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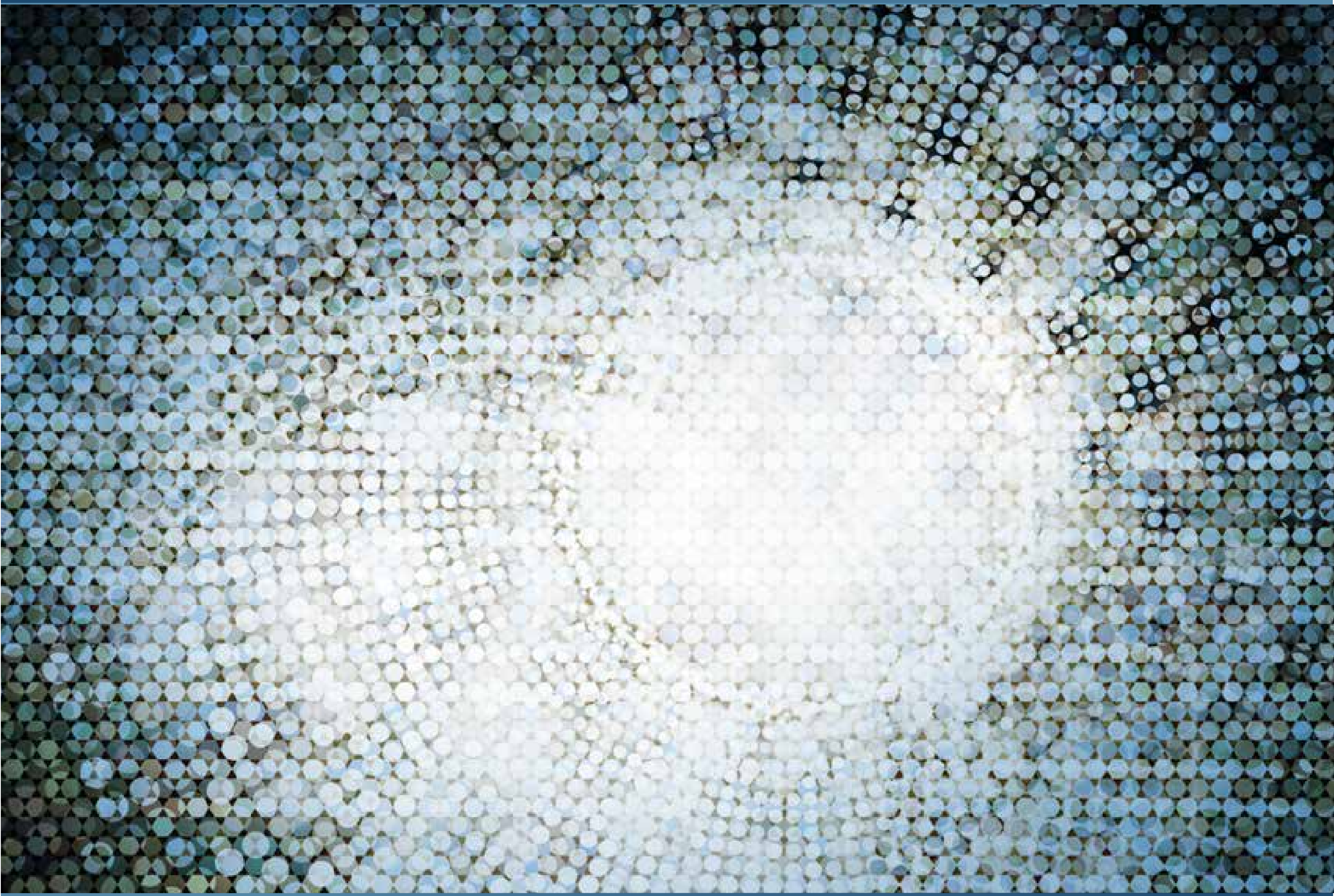

VOLUME II: APPENDIXES

Results and Performance of the World Bank Group 2012

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Volume II: Appendixes

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1 2 3 4 5 15 14 13

Contents

VOLUME I, Main Text, and VOLUME III, Management Action Record, are available on line at http://ieg.worldbankgroup.org/publications

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Abbreviations

AMC	Asset Management Company
CAS	Country Assistance Strategy/Country Partnership Strategy
CASCR	CAS Completion Report
CODE	Committee on Development Effectiveness
DPO	Development policy operation
E&S	Environmental and social (IFC, MIGA)
GAC	Governance and anticorruption
IBRD	International Bank for Reconstruction and Development
ICA	Investment climate assessment
ICR	Implementation Completion and Results Report
ICT	Information and communication technology
IDA	International Development Association
IEG	Independent Evaluation Group
IFC	International Finance Corporation
ISR	Implementation Status and Results Report
IT	Information technology
M&E	Monitoring and evaluation
MAR	Management Action Record
MAS	Manufacturing, agribusiness, and services
MDG	Millennium Development Goal
MIGA	Multilateral Investment Guarantee Agency
PCR	Project Completion Report (IFC)
PEA	Political economy analysis
PEFA	Public Expenditure and Financial Accountability
PFM	Public financial management
PPAR	Project Performance Assessment Report
XPSR	Expanded Project Supervision Report (IFC)

Appendix A
IEG Evaluation Frameworks

This appendix describes select elements of the evaluation systems in the World Bank, the International Finance Corporation (IFC), and the Multilateral Investment Guarantee Agency (MIGA) that are the basis for this report. They illustrate commonalities as well as differences in evaluation practices across the institutions.

The World Bank, IFC, and MIGA differ in the instruments and approaches they use to achieve development results. Each institution has an evaluation system tailored to its needs. In each organization, the evaluation system comprises different components—self-evaluation, independent evaluation, and validation of self-evaluation (Table A.1).

Table A.1. Bank Group: Self-Evaluation and Independent Evaluation

	World Bank	IFC	MIGA
Management systems			
a) Self-Evaluation			
Results-based monitoring system and Supervision Status reports for Bank Group operations	Yes (ISR)	Yes, DOTS	Limited (DEIS, E&S monitoring)
Self-evaluation of projects	Yes, ICRs	Yes, XPSRs (managed by IEG)	Yes, (PERs), currently being mainstreamed
Results-based monitoring system for advisory services/AAA	Under development	Yes	NA
Requirement for supervision reports for advisory services/AAA	Yes	Yes	NA
b) Quality Assurance of Bank Group's Portfolio			
Quality Assessment of lending portfolio	Yes, OPCS	Yes, credit review	Yes, Project Review Committee
Independent evaluation			
System for reviewing self-evaluations of Bank Group operations	Yes, ICR Reviews	Yes, IEG Evaluative Notes	Yes, IEG Validation Notes
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	Under development	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; CASCR = Country Assistance Strategy Completion Report; CPE = Country Program Evaluation; DEIS = Development Effectiveness Indicator System; DOTS = Development Outcome Tracking System; E&S = environmental and social effects monitoring; ISR = Implementation Status and Results Report; ICR = Implementation Completion and Results Report; NA = not applicable; PCR = Project Completion Report; PER = Project Evaluation Report; PES = Project Evaluation Summary; PPAR = Project Performance Assessment Review; OPCS = Operations Policy and Country Services; XPSR = Expanded Project Supervision Report; EvNote = Evaluative Note.

