditional IFC investment activities in Africa.

30.4 IFC underwent extensive restructuring in September 2010, as part of which Health and Life Sciences were brought together under the same industry managers at global and regional level. The relevant expertise from the former departments of Global Manufacturing & Services and Health & Education are now together within Consumer and Social Services, which falls within the new Manufacturing, Agribusiness & Services Department. C3P and CMGCS continue to collaborate and exchange information such as identifying potential private partners for PPPs being advised and having representation from investment present at concept reviews of PPPs.

30.5 In the 2010 update, IFC indicated that it has implemented the Development Outcome Tracking System (DOTS) with clearly defined indicators and baseline information that can be tracked throughout the life of the project. The projects are assessed based on four parameters (Financial, economic, environment and
social, and private sector development performance). The indicators give a sense of the different stakeholders directly impacted by IFC client companies in implementing the projects. For healthcare, a key measure of reach is the number of patients that have been treated. The information is collected on an annual basis for each IFC investment in health and for advisory projects, and reported in aggregate in the IFC Annual Report.

IFC continues to use vigorously the DOTS to measure, track, and monitor the development impact of IFC’s client companies in the countries they operate. The reach figures are collected on an annual basis for both new investments and portfolio projects in health sector and reported in aggregate in the IFC Annual Report. In addition, as part of the IFC Development Goals (IDGs) implementation in June 2010, the number of patients reached has been included as one of the six IDG indicators with pre-defined targets for new IFC investments in health and advisory projects.

**IEG RESPONSE 2011**

30.1 IFC expanded its portfolio in Health, and many includes new approaches. Ultimate success of these approaches and lessons are to be assessed.

30.2 High PPP in health achieved. Support to health insurance by GBOPA. Progress to be monitored.

30.3 Health in Africa Program well collaborated between IFC and WB. Less visible outside of HiA,

30.4 Recent org change brought together the health operations in the same management. Collaboration observed in AS-infrastructure and Inv.

30.5 DOTS data are well used in IFC strategic discussions and now experimenting with IDG to mainstream the results data in the corporate scorecard.
MIGA
MANAGEMENT ACTION RECORD 2011
31. 2010 IER

LIST OF RECOMMENDATIONS

31.1 Create a MIGA Strategy with a Clear Value Proposition.
- As it approaches the next strategy period, MIGA needs to articulate a fundamental value proposition, and make this the basis for its next strategy. This value proposition would reflect market demand, be grounded in MIGA’s core strengths and value-added – its skills, the nature of its guarantee instrument and its relationship with the WBG – be financially sustainable, and most importantly, be implementable. (2010 IER)

31.2 Strengthen and Align Incentives to MIGA’s Strategic and Operational Goals.
- MIGA needs to put in place a suitable performance management system that aligns staff incentives to the achievement of MIGA’s corporate goals and priorities, and enables the Agency to deliver its targeted development results and business volume. An appropriate incentive system aligned to delivering “value-driven-volume” that will fully support the implementation of MIGA’s next strategy FY12-15 should be in place by the start of that strategy period. To that end, MIGA is strongly encouraged to assess whether its current performance management system and the incentives embedded in it is compatible with its corporate goals and commitment to delivering a far higher and growing volume of developmentally sound guarantees, and based on that assessment, take the necessary actions so that a suitable incentive system is in place that fully supports achievement of the Agency’s business volume and development effectiveness goals. IFC’s experience in aligning staff incentives with its institutional goals of delivering business volume and development outcomes may be relevant to MIGA’s efforts to develop an incentive system that supports its “value drive volume” goals. (2010 IER)

31.3 Apply Lessons from (Self-) Evaluations to Future Guarantee Projects.
- MIGA needs to ensure that lessons distilled in evaluation and self-evaluations are applied to new operation by means of an effective feedback loop. To that end, MIGA needs to include lessons learned from past projects in MIGA’s Underwriting Paper, develop a system that allows lessons distilled from evaluations to be easily accessed by all underwriting teams; incorporate “lessons learned” into the management review process for projects; and systematically disseminate evaluation findings and lessons. More generally, MIGA needs to establish a culture of learning and continuous improvement (“kaizen”) with strong encouragement and leadership from management. (2010 IER)

