6. Main Findings

This review concludes that although the challenges identified in resource-rich developing countries (RRDCs) are not unique, they manifest themselves with particular intensity in three closely interrelated areas: (i) management of revenues from an exhaustible resource; (ii) growth and employment in the nonextractive sectors; and (iii) inclusive growth and reduction of poverty. The close links between these areas need to be defined and structured as a coherent strategy, emphasizing the areas important in a particular country context, with a set of measurable progress indicators[1].

The over-arching strategic role of the Bank Group in RRDCs is to assist them in using the revenues generated from natural resources efficiently, effectively, and sustainably in support of poverty reduction and shared growth. In the four countries reviewed in this clustered Country Program Evaluation (CPE), the Bank Group did not use a consistent basis for choosing the issues to include in the dialogue with resource rich countries. Each of the four stories played out in a unique way that depended on how the country team at the time decided to react to differing country circumstances. They did not seem to derive from any Bank-wide approach to working with RRDCs. The mineral wealth affected country dialogues as the Bank Group adapted its strategy to the situation. However, this was usually more in a negative way of limiting the issues that entered into the dialogue.

The main challenge for the Bank Group in most RRDCs today is how to stay relevant and competitive. As all of these countries are now able to raise funds from alternative sources, including from private capital markets, the Bank Group may not have the same ability to influence as many sectors as before. As their incomes rise, all RRDCs tend to become more demanding clients, requiring the Bank to be prepared to develop highly selective and flexible programs, follow strategies with a long-term horizon, and act decisively when there is a window of opportunity. There needs to be recognition that the Bank Group's value proposition is no longer just its financial resources, but the knowledge and global experience it can share with the authorities and private sector clients, whether provided through lending, investment, or analytic and advisory work. This may call for a more modest scope of interventions, keeping the focus on the key challenges.

The Bank Group dialogue in RRDCs has seen intense highs and lows, yielding lessons for a more mature relationship in the future. In some countries, there is the legacy of a difficult past relationship and the Bank needs to overcome a residual lack of trust. As all four countries advance on most of the development indicators and rely less on external resources to meet their financing needs, there is an opportunity for the Bank to construct a new type of partnership based on shared goals and mutual commitment. This partnership, however, should still allow for a collegial and candid discussion of areas where views on policy priorities may differ.

The increasingly demand-driven nature of Bank Group programs in RRDCs and client-led selectivity can impose limitations on fulfilling the Bank's mandate as a global development institution, leaving some gaps, including an insufficient amount of attention to poverty analysis. The Bank's programs often lacked attention to the demand side of reforms for the sake of pleasing the client. In the future, the Bank could be more proactive in engaging local partners to advance transparency and accountability, as well as in contributing to the building of local capacity.

The quality of the Bank's increasingly intensive analytic and advisory activities (AAA) work has been consistently high, but its effectiveness has been uneven, if measured by actual follow-up on policy advice, which was sporadic. Demand-driven, knowledge-based programs can be useful instruments for strengthening partnerships. However, their effectiveness can be limited by an inadequate monitoring and evaluation (M&E) framework, a lack of disclosure of policy recommendations, and insufficient engagement by local partners.

Management of Resources

The Bank Group is well-positioned and technically equipped to effectively assist the RRDCs in implementing policies and strengthening institutions that promote the prudent management of natural resources. The Bank, jointly with the International Monetary Fund (IMF), should maintain a dialogue on macroeconomic and fiscal policies and help countries build fiscal buffers during the upswing phase of commodity prices. It should be prepared to step in with exceptional budget support in case of an abrupt downturn in prices. Further, it would be important to undertake analysis to develop realistic contingency plans for dealing with price downturns. Fiscal rules proved to be useful in this regard. However, even in the absence of such rules, the Bank could systematically monitor and analyze performance and provide governments and the public with this information, as well as information on the performance of key comparator countries.

Policy consensus across the political spectrum is a critical ingredient for success in the sustainable management of natural resource revenues. The Bank can contribute to promoting this consensus by building relationships of personal trust and capacity building at key government agencies. It also can encourage public demand for reforms through the engagement of local stakeholders and a wide dissemination of policy advice.

Bank Group support for the Extractive Industries Transparency Initiative (EITI) process was an effective demand-side instrument, and a visible platform for civil society to discuss and demand more transparency and accountability. Experience with the EITI confirms its usefulness as an effective instrument for promoting transparency and accountability, even beyond the extractives sector.

Economic Diversification and Nonextractive Growth

Economic diversification and the growth of nonextractive, labor-intensive sectors proved to be an elusive target in all of the countries reviewed. Bank Group strategies and analytical products acknowledged the importance of economic diversification away from extractive industries, but struggled to define diversification as a specific objective, as well as to specify any outcome measures/indicators for it in results frameworks. Based on the experience in these CPE countries, as well as more successful cases such as Chile, the most important steps a government can take are focusing on the fundamentals: maintaining macroeconomic stability, investing in infrastructure, improving the business climate, and encouraging private investment. The Bank Group's implicit strategy of focusing on infrastructure, agriculture, and private sector development was relevant. However, the effectiveness of separate elements of the Bank Group program in these areas was highly uneven, and the impact of these interventions in terms of achieving diversification was not evident.

All observed Bank Group country strategies did not present much evidence of any real coordination or cooperation between the Bank and the International Finance Corporation (IFC) on promoting economic diversification in RRDCs. This has often meant missed opportunities for taking advantage of synergies. IFC has generally struggled to structure investment transactions, except for the financial sector. In most RRDCs, IFC is now one of the many funding sources available, and its value proposition was not always clearly articulated to private companies. In the future, IFC should take a longer-term view for its engagement in RRDCs, working with the Bank. It should consider originating new investment transactions and advisory service projects, in particular for infrastructure and agribusiness, where IFC has a comparative advantage and global expertise.

Inclusive Growth

All countries included in this cluster CPE were able to benefit from the commodity boom of the last decade. High rates of economic growth were accompanied by significant progress on poverty reduction and most social development indicators. At the same time, all countries continued to grapple with growing inequality and an increasing gap between urban and rural incomes.

To help RRDCs in promoting more inclusive growth by sharing the wealth generated from natural resource extraction, the Bank would need to stay actively engaged in advocacy for poverty reduction and the monitoring of its outcomes, consistent with its mandate as a global development institution. In terms of operational engagement and areas of advisory work, the Bank's support to RRDCs should focus on: the design of social transfers that are fiscally sustainable and targeted to the poor; support for better quality education to raise productivity of the poor and develop skills; rural development programs designed to reach those left out by extractive industry growth; and mitigation of any adverse environmental impact of extractive industries.

References

OED (Operations Evaluation Department). 2005. *Extractive Industries and Sustainable Development.* Washington, DC: World Bank.

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[1] This conclusion reinforces a similar finding of an earlier report by the Operations Evaluation Department (2005), the precursor to the Independent Evaluation Group.