The independent evaluation function for each institution was established at different times—1973 for the Bank, 1996 for IFC, and 2002 for MIGA—and each has evolved over time to respond to changes in the respective institution. Independent evaluation work is broadly scaled to each institution. For MIGA, the Independent Evaluation Group (IEG) focuses equally on the direct evaluation of guarantee projects as well as validations of self-evaluations, as MIGA began to implement self-evaluation of its guarantees in 2010. For the Bank and IFC, IEG conducts 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, which aim to harmonize evaluation standards of multilateral development institutions' public and private sector operations.[1] The independent evaluation systems for IFC and MIGA operations are regularly benchmarked against the private sector evaluation standards. The most recent benchmarking exercise of the evaluation of private sector investment operations was concluded in 2011. IFC and MIGA were benchmarked at 93 percent and 73 percent compliance with the standards, respectively. The standards comprise issues related to the independent evaluation function and to institutional self-evaluation systems (ECG 2011).

Project Evaluation Frameworks across IEG

Projects are a main Bank Group 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.

The Bank self-evaluates 100 percent of completed investment and development policy operations (DPOs). The findings of self-evaluations are reported in Implementation Completion and Results Reports (ICRs). IEG conducts desk reviews of all ICRs and prepares an ICR Review for each (see Box A.1).

Box A.1. IEG's Review of Implementation Completion and Results Reports

The Implementation Completion and Results Report (ICR) is the main instrument of self-evaluation used by the World Bank for projects it finances. An ICR is prepared at the close of every operation or, in the case of a series of programmatic policy operations, at the end of the series of operations. Once completed, all ICRs are subject to a desk review by IEG. IEG's desk review is largely based on evidence from the ICR itself, but also involves interviewing the last project task team leader. IEG uses the Harmonized Evaluation Criteria adopted by the Bank and IEG for the evaluation of closed projects.

As part of the review process, IEG validates the four project ratings contained in the ICR and adds two further ratings (Quality of Monitoring and Evaluation, Quality of the ICR). These six ratings are defined as follows:

- **Outcome:** The extent to which the operation's major relevant objectives were achieved, or are expected to be achieved, efficiently.
- **Risk to Development Outcome**: the risk, at the time of evaluation, that development outcomes (or expected outcomes) will not be maintained (or realized).
- **Bank Performance**: the extent to which services provided by the Bank ensured quality-at-entry of the operation and supported effective implementation through appropriate supervision, toward the achievement of development outcomes.
- **Borrower Performance**: the extent to which the borrower (including the government and implementing agency or agencies) ensured quality of preparation and implementation, and complied with covenants and agreements, toward the achievement of development outcomes.
- **Quality of monitoring and evaluation:** the quality of its design, implementation, and utilization.
- **Quality of the ICR:** the quality of the evidence and analysis provided in the ICR, the extent to which lessons are based on evidence and analysis, the results-orientation of the ICR, internal consistency, consistency with Bank ICR guidelines, and conciseness.

Source: IEG.

IFC self-evaluates a random representative sample of around 50 percent of its projects that reach early operating maturity, 80 a year on average. IEG independently desk reviews all self-evaluations (Expanded Project Supervision Reports [XPSRs]), producing an Evaluative Note on each. In 2005, IFC introduced the Development Outcome Tracking System, a monitoring system for all IFC investment operations.

For MIGA, since inception of the evaluation function, IEG has evaluated a random sample of 50 percent of guarantee projects reaching early operating maturity. IEG and MIGA have jointly developed a validation methodology for self-evaluations similar to IFC's (see Box A.2).

Box A.2. 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. It is evaluated across four subdimensions:

- *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.
- *Environmental and social (E&S) effects* measures a project's performance in meeting MIGA's environmental and social requirements, as well as its actual E&S impact.
- *Private sector development impact* aims to capture the effects of the 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 subdimensions:

- *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 foreign direct investment 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, 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 (Note: This dimension is currently not rated by IEG or MIGA pending agreement on a suitable methodology).

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

Source: IEG.

The evaluation systems of all three Bank Group organizations include projects that fail to be fully implemented or are cancelled to avoid systemic bias in the groups of reviewed projects. In the Bank, shorter self-reviews (Notes on Cancelled Operations) are prepared for such projects instead of ICRs.

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

COMPARISONS OF THE BANK GROUP'S PROJECT RATING SYSTEMS AT IEG

IEG has an evaluation system tailored to the specific foci, clients, and services of each Bank Group institution. The evaluation of Bank operations uses an objectives-based system. The project-rating systems for IFC and MIGA operations are based on quantitative and qualitative benchmarks rather than on achievement of specific objectives. Given that IEG's methods to evaluate IFC and MIGA operations are both consistent with the harmonized Good Practice Standards of the Evaluation Capacity Group, these two systems are very comparable. A key difference between them is that while the evaluation of IFC operations is based on self-evaluations, the evaluation of MIGA operations relies on both IEG's direct evaluation and self-evaluation.

In each case, the overall project development outcome is a synthesis rather than a numerical average of ratings. Bank and IFC operations are rated based on a six-point scale; MIGA operations on 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. IFC views the relevance of project objectives as the responsibility of its staff; relevance is thus a measure of IFC's own performance or effectiveness (see Box A.3) rather than that of the project, per se. In the evaluation system for Bank operations, however, project relevance is rated separately from Bank performance. The outcome rating considers the extent to which the operation's major relevant objectives were achieved, or are expected to be achieved, efficiently. In each case, IEG looks at available measures of efficiency, including analysis of cost-effectiveness and other indicators of value for money.

In the IFC and MIGA rating frameworks, IEG gives prominence to the 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, for Bank projects, E&S performance is not a separate dimension within the project outcome ratings.

Box A.3. IEG's Project Evaluation Methodology for IFC Investment Operations

IEG's project evaluation ratings are based on the XPSR system. Introduced in 1996, the XPSR process first involves a self-evaluation of the project by an IFC investment department, using corporate guidelines. The self-assessment and ratings assigned by investment departments are then independently verified (or re-rated) by IEG.