31.4 Strengthen and Align Business Development to Support MIGA’s Strategy.
- MIGA needs to revamp its business development function to reverse the current stagnation in guarantee issuance and enable the Agency to consistently meet or exceed its business volume, development effectiveness and strategic priority goals. An appropriately revamped business development function should be in place by the time of the next strategy period, FY12-15. To that end MIGA would benefit by reviewing its business development function with respect to the appropriateness of staff roles and responsibilities for business development, the adequacy and suitability of staff incentives for business development, and the cost-effectiveness of the activities undertaken, and based on the findings of such a review, taking the actions necessary to reverse the current stagnation and build up MIGA’s guarantee business volume to allow selectivity, consistent with the Agency’s accountability for meeting its targets for value-driven volume in the next strategy period. (2010 IER)

31.5 Measure Project-level Financial Results to Inform Strategy Development.
- To enable MIGA to grow its business in a strategic and financially sustainable manner, MIGA should start to measure project-level financial results so that is can ensure that any cross-subsidies benefit only those projects with high ex-ante development outcomes. Developing this system before the start of the next strategy period FY12-15 would enable MIGA to use information on project level profitability to inform its operations and strategy development. (2010 IER)
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<td></td>
<td>Not rated</td>
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**Management Response 2011**

Management Response:

Management Comment 2011:

31.1 MIGA’s FYY12-14 Strategy has been submitted to the Board for review. This defines areas for priority focus for the Agency, which are derived from an analysis of MIGA’s comparative advantages within the PRI market, juxtaposed with its role as a development institution.

31.2 Disagree. This recommendation was not based on a rigorous evaluation framework, and is not particularly actionable. MIGA would note that it works within the World Bank’s HR policies, and utilizes the full range of performance management tools available through this framework. Within the Performance Management system, every MIGA underwriter has annual business targets that are tied to sectoral work programs which are in turn based on MIGA’s overarching strategic directions. Non-underwriting staff have performance targets that are based around providing service to the underwriting teams.

31.3 Fully agree with the principle: evaluation is a tool for learning (what works, what doesn’t & why). And, learning is to inform strategy implementation, project origination, underwriting & monitoring.

MIGA Self-Evaluation

MIGA is only in year 2 of piloting self-evaluation. Completed 3 evaluations in FY10; expects to do 5 in FY11; plans for 7 in FY12. MIGA is learning how to do good evaluations by doing them. This has entailed heavy investment in program design, training, etc.

Dissemination of results will be a priority. To date, MIGA has discussed early learnings of the 3 completed evaluations in departmental briefings, BBLs, workshops on findings.

As the stock of self evaluations grows (and hence the representativeness of evaluated projects increases), it will be appropriate to distill common lessons. In this regard, MIGA will employ a range of tools, including short synoptic notes, searchable data bases, and in house workshops.

IEG Evaluations

Considerable scope exists for IEG to improve the dissemination of its evaluations. IEG has completed 40 evaluations since 2003, yet little progress so far in distilling and disseminating findings in ways which are readily accessible to MIGA staff. IEG’s work program submissions to MIGA and to CODE stress the priority it attaches to expanding its knowledge activities, specifically learning of lessons through outreach to WB and IFC staff. It would be valuable to MIGA if IEG were to do the same with its evaluations of MIGA guarantees. We understand that this will become a larger priority going forward, which management very much welcomes.

MIGA will continue to pay careful attention to IEG evaluations and ensure that sector teams are closely in-
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volved in the review processes (e.g. the MIGA response to the recent IEG evaluation on Financial Sector Guarantees), which is an efficient learning method and feedback loop.

With both IEG and MIGA ramping up dissemination activities, staff will be in a position to draw relevant lessons for future guarantees.

Moreover, important lessons are not the sole purview of MIGA evaluations, but also in evaluations of WB and IFC operations as well as those conducted outside the auspices of the WBG. These are often sectoral or thematic, and MIGA teams draw on those.

31.4 Disagree.
MIGA has: created a cross-selling function with IFC; signed a business origination contract with the WB; launched its Agent & Finders Program; opened Asia Hub.

Management considers it important to take stock of these business development indicators before launching any new business development actions as recommended by IEG.

See response to 31.3.