The ***development outcome*** rating is a synthesis assessment of the project's results across four development dimensions:

- ***Project business success*** measures the project's actual and projected financial impact on the company's financiers, that is, lenders and equity investors. The principal indicator of a project's business performance is its real, after-tax, financial rate of return.
- ***Economic sustainability*** evaluates the project's effects on the local economy, and the associated benefits and costs that are measured by an economic rate of return.
- ***Environmental and social effects*** covers: (i) the project's environmental performance in meeting IFC's requirements (for example, Performance Standards, and relevant E&S guidelines) ; and (ii) the project's actual environmental impacts, including pollution loads, social, cultural, and community health aspects, labor and working conditions, and workers' health and safety.
- ***Private sector development impact*** captures impacts beyond the project and the extent to which the project has contributed to IFC's purpose by spreading the benefits of growth of productive private enterprise.

IFC's ***investment outcome*** rating is an assessment of the gross profit contribution of an IFC loan and/or equity investment, that is, without taking into account transaction costs or the cost of IFC equity capital.

The assessment of ***IFC work quality*** involves a judgment about the overall quality of IFC's due diligence and value added at each stage of the operation:

- ***Screening, appraisal, and structuring*** assesses the extent to which IFC professionally executed its front-end work toward a sustainable corporate performance standard.
- ***Supervision and administration*** assesses the extent to which IFC has professionally executed its supervision.
- ***IFC's role & contribution*** measures how well IFC fulfilled its role in terms of three basic operating principles: additionality, business principle, and catalytic principle.

For each of the above dimensions, a four-point rating scale is used (excellent, satisfactory, partly unsatisfactory, and unsatisfactory), except for the synthesis development outcome rating, which involves a six-point scale (highly successful, successful, mostly successful, mostly unsuccessful, unsuccessful, and highly unsuccessful). In IEG's binary analysis, "high" refers to satisfactory or better on the four-point scale and mostly successful or better on the six-point scale.

Source: IEG.

Since 2006 IEG has rated the Bank on the quality of project monitoring and evaluation (M&E) based on such factors as design, utilization, and dissemination. As for IFC and MIGA operations, IEG does not assess the M&E of individual projects. IEG conducts periodic reviews of the M&E systems of the two institutions. The most recent IEG evaluation of the IFC system was conducted in 2008 (see IEG 2009b). A review of the IFC and MIGA M&E systems by IEG is ongoing and will be completed in the fall of 2012.

For Bank-financed projects, borrower performance is rated separately. The borrower is asked to contribute to the completion reports. The performance of cofinanciers and other partners is also assessed. Comments on the draft completion report are sought from the borrower, cofinanciers, and other partners, and the 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, MIGA Project Evaluation Reports, or Evaluative/Validation 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.

Lessons learned are a common feature of the ICR Reviews, XPSRs, and MIGA Project Evaluation Reports. Formats for the lessons are the same in IFC and MIGA, 2 whereas the Bank reports on different aspects. IEG also provides ratings of the quality of Bank ICRs. The ratings are based on factors such as quality of the analysis and strength of the evidence.

NONLENDING SERVICES

Only IFC has a self-evaluation system for all Advisory Services operations that are then independently reviewed by IEG. IEG's validations of IFC Advisory Services self-evaluations focus on the evaluative substance of Project Completion Reports, the sufficiency of the evidence produced, and the adequacy of ratings assigned, largely via desk review. Selective field-based validations have also been conducted. Established in 2008, this remains a young evaluation system for IFC and it uses a results-based approach (see Box A.4). IFC also conducts supplementary external reviews and evaluations of specific projects and programs.

The Bank requires a Completion Summary to be prepared for all analytic and advisory activities normally within six months after management endorsement of the deliverable. IEG does not routinely review this summary. It is currently piloting the review of technical assistance components of projects as part of Project Performance Assessment Reports (PPARs).

Box A.4. Evaluation System for IFC Advisory Services Operations

At completion of each operation, the advisory service team provides a self-assessment of performance in a Project Completion Report (PCR). These reports are completed for all advisory services projects, unless they were dropped or terminated. IEG is responsible for the review and validation of completion reports for Advisory Services projects. Advisory services projects are assessed by comparing the results against the stated objectives. The PCR assigns ratings for the following dimensions:

- *Strategic relevance:* appropriateness of project given conditions, needs or problems to which it was intended to respond, alignment with country strategies, appropriateness of instrument used.
- *Output achievement:* immediate project deliverables (products, capital goods, services or advice).
- *Outcome achievement:* short- or medium-term changes resulting from the advisory project (positive or negative, intended and unintended).
- *Impact achievement:* intended longer-term effects of the advisory intervention.
- *Efficiency:* whether the project costs are reasonable in relation to the potential results.

These ratings are synthesized into a single development effectiveness rating, on a six point scale from highly successful (overwhelmingly positive development results and virtually no flaws) to highly unsuccessful (negative results and no positive aspects to compensate).

Furthermore, the PCR contains a rating on IFC's Role and Contribution, which assesses IFC's additionality to the project.

Source: IEG.

COMPARISON OF FIELD-BASED PROJECT-LEVEL EVALUATIONS

IEG has undertaken direct evaluation of MIGA projects randomly selected for independent evaluation. Many of these evaluations involve a field visit. MIGA self-evaluates a growing number of guarantee projects, and mainstreaming is expected to be achieved over several years. Until then, IEG expects to undertake direct project evaluations in parallel with validating MIGA's self-evaluations.

For Bank projects, IEG selects about 20 percent of projects for in-depth assessments (which include field visits) and prepares PPARs. PPARs are typically conducted several years after project completion. IEG criteria for identifying projects for in-depth reviews include that the project (i) offers good potential for further learning because of particularly good or bad performance; (ii) had an IEG review that differed significantly in its assessment from the self-assessment in the ICR; and (iii) operates in a sector, thematic area, or country soon to be covered in evaluations, where PPARs can provide useful inputs for those evaluation tools.

PPARs are sometimes clustered by issue or topic to reduce their cost and increase their learning impact. These reports rate projects in terms of their outcome (taking into account relevance, efficacy, and efficiency) and risk to development outcome. IEG field reviews of IFC projects do not have clearly defined criteria, but in practice they are frequently undertaken to validate the E&S 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.

Program, Country, and Thematic Evaluations

Project evaluations serve as the building blocks for higher-level evaluations—sector, thematic, country, global, and corporate. Increasingly, such IEG reports reflect findings and lessons across the Bank Group.

COUNTRY-LEVEL EVALUATIONS

All Country Assistance Strategies (CASs) need to include a self-evaluation of the Bank's previous program in the country, called a CAS Completion Report (CASCR). IEG conducts a desk review of the CASCR to validate the self-evaluation and makes its assessment available to the Board for its discussion of the next CAS. If the CAS is a joint Bank Group document, the CASCR, and IEG's CASCR Review, also cover IFC's and MIGA's contributions to CAS objectives and performance. Recently, "enhanced" CASCR Reviews have been undertaken that include an IEG visit to the country. Country performance is not the focus of strategy and accountability for IFC, as the clients are private companies, not the country. IEG reflected on this issue in its 2008 Biennial Report on Operations Evaluation (IEG 2009b).