31.5 Disagree.

With respect to using project-level financial results to develop MIGA’s strategy, management believes that MIGA’s role as a development institution warrants the Agency providing support for productive projects even if for some of these projects MIGA does not recover the full direct cost associated with underwriting. Profit maximization is not one of MIGA’s objectives, and to seek to focus the Agency’s activities on certain sectors or regions on the basis of profitability will leave MIGA in a position to reject smaller deals, which tend to be more common in smaller IDA economies.

However, MIGA always covers its incremental costs on each guarantee, as dictated by good management practice. MIGA tracks the direct costs associated with delivering every individual project (these variable costs are in the largest part staff time) and this data provides input into all of MIGA’s pricing decisions.

Management believes 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.

IEG RESPONSE 2011

31.1 MIGA has submitted its Strategy FY12-14 with an explicit value proposition, [which was subsequently approved by the Committee as the Whole.]

31.2 Not rated.

The implementation of this recommendation is no longer tracked as MIGA management chose to disagree with it. It should, however, be noted that MIGA previously explicitly agreed with this recommendation. In MIGA’s final Management Response to the report “Achieving Value Driven Volume – MIGA’s Development Results and Institutional Effectiveness 2010” MIGA wrote “Management largely agrees with the first four of these recommendations” [Note: This recommendation was listed third, hence was explicitly endorsed by MIGA.]

31.3 Medium.
MIGA has taken steps to implement this recommendation.
MIGA has been operating its newly introduced self evaluation system as of FY09. The agency has so far submitted four self evaluation reports to IEG for validation and is committed to ramp up self evaluation further. Dissemination efforts of lessons learned from self evaluations are yet another step towards implementing this recommendation.
Scaling up the self evaluation system is yet outstanding so that eventually the share of projects self evaluated and evaluated becomes a representative sample of the MIGA’s portfolio.
IEG hence rates the implementation status medium.

31.4 Not rated.
The implementation of this recommendation is no longer tracked as MIGA management chose to disagree with it. It should be noted that MIGA previously explicitly agreed with this recommendation. In MIGA’s final Management Response to the report “Achieving Value Driven Volume – MIGA’s Development Results and Institutional Effectiveness 2010” MIGA wrote “Management largely agrees with the first four of these recommendations” [Note: recommendation 12 was listed, hence was explicitly endorsed.]

31.5 Not rated.
The implementation of this recommendation is no longer tracked as MIGA management chose to disagree with it.
It should be noted that MIGA previously endorsed this recommendation, at least indirectly.
In MIGA’s final Management Response to the report “Achieving Value Driven Volume – MIGA’s Development Results and Institutional Effectiveness 2010” MIGA wrote “With respect to the [referred] recommendation, relating to using project-level financial results to develop MIGA’s strategy, management believes that MIGA’s role as a development institution warrants the Agency providing support for productive projects even if for some of these projects MIGA does not recover the full direct cost associated with underwriting. [...] Management agrees that it is important to be cognizant of the costs associated with individual projects, but believes it is important to have a business culture that provides room for the Agency to offer support for smaller investments, highly developmentally projects, and for investors with fewer options.”

IEG’s assessment of the Status of Implementation is based on information provided by MIGA under the column “MIGA Management Comments”.

RATINGS:
“Substantial” = MIGA has taken steps to adopt/incorporate the recommendation into policy, strategy or operations to a substantial degree;
“Medium” = MIGA has taken some steps to adopt/incorporate the recommendation into policy, strategy or operations, but not to a significant degree (or not in key areas);
“Low” = MIGA’s actions and/or plans for adoption of the recommendation are in a very preliminary stage.
32. 2009 IER

LIST OF RECOMMENDATIONS

32.1 MIGA needs to underpin its engagement in conflict-affected countries with a game plan.
- Such a game plan would enable MIGA to enhance its development effectiveness in conflict-affected countries and would allow the Agency to utilize its administrative budget and capital more effectively. This includes developing some staff with specialist knowledge and expertise of the issues and needs of operating in a conflict environment; aligning MIGA's business functions—such as marketing, business development, client aftercare, and risk management—to effectively support this business; and assessing the financial implications of its engagement in conflict-affected countries. MIGA may also wish to assess its project-level risk management approach (i.e., contract exclusions) to assure itself of the consistency of its stated strategic priority and its actual implementation. (2009 IER)