OTHER AREAS OF EVALUATION

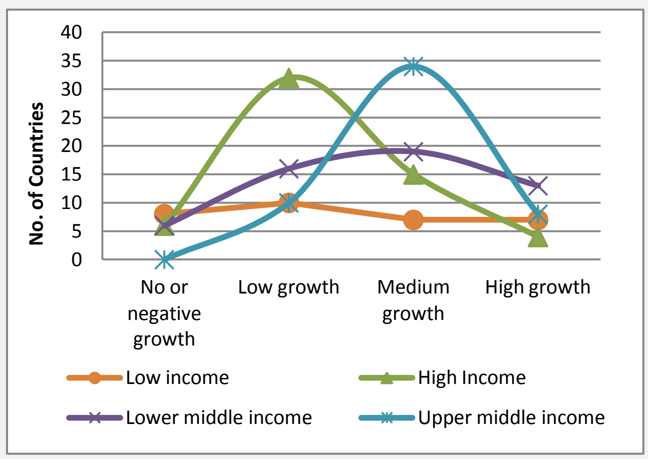
Sector and thematic reviews examine developments, trends, performance and experience in a sector, such as agriculture or transport, or a thematic area, such as climate change or gender. Global partnership programs, which typically represent collective action to achieve common development objectives, are also covered in IEG's evaluation work. The evaluations address global or regional issues that cross national boundaries. IEG also conducts corporate evaluations relating to the Bank, IFC, and MIGA, which can cover corporate instruments and programs, as well as procedures.

Appendix B
Country Program Effectiveness

Country Programs and the Growth Agenda

Uncertainty remains concerning the extent and pace of the global economic growth, and progress in development varies across and within countries. Much of the fast growth during 2001–10 occurred among upper-middle-income countries (Figure B.1), although the per capita growth rate for most developing countries in that period was higher than in the preceding decade. Progress in low-income countries is steady, but much slower than in upper- and lower-middle-income countries, resulting in a widening wealth gap between middle-income countries on the one hand and low-income countries on the other.

Figure B.1. Average Per Capita Growth Rates 2001–10



Source: World Bank data.
Note: High growth means average per capita gross domestic product growth rate higher than or equal to 5 percent; medium growth is higher than or equal to 2 percent and less than 5 percent; low growth is less than 2 percent; and no or negative growth is below 0 percent.

Growth alone cannot address all development challenges, although it remains vital for continued progress. Fast growth was accompanied by an increase in income inequality in some instances. In some of the fast-growing emerging countries, disparities in income among the population have widened relative to the levels in the early 1990s, which could pose risks to the long-term sustainability of economic growth.

In this environment, the rationale for the World Bank Group to tailor its support for country-specific challenges remains robust, and a country program is the main vehicle to deliver such support under an integrated framework. The primacy of country programs as a means for the World Bank to articulate its development priorities, determined in consultation with the country stakeholders, and to influence development results has been pointed out repeatedly in past evaluations. IFC and, to a lesser degree, MIGA are beginning to establish alignment through participation in the process of preparing country strategies.

Successful country programs tend to be supported by locally owned strategies with clear priorities and strong links between intended outcomes and interventions. Responsiveness to changing country priorities is also critical amid continuing uncertainty. In that regard, the Bank Group was flexible and timely in adapting its strategies in responding to the global crisis in a number of countries, as discussed further below.

Summary of Findings from a Review of CASCR Reviews (July 2007–March 2012)

IEG reviewed and rated 83 CASCRs[3] prepared from FY08 to the end of March 2012. CAS overall outcomes were rated moderately satisfactory or better for 58 percent of the evaluations,[4] and Bank performance was rated moderately satisfactory or better for 73 percent of the evaluations. Box B.1 illustrates two cases where CAS overall outcome ratings and Bank performance ratings differ.

Box B.1. Unsatisfactory Outcome Ratings Do Not Imply Poor Bank Performance

Outcomes of partnership strategies are determined by the joint impact of the country, the Bank, partners, and exogenous forces. This helps explain why CAS overall outcomes were rated satisfactory or better for 58 percent of the evaluations and Bank performance was rated moderately satisfactory or better for 73 percent. Two examples follow.

West Bank and Gaza (2001–09): After almost two decades of active engagement, little progress was made toward achieving the objectives of the Bank Group program: institutional development was uneven; most infrastructure sectors continued to face technical and political issues; recent economic growth was driven mainly by donor subsidies; and the private sector was weak. The Bank Group, however, made important contributions in identifying obstacles to development, estimating their costs, and promoting the search for reasonable compromises. The moderately unsatisfactory outcome rating was due mostly to issues beyond the Bank Group's control.

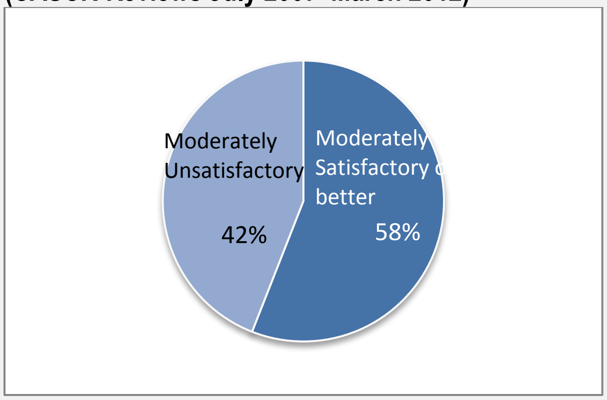
Serbia (FY08–11): The business climate improved marginally and results were modest on regional development and negligible in reducing pollution coming from targeted agricultural activities, strengthening environmental management, enhancing efficiency in the use of natural resources, and managing environmental and disaster risk. The Bank Group responded creatively to changing local circumstances that resulted from the global financial crisis by extending a policy based guarantee to leverage additional resources for Serbia. In part, the poor results had to do with an overly optimistic strategy, but IEG noted poor institutional coordination within the government and other political economy factors beyond the Bank's control as the main factors behind the poor results.

Source: IEG.