32.2 Should MIGA decide to pursue Trust Funds in the future [to supports its post conflict engagement], it should enhance their efficiency and effectiveness.
- This includes implementing multi-country and un-tied Trust Funds with broad and flexible mandates that have no restrictions with respect to the eligible investments or investors. Trust Fund arrangements should be underpinned by realistic objectives (including with respect to expected demand) and a results framework. (2009 IER)

32.3 MIGA needs to better articulate and define its expectations and preferences with respect to technical assistance in the context of its mandate.
- The end of FIAS' current strategy period is an opportunity for MIGA to present a clearly articulated approach and value proposition for its technical assistance in the context of its mandates under the Convention for the period FY12 and beyond, and to define the commensurate funding. In addition, mechanisms to strengthen MIGA's influence on FIAS' strategy and priority-setting, as well as coordination at the operational level should be agreed. (2009 IER)

32.4 MIGA should strengthen and formalize its systems and standards for underwriting and introduce a robust quality assurance system for its operations as a key element of enhancing its overall institutional effectiveness.
- The need to formalize systems and standards and to introduce quality assurance is particularly acute in light of the expansion of MIGA's mandate following the recent approval of changes to MIGA's Operational Regulations, and MIGA's rapid pace of hiring new operational staff and team heads. Formal written guidelines, business processes and procedures can enhance the consistent application of underwriting standards across projects and teams, by providing clarity and transparency on the standards expected. A comprehensive induction program for newly hired operational staff, and structured ongoing training are needed to promote a common skills set and understanding of requirements. MIGA should also step up the implementation of self-evaluation of guarantee projects. (2009 IER)

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**MANAGEMENT RESPONSE 2011**

Management Response:

Management Comment 2011:

32.1 Agree.

MIGA has been active in conflict affected countries and continues to refine its approaches to enhancing its contributions to such countries. MIGA's guarantees have included coverage for war and civil disturbance, which are prominent risks in conflict-affected countries. As part of MIGA's due diligence, this risk assessment of conflict-affected countries is the starting point of the analysis. Furthermore, MIGA's pricing framework and discussion of terms and conditions of contracts of guarantees is part of normal due diligence.

In FY11, MIGA provided substantial analytical work on FDI and political risk mitigation in CA & F countries to the WDR11. MIGA’s flagship 2011 focuses specifically on the same topic. To operationalize the findings of that analytical work as well as its own experiences over the past decade, MIGA is developing the Conflict Affected and Fragile Economies Facility (CAFEF) designed to provide a framework for MIGA to engage in CA&F countries, and to bring in partners in the process. It is currently envisioned that the proposal will go to the Board in FY12. Meanwhile, MIGA continues to be active in providing guarantees into CA countries.

32.2 Agree.

The aforementioned TF will be a multi-donor and multi country facility. MIGA is also expanding its current TF on E&S challenges so that it will become a multi-donor program.

32.3 Disagree that any additional action is required.

MIGA’s EVP is a member of FIAS’ Supervisory Committee and has a direct role in shaping the FIAS strategy. MIGA formally engages with FIAS each year in the formulation of FIAS’ work program.

In addition, under the proposed CAFEF program, MIGA is currently in discussions with FIAS to strengthen collaboration, with FIAS’ work on identifying country and sector specific political risks inherent in the investment climate informing MIGA’s business development strategies in those countries.

Notwithstanding, the linkage between FIAS’ TA work and MIGA’s core business of guarantees is often indirect. The opportunities for meaningful coordination at the transactional level outside of CAFEF countries are limited.

32.4 Done. As stated in the 2010 MATR.

In addition, more recent activities:

In FY11, MIGA updated guarantee processing/underwriting procedures which further clarifies process, accountabilities and documentation requirements. MIGA also introduced a number of structural and procedural changes to enhance quality (already addressed in the 2010 MATR). In addition, MIGA now has a full fledged on-boarding program, in house workshops on a variety of aspects of underwriting, contract structures, docu-
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MENTION MANAGEMENT, etc. For self evaluation, see #6.

IEG RESPONSE 2011

32.1 Medium.
MIGA’s Conflict Affected and Fragile Economies Facility (CAFEF) will be an important element in its game plan for engaging in conflict-affected countries. However, elaboration and Board approval of the facility are still pending.

The Management comments provided are silent on developing staff with specialist knowledge and expertise on conflict-affected countries and aligning MIGA’s business functions with the game plan and appear yet to be addressed.

Hence IEG rates the implementation status medium.

32.2 Medium.
The referred MIGA’s Conflict Affected and Fragile Economies Facility (CAFEF) could indeed bring enhanced efficiency and effectiveness.

As elaboration and Board approval of the facility are still pending IEG still rates this implementation medium.

32.3 Completed –to be retired

32.4 To be retired.
33. 2008 IEG-MIGA ANNUAL REPORT

LIST OF RECOMMENDATIONS

33.1 Make significant progress in implementing initiatives related to development impact assessment and monitoring, recommended in previous evaluations of the Agency by IEG, including the development of self-evaluation.
   - The Agency should give high priority to continuing the steps it is initiating to implement a monitoring and self-evaluation system that would allow it to gauge, understand, manage and report the development impact of its interventions. (2008 IEG-MIGA Annual Report)

33.2 Improve its client relationship management, including after-care, to enhance MIGA’s value added and increase client retention.
   - Improving client relationships could be the most cost-effective marketing that MIGA could undertake to increase its business volume. Managing client relationship requires a focused and coherent business development plan implemented by a staff with expertise in the guarantee business and/or financial markets. (2009 World Bank Group Guarantee Instruments)
   - Improve the effectiveness of its business development and client relationship functions. (2008 IEG-MIGA Annual Report)

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MANAGEMENT RESPONSE 2011

Management Response:

Management Comment 2011:

33.1 Done, as stated in the 2010 MATR.

In addition to previous comments, more recent activities include:
MIGA designed and vetted the Development Effectiveness Tracking System (similar to IFC’s DOTS) in FY’10 and began implementation in July 2011 which is applied to all projects entering the portfolio in FY11 and will be applied to all subsequent guarantees. The DEIS has been incorporated into all key documentation (DA, U/W paper, & model contracts).

By end FY11, 8 self evaluations will be completed and self evaluation guidelines revised, taking into account lessons learned in the first set of evaluations. In FY12, MIGA will continue to expand the number of projects it evaluates. This is a pilot program and further revisions will be discussed with IEG-PSD before mainstreaming it.
### 33.2 Disagree that additional action required.

This recommendation is vague and not particularly actionable.

Improving client relationship management is a continuing focus for MIGA in its efforts to maximize its value added. In FY09, 4 industry teams were created, headed by sector leaders with clear responsibilities for developing and maintaining client relationships in their sectors. In addition, MIGA launched an expanded its agent/finders program in FY09 with the specific objective of strengthening its client management function by developing a network of business intermediaries. This program presently includes 5 agents and 35 finders, based in 15 countries who support MIGA in scaling up its business development programs, increasing MIGA’s presence in the field, and allowing MIGA to respond more effectively to clients’ and prospects’ needs.

In early FY11, MIGA established a hub in Asia, with dedicated staff in Hong Kong, Singapore, Tokyo and Beijing to enhance client relationships and support growing south/south investments in this dynamic region.

Those initiatives are part of a comprehensive client management system which MIGA developed in FY10 and launched in FY11. This system supports a structured approach to managing client relationships, enhancing client retention and expanding acquisition of new clients. Accomplishments to date include: (i) implementation of a client tier system with allocation of staff responsible for managing specific client relationships, (ii) implementing CMS software which captures the tier system and interactions w/ clients as well as contract management.

Through the IFC-MIGA business development program, launched in FY10, a lot of work has been directed at enhancing client relationship management effectiveness and responsiveness. Tangible results include greater client orientation and efficiency with joint IFC-MIGA teams, development of new products (eg capital optimization-ProCredit), shared due diligence (eg E&S and Integrity due diligence), and joint Board approval. The program has built a strong pipeline through the IFC’s global footprint and client relationships and is increasing awareness of the MIGA products and value-added to IFC clients and in IFC transactions. Since May 2010, 3 projects received Board approval and 17 transactions in 16 countries are under development/review.