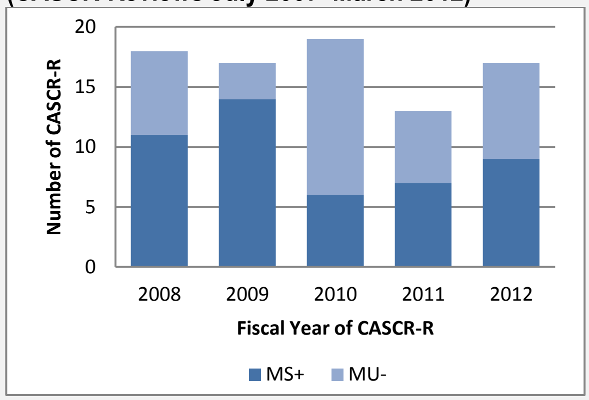
Ratings of outcomes have been unevenly distributed over the period FY08–12 with poor results concentrated in FY10 evaluations, possibly reflecting a bunching of poor performers and the adverse effects of the global financial crisis (Figure B.2). IEG also completed ten country program evaluations during the period, which are more in-depth evaluations that include country visits by the evaluating team. A review of such evaluations undertaken for this report corroborates the picture that emerges from the CASCR Reviews.

Figure B.2. CASCR Review Ratings of Overall Country Outcomes

A. Share of Moderately Successful or Better (CASCR-Reviews July 2007–March 2012)



B. Share of Moderately Successful or Better (CASCR-Reviews July 2007–March 2012)



Source: IEG data.

A RETROSPECTIVE VIEW OF COUNTRY PROGRAM RATINGS—THE MATRIX EVALUATION

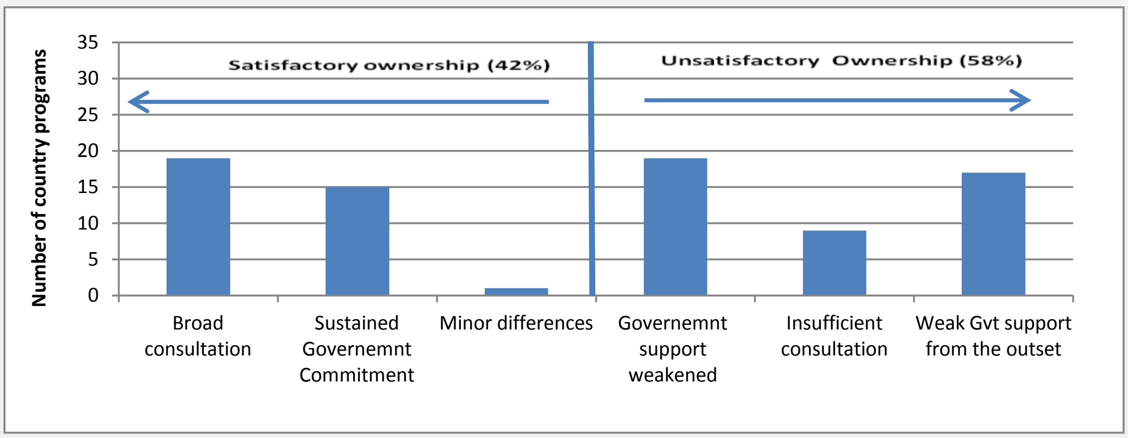
IEG's evaluation of the matrix system in the World Bank (IEG 2012c) reviewed 96 CASCR-Rs covering the period FY1998 through December 2010. The quality of country programs was assessed against the two goals of the reform agenda (to create a new Bank culture through increased "client responsiveness" and delivery of "quality services") using eight variables, four reflecting responsiveness and four representing effectiveness. Each variable was assessed separately on a four-point scale using evidence from IEG's CASCR Reviews. Insights from the matrix evaluation suggest that CASs frequently lacked proper country ownership, were not realistic when assessing country capacity and commitment, and had weak results frameworks.

A review was undertaken for this report following the methodology and the rating criteria used for the matrix evaluation, but focused only on issues related to ownership, realism, and the results framework. The following sections summarize the findings of the review.

Ownership

Forty-two percent of the country programs—35 of 83—showed *satisfactory ownership* for the cohort of CASCR-Reviews reviewed for this report (Figure B.3). In about half of the satisfactory programs, the country strategy was underpinned by broad consultations, and government commitment was well established. For example, in the case of Turkey (FY04–07), the new generation of Bank-supported interventions incorporated the lessons from past failures. In the social sectors in particular, new operations were planned through an extensive consultative process led by collaborative sector work. The preparatory activities had a significant impact on re-focusing the approach of line ministries from inputs toward outcomes. Moreover, the preliminary ratings for ongoing projects were much sounder, with only one project at risk at the time of the evaluation.

Figure B.3. Ownership



Source: IEG data.

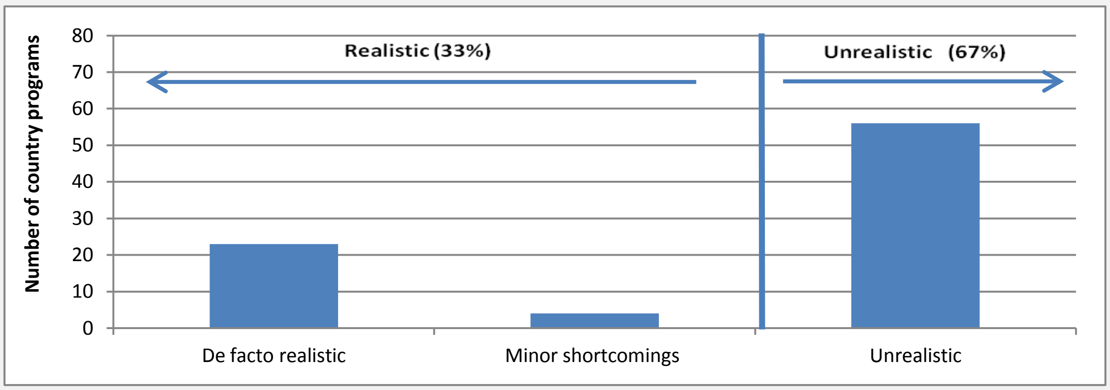
Those programs where ownership was weak echoed some of the themes of the matrix evaluation. In such cases, the Bank often came into the CASs with substantial agendas but governments were not appropriately engaged or had only a superficial commitment to the agendas. In Peru (FY06–11), the country strategy straddled two administrations. The former administration seemed committed to an agenda of decentralization of social services, but the successor administration was less keen on it and eventually abandoned the strategy altogether. The Bank continued trying to implement aspects of the decentralization agenda, with less-than-satisfactory results. A realignment of the Bank's agenda with the new government priorities may have been possible with a more consistent policy dialogue.

A number of countries in Europe and Central Asia have based their policies on a European Union integration agenda, which remained their focus even if the Bank partnership strategy had a slightly different slant. Ownership of the European Union–oriented policies took precedence over interventions agreed under the partnership with the Bank.

Realism

One-third of country programs showed moderately satisfactory or better levels of *realism*, in line with the matrix evaluation (Figure B.4).

Figure B.4. Realism



Source: IEG data.

Realistic programs showed an understanding of the political economy of the country (political riskiness) and local implementation constraints. In the case of Turkey (FY04–07), the lending program and analytic work conformed closely to the original CAS program. On the Turkish side, there was a high degree of political stability with no serious natural disasters during the CAS period; and on the Bank side, the core of the Bank program (development policy loans) had the flexibility to respond to changing realities and push on doors that seemed likely to open.