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**IEG RESPONSE 2011**

**33.1 Substantial.**

MIGA has taken steps to adopt / incorporate development impact assessment and monitoring into operations. The referred Development Effectiveness Indicator System (DEIS) is a step in the right direction, even though fundamental differences to IFC’s DOTS are noted.

Self evaluation is another component in improving development impact monitoring. Scaling up of MIGA’s self evaluation practice, as noted under recommendation 6 above, is still outstanding, even though it is acknowledged that MIGA envisaged to ramp up its self evaluation in the coming years.

IEG hence rates the implementation status substantial.

**33.2 Substantial.**

MIGA has taken steps to implement this recommendation through its various business development initiatives and sector strategies.

Despite considerable progress, the Management comments are silent on tangible results related to improving client relationship management, except for the IFC-MIGA business development cooperation for which indeed results were reported.

Pending on further tangible results to improve client relationship (e.g. increased client diversification, stronger client retention, or increased business volume), IEG rates the implementation status substantial.
34. 2006 IEG-MIGA ANNUAL REPORT

LIST OF RECOMMENDATIONS

34.1 MIGA needs to develop rules of engagement for all projects involving concessions and similar agreements.
- Considering that MIGA often gets involved in projects as an insurer after such agreements have been negotiated and signed, it needs to satisfy itself that the underlying business model, terms given to the concession holders, and tariffs are sustainable and reflect sound economic policy in order to ensure a positive development impact. (2006 IEG-MIGA Annual Report)

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<td>Mgmt</td>
<td>IEG</td>
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MANAGEMENT RESPONSE 2011

Management Response:

Management Comment 2011:

34.1 Done. As stated in the 2010 MATR.

Disagree any further action required.

[IEG NOTE: Management comment of 2010 on this recommendation has been re-copied here for reader’s convenience by IEG.] Done. At present, all projects underwritten are analyzed in detail in terms of their development impact, according to established guidelines and established practice among the members of the underwriting team responsible for this analysis. There is a specific set of guidelines for PPP’s which the team at MIGEP utilized for this type of projects. MIGA Management will continue to exercise discretion in maintaining an adequate balance between the analysis needed to satisfy development impact criteria and market responsiveness.

IEG RESPONSE 2011

34.1 To be retired.
MIGA has taken steps to develop rules for engagement for concession projects.
IEG will evaluate MIGA’s handling of projects involving concession agreements as part of the upcoming Infrastructure evaluation.
35. 2007 IEG-MIGA ANNUAL REPORT

LIST OF RECOMMENDATIONS

35.1 MIGA should carry out, on a pilot basis, a quality at entry self-assessment of a sample of new guarantees underwritten in FY07 to enhance institutional learning.
   - IEG would provide the methodology, benchmarks and templates and will independently review and validate MIGA’s self-assessments. (2007 IEG-MIGA Annual Report)

35.2 MIGA should strengthen and improve the quality and the documentation of the development impact analysis of SIP projects that underpins MIGA’s support for them.

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<tr>
<td>35.1 MIGA should carry out, on a pilot basis, a quality at entry self-assessment of a sample of new guarantees underwritten in FY07 to enhance institutional learning.</td>
<td>To be retired.</td>
<td></td>
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<tr>
<td>35.2 MIGA should strengthen and improve the quality and the documentation of the development impact analysis of SIP projects that underpins MIGA’s support for them.</td>
<td>Not rated</td>
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MANAGEMENT RESPONSE 2011

Management Response:
Management Comment 2011:

35.1 Disagree.

Management continues to be of the view that Quality at Entry analysis is not the appropriate or most effective way to enhance institutional learning. Rather, management has invested heavily in its self-evaluation program, which is becoming the principal formal tool for enhancing institutional learning on guarantees.

Management would also note that the main aim of Quality at Entry processes is to determine whether projects are being designed properly. As an insurer, MIGA has limited opportunities to affect project design. However, recent improvements in underwriting procedures have been implemented to enhance MIGA’s efficiency as well as quality and accountability.

35.2 Done.

Same response as for 2010 MATR.
(In consonance with this view, management notes that IEG is proposing to review SIP projects on a programmatic basis rather than individually, reflecting the same difficulties of working with limited amounts of information that MIGA faces during underwriting.).