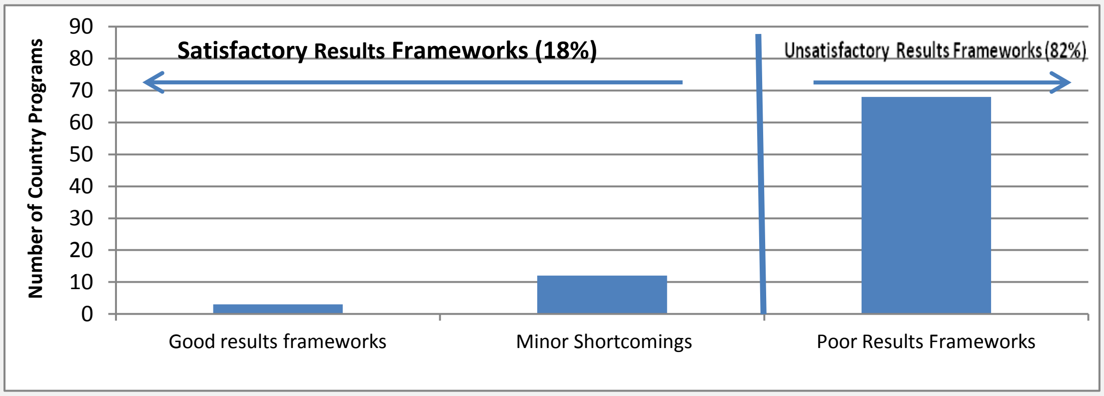
Another characteristic of a realistic program is selectivity—focusing on areas of reform where the Bank can complement the authorities' interventions, taking into account government capacities. In Guatemala (FY05–08), the Bank was selective and took into account political conditions; it used single-tranche programmatic loans that would allow it to adjust the program as needed.

By contrast, programs that did not show an assessment of absorptive capacity or the local political economy were less successful. In Costa Rica (FY04–08), the Bank underestimated the time it would take to obtain political consensus and pass key reforms through parliament. As a result, program implementation suffered significant delays compared to the proposed strategy.

Results Frameworks

Fifteen of 83 country programs—18 percent—had *satisfactory* results frameworks, compared with about one-quarter in the matrix evaluation (Figure B.5).

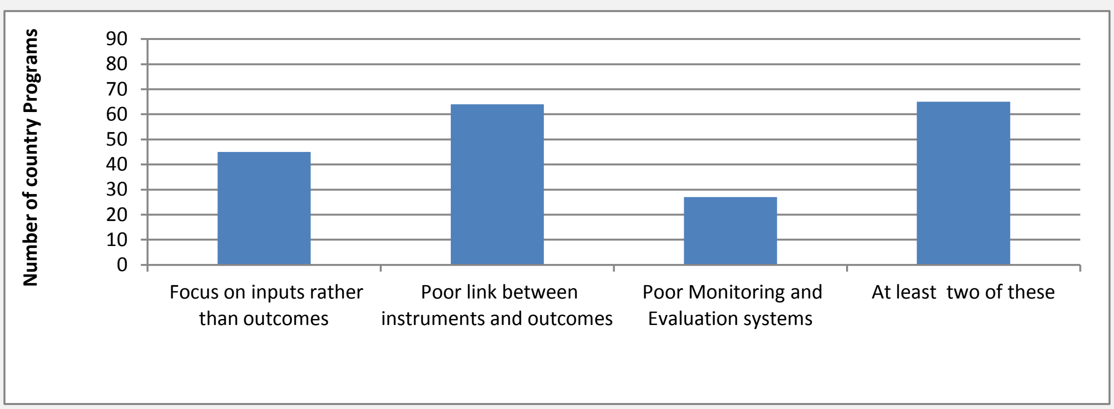
Figure B.5. Results Framework Quality



Source: IEG data.

Weak results frameworks typically had three main characteristics: (i) a poor (or irrelevant) link between instruments and activities and intended outcomes; (ii) poor M&E systems, including indicators that were far removed from the outcomes they intended to support; and (iii) a focus on inputs and outputs rather than outcomes (Figure B.6).

Figure B.6. Results Framework—Common Reasons for Shortcomings



Source: IEG data.

For example, counterparts in Chile opined to IEG evaluators that Bank readiness to lend could get in the way of better projects and results, among other things, because the Bank tends to go along with what the authorities propose. They also noted that the urge to disburse creates incentives to cut corners and load projects with process indicators rather than with more demanding outcome indicators. In Chile (FY07–10), which had a mostly knowledge-based program, objectives were not well defined, and outcome indicators were mostly absent from the results framework underpinning the country strategy (IEG 2011c). In Ukraine (FY04–07) the CAS undertook to decrease the number of depressed territories, although it had no instrument to support this objective. In contrast, a select group of strategies showed good results frameworks. For example, IEG's review of Poland (FY05–08) notes that the instruments and operations were appropriate and well linked to intended outcomes of Bank assistance.

LESSONS LEARNED FROM EVALUATIONS OF COUNTRY PROGRAMS

The review of recent CASCR-Reviews shows that successful programs result from locally owned partnership strategies that have clear priorities and that effectively monitor and evaluate outcomes that are clearly linked to interventions. In this context, the following lessons in four areas emerged from the CASCR Reviews and country program evaluations undertaken during FY08–12.

Dialogue with Country Counterparts

A more engaged dialogue with country counterparts ensures buy-in and understanding of the local political economy and provides selectivity and focus. The Bank Group has greater development effectiveness when it aligns its strategy with the government's own program. In Peru (FY07–11), the initial reform platform was short on detail and lacked authorities' agreement on the specific interventions expected from the Bank Group, following the transition in administration. Peru went its own way on reform, and the dialogue with the authorities was not as fluid as was needed for the Bank Group to incorporate the country's changing policy intentions in its own projects and programs. As a result, projects on decentralization of social sectors and rural education performed poorly. By contrast, reflecting a close dialogue with the authorities, the Bank Group had highly effective interventions supporting Peru's actions to deal with the effects of the global financial crisis. Moreover, the current Country Partnership Strategy reflects a more thorough discussion with the authorities and corresponding buy-in.

In Costa Rica (FY09–11), implementation of ongoing projects proceeded slowly, primarily because of delays in project effectiveness caused by the process of consensus-building and the ex ante controls by the supreme audit institution, to which the Bank did not devise an adequate response. A more fluid dialogue with the relevant authorities could have made the Bank more aware of Costa Rica's political economy when preparing projects.