[IEG NOTE: Management comment of 2010 on this recommendation has been re-copied here for reader’s convenience by IEG.] Done. IEG’s recommendations in FY07 (cited here) were taken onboard by MIGA when it moved the SIP from a pilot program to mainstreaming it, and are reflected in the FY08 Board document to that effect. Notwithstanding this, MIGA continues to monitor the effectiveness of the program’s objectives as, by design, it only aims to cover MIGA’s variable costs associated with it. It is MIGA’s management responsibility to ensure the continued cost-effectiveness of this program.
### IEG RESPONSE 2011

**35.1 To be retired.**
In view of MIGA’s efforts to introduce a self evaluation system this recommendation will be retired.

IEG concurs with MIGA that ex-post self evaluation can partly fulfill similar functions as Quality at Entry analysis in the context of institutional learning.

**35.2 Not rated.**
Starting FY12, IEG will review SIP projects on a programmatic basis and only then will be able to determine whether this recommendation has been implemented. Pending this review, the implementation is not rated.
36. 2003 REPORT ON OPERATIONS EVALUATION IN MIGA

LIST OF RECOMMENDATIONS

36.1 MIGA should ensure that closing notes are consistently prepared for all closed projects for institutional learning, analysis, and accountability, and to aid strategy formulation. (2003 Report on Operations Evaluation in MIGA)

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<td></td>
<td>Completed</td>
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MANAGEMENT RESPONSE 2011

Management Response:

Management Comment 2011:

36.1 Disagree.

Same response as for 2010 MATR.

[IEG NOTE: Management comment of 2010 on this recommendation has been re-copied here for reader’s convenience by IEG.] MIGA does not believe that closing notes are the best mechanism to achieve institutional learning, analysis, and accountability, and to aid strategy formulation.

The current guidelines stipulate that these closing notes produced for all projects are designed only for a limited range of issues (such as investor’s reasons for canceling). Institutional learning can be addressed in a more relevant, complete, and systemic way by self evaluation and development tracking indicators - see #7 (#9 FROM 2010 MATR).

IEG RESPONSE 2011

36.1 Implemented.

MIGA has taken steps to ensure Closing Notes are prepared for closed projects.
37.2008 WORLD BANK GROUP GUARANTEE INSTRUMENTS

LIST OF RECOMMENDATIONS

37.1 Address internal weaknesses that reduce efficiency and slow responsiveness without lowering MIGA’s financial, social and environmental standards.
- These include organizational issues in staffing, performance review, and incentives as well as consideration of matters such as inflexibility on guarantee contract terms and conditions. However, efficiency in its underwriting process must not come at the expense of quality, risk mitigation, safeguards, and development impacts of the projects it insures. (2009 World Bank Group Guarantee Instruments)

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<tr>
<td>37.1 Address internal weaknesses that reduce efficiency and slow responsiveness without lowering MIGA’s financial, social and environmental standards.</td>
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<td>Medium</td>
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MANAGEMENT RESPONSE 2011

Management Response:

Management Comment 2011:
37.1 This recommendation is vague and not particularly actionable.

Enhancing efficiency in general terms is an ongoing responsibility. MIGA has taken important steps in this regard with respect to realigning the internal organizational structure, further streamlining internal business processes and decision making.

[IEG NOTE: Management comment of 2010 on this recommendation has been re-copied here for reader’s convenience by IEG.] MIGA hired external consultants to validate the work of internal staff working groups on Business Process Reviews and on Integrated Risk Management. These have led, or are leading, to: (i) efforts to formalize “service” standards of the internal processes from the receipt of a definite application to contract signature and management; (ii) streamlined project review and approval processes; (iii) systematic on-boarding training; (iv) enhancing learning programs at various levels of staff at MIGA and introduction of specialized training events; and (v) updated and simplified document templates.

IEG RESPONSE 2011

37.1 Medium.
MIGA has taken steps to address internal weaknesses and efficiency issues as its process review and streamlining exercises may have an impact of efficiency and responsiveness.

With regard to MIGA’s comment that this recommendation would be vague, IEG looks for tangible results/outcomes of these initiatives, e.g. the actual impact on efficiency, speed in responsiveness, and processing time.

IEG hence rates the implementation status medium.

Notes: These 16 recommendations tracked in the MATR derive from the IEG-MIGA and IEG joint reports listed below:
World Bank Group Guarantee Instruments (2009)