In Sri Lanka (FY09–12) the Bank committed to deliver results in areas where the government had not articulated a precise agenda. Eventually the Bank and the authorities could not agree on a common vision on how to promote agricultural competitiveness. In addition, the Bank Group had to significantly reassess the pace at which the development agenda could be implemented in the water sector. The result was an unfocused program as well as frustration among the relevant authorities with the Bank. The authorities believed the Bank did not tailor proposed solutions to the country's problems and that it emphasized an agenda that was misaligned with the reality of a country progressing from International Development Association (IDA) to middle-income status.

These observed tensions underscore that a close dialogue at all stages of development and implementation of the country program is essential to bolster the Bank Group's development effectiveness. Such close dialogue would also have brought focus to an analytical and advisory activity agenda that, in the case of Sri Lanka, was perceived to be too thinly spread and unfocused.

Congruence between Outcomes and Interventions

The most common individual weakness of results frameworks is that objectives and subobjectives are too broadly defined and that, in effect, they may be realized only under a very optimistic set of assumptions. Bank Group strategies in many instances are based on microlevel interventions that are expected to deliver higher-order macro outcomes. A number of programs were found to have objectives whose ambition and scope were not supported by adequate Bank Group interventions. For example, the Russian economy did not diversify as expected under the program because the country's key competitive and innovation challenges spanned a very broad set of issues that went well beyond the reach of the Bank Group program. According to the assessment of the recent CASCR-Review, in Brazil, Bank Group interventions could not, realistically, be expected to increase the per capita gross domestic product of the poorer regions to the country's average (IEG 2011i); and, further, the program had little to offer toward achieving the stated financial sector objectives.

Monitoring and Evaluation Systems

Strategies need good M&E systems for effective supervision of relevant programs and associated interventions and to allow for the adjustment of strategy in light of progress or unexpected developments. Yet poor M&E systems were a significant barrier to effective results frameworks in many of the cases reviewed. For example, in Mozambique, a poor M&E framework provided a weak guide to IDA's activities and contributed to a failure to modify the course, even though results suggested the need to redesign several interventions midway through their implementation. In Bolivia, there was no up-to-date information on several outcome indicators during implementation. This weakness preempted the needed adjustment of a transitory strategy to reflect progress being made and constrained the Bank Group's thinking about the changes that would have been desirable.

Responsiveness to Changing Country Priorities and Developments

The noted deficiencies in M&E systems can be compounded by institutional deficiencies that limit the Bank's responsiveness through the course of strategy implementation. The CAS progress report is typically the instrument that the Bank Group uses to take stock of implementation and to make appropriate adjustments toward the attainment of development results. Yet, in practice, fewer than one-third of CAS progress reports adjusted strategies through modifying expected outcomes or changing indicators for those outcomes. In some cases, where the strategy was going well and there were no unexpected external developments, this practice was appropriate. But in many other instances, CAS progress reports missed the opportunity to introduce necessary changes.

In Mozambique's case, the Bank Group did not prepare a CAS progress report because of turnover in the team. The result was a strategy that floundered and a moderately unsatisfactory outcome rating. The CAS strategy framework designed for Uruguay in 2005 was relatively unfocused and left the door open for a refocusing at the CAS progress report stage, following dialogue with the new government. Ultimately, however, the country team did not bring focus to the results framework at the time of the CAS progress report.

By contrast, a number of countries—including Peru and Ukraine—made good use of the CAS progress report to adapt the Bank Group strategy to the 2008–09 financial crisis. The response of these and other country strategies to the global crisis showed flexibility and timeliness—underscoring how essential CAS progress reports are to updating the objectives of the country strategy and adapting the objectives to changing circumstances and developments.

Appendix C
Classification of IEG Findings by Bank Group Operational Category

In analyzing the evaluative information on sectoral and thematic results, this report organizes IEG findings under four categories of Bank Group operations. These categories were developed building on the core development goals introduced in the 2011 report. The goals are in line with the underlying development goals and priorities that the Bank Group has pursued in its strategies and operations.

This report retains the basic approach of analyzing sectoral/thematic results concerning broadly defined areas that encompass operations of the Bank, IFC, and MIGA. However, modifications have been made to reflect last year's experience. Last year's report introduced four core goals as an evaluative framework. In contrast, this year, Bank Group operations and associated evaluation findings are classified under four operational areas to allow for more systematic organization of the findings from diverse Bank Group operations.

The goals in last year's report and the operational categories in this year's report are as indicated in Table C.1. Table C.2 shows the project, cluster, and business line codes used to classify Bank Group operations under the four operational areas.

Table C.1. Comparison of Classifications Used in Results and Performance Reports 2011 and 2012

2011 Four development goals	2012 Bank Group operational categories
• Expanding economic opportunities • Improving public sector effectiveness • Enhancing human development • Increasing resilience to socioeconomic and environmental risks	• Expanding economic opportunities • Developing infrastructure • Enhancing human development • Ensuring environmentally and socially sustainable development

Source: IEG.

Table C.2. Classification of IEG Findings by Bank Group Operational Category

Areas of Bank Group operations	World Bank project coding[a]	IFC industry clusters and Advisory Services business line[a]
Expanding economic opportunities	Economic Policy Poverty Reduction Finance and Private Sector Development Public Sector Governance Legal Department (Law and Justice) Agriculture and Rural Development	Manufacturing, Agribusiness, and Services Cluster (without healthcare and education services) Financial Markets Cluster Access to Finance Advisory Services Sustainable Business Advisory Services (Corporate Governance; Linkages; SME Management Solutions) Investment Climate Advisory Services
Building infrastructure for growth	Transport Global Information and Communication Technology Energy and Mining Water Urban Development	Infrastructure and Natural Resources Cluster Public-Private Partnerships Advisory Services
Enhancing human development	Education Health, Nutrition, and Population Social Protection	Health Care and Education Services investment projects
Ensuring environmentally and socially sustainable development	Social Development Environment Gender Development	Sustainable Business Advisory Business Line (Eco-standards & Sustainable Supply Chain; and Sustainable Energy Market Development)

Source: IEG.
Note: The classification presented in this table is introduced as a way to organize IEG findings into areas of Bank Group operations. SME = small- and medium-sized enterprise.
a. Sector board coding was used for World Bank–supported projects. IFC industry cluster classifications and Advisory Service business lines were used for IFC-supported activities. MIGA projects were classified according to their respective institutional sector designations.

Appendix D
Evaluation Findings Related to Bank Group Effectiveness in Four Operational Categories

The Bank Group contributes to development results through lending, knowledge work, advisory services, and partnership activities in various sectoral and thematic areas. As summarized in Appendix C, this report uses four broad categories of Bank Group operations to discuss its wide-ranging operations in both a systematic and comprehensive way. This appendix shows the salient points regarding the effectiveness of Bank Group operations in these operational categories based on findings of IEG evaluations.

Expanding Economic Opportunities

Support to expand economic opportunities is a centerpiece of the Bank Group's operations. Most, if not all, of the CASs have a pillar that aims to foster growth and improve institutions. The achievements in these pillars are generally rated on a par with or better than the overall outcome ratings. Since the global economic crisis, Bank Group support for reforms intended to expand economic opportunities has been particularly relevant.

Overall, the findings in Bank operations to expand economic opportunities highlight the value of continued dialogue and high-quality analytical work. For example, when there is a knowledge gap, the Bank encountered difficulty in helping governments map out actionable programs at the time of the global economic crisis. Dialogue is also shown to help increase specificity of recommendations in the Bank's knowledge work, while maintaining analytical independence from government counterparts. Well-implemented projects with desired outputs could end up with little meaningful impact, if the right issues are not identified in the first instance.

But good design does not always guarantee success. External conditions can change rapidly, particularly in today's environment, with direct consequences for project outcomes. The findings on the Bank operations to enhance the business environment demonstrate the challenges in expanding the success at the output level (such as shortening of the time required for registration and reductions in processes) to results at the outcome level (such as enhanced competitiveness and improved business environment). Relevant evaluations also suggest that successful interventions tend to set an appropriate timeframe for reforms to take effect.

Lessons drawn by both Bank task teams and IEG at completion of interventions in this operational category frequently refer to a long time horizon needed for the reform impact to emerge. Similarly, the lessons, most notably in public sector and governance projects, point to the importance of keeping the design simple and setting realistic targets based on a solid understanding of the political context for reform. Factors exogenous to Bank operations, such as the prospect of European Union accession and government transition, also affect the ownership of reform. A combination of financial, technical and knowledge services provides diverse alleys for continued dialogue with clients beyond transitional phases.

The choice of channels and instruments to influence the outcomes in this operational category varies across countries to address specific needs. The following sections provide salient findings on four major types of activities often found in relevant CAS pillars: enhancing the business environment, investment climate, and competiveness; supporting appropriate fiscal management; strengthening the financial sector; and improving agricultural productivity. This section also discusses the IFC and MIGA operations in manufacturing, agribusiness, and services (MAS).

BUSINESS ENVIRONMENT

Improvement in the business environment is often pursued through reduction in regulatory and administrative processes in conducting business. Achievements have been reported, for example, in reducing the number of procedures that businesses need to follow and in setting up a one-stop electronic platform to handle procedures related to business activities. Simplifications of export procedures and improvement in customs' clearing systems have helped reduce the time needed for imports and exports clearance. Reduction in the minimum capital requirement for business start-ups has been implemented as a means to support small and medium enterprises. Changes in the law on inspection have also resulted in fewer numbers of enterprises undergoing government inspection in a number of client countries.

However, evaluations also show that the impact of these achievements is not always apparent. In certain instances, the effect on overall competitiveness may be visible only after a lag and, in other cases, causality may be difficult to establish. In one case, legislative changes were made to simplify business regulation. However, the changes did not lead to changes on the ground, particularly regarding the time that managers have to spend complying with regulations, which cast doubts about the relevance of the reform program.

The Bank Group is actively engaged in the provision of knowledge services in this area. For example, investment climate assessment (ICA) is one of the key instruments designed to help improve the investment climate. It identifies the key constraints to private sector investment and operations and provides recommendations on steps to improve the investment climate. IEG reviewed nine ICAs in five countries and found wide variation in the results achieved (IEG 2011g). In one instance, ICA findings were used by the government counterpart as an agenda for reform and as a baseline to measure the progress of measures taken on taxation and deregulation. In another case, the government virtually ignored findings or considered them out of date.

The review also found that much of the credibility of the ICA stems from the fact that it is not a government-sponsored product. What is important is not that government undertakes the assessment but that there is official acknowledgement of the constraints identified in the analyses and ownership of the agenda addressing these constraints. High standards of technical quality are critical for better results. The quality of recommendations is particularly pertinent; yet providing specific recommendations is a challenge, as ICAs typically provide diagnostic information without deeper sectoral analyses on the likely impact of alternative remedial measures. Dialogue with stakeholders is also vital in driving the demand for change.

Approximately 80 percent of evaluated IFC and MIGA projects had satisfactory or higher ratings for their private sector development impact (that is, effects beyond the project enterprise). Typical effects include enhanced competition and efficiency in the sector through the entry of a new project, introduction of new products, support for privatization projects, or demonstration effects of investments in difficult markets that may lead to additional private investment. In certain instances, projects have also contributed to an improved regulatory environment through the introduction of international governance standards in their host countries.

Knowledge products offered by investment climate advisory services, a joint IFC, Bank, and MIGA entity, focus on improving aspects of the business-enabling environment such as business regulation, international trade and investment, and industry-related investment climate. Investment climate advisory projects had a development effectiveness success rate of 58 percent (FY08–10), on a par with IFC Advisory Services overall. Projects performed better where interventions were properly phased and where client commitment remained strong throughout the intervention, based on a thorough understanding of political issues and priorities.

FISCAL MANAGEMENT

Fiscal positions in developing countries have deteriorated since 2008, although the conditions are generally better than those in developed countries. Given the lingering uncertainty, sound fiscal management will likely be a high priority item for Bank Group client countries.

IEG's review of the Bank Group's response to the 2008–09 crisis (IEG 2012e) found that analytical underpinnings of fiscal management-related DPOs were generally sound. However, it also notes that overall, measures to restore sound fiscal positions in fiscally distressed countries in response to the crisis—such as measures to reduce or reprioritize spending on a sustainable basis—were often found to be insufficient. The Bank's knowledge base in public finance enabled a program to be built in many countries. Where pre-crisis engagement had waned, including through a fall in lending volumes, knowledge gaps were notable. In these countries specifically, the Bank was unprepared to help map out actionable, forward-looking programs in public finance to address the crisis.

As part of the crisis response, the Bank sought to help vulnerable countries meet their gross financing needs while adjusting revenue and expenditure policies to address the fiscal conditions created by the crisis. Fiscal objectives that featured prominently in the fiscal management-related DPOs provided after the economic crisis included strengthening macroeconomic management and fiscal sustainability, raising the efficiency and effectiveness of public expenditure, and improving public financial management. Although many of the fiscal management-related DPOs embodied measures to improve the cost-effectiveness of public expenditures, politically sensitive measures were much less frequent. Examples include the reduction of subsidies in fiscally stressed countries. Actions requiring that specific fiscal targets be met were also infrequent, including in countries experiencing high fiscal stress.

FINANCIAL SECTOR

Financial sector support was a significant component of the Bank's response to the global crisis, but 70 percent of commitments went to the countries with relatively moderate stress levels (IEG 2012e). The Bank's policy loans in support of financial reform in the most deeply affected countries contained relevant conditionality focused on crisis-related themes and contributed to stabilization. The Bank's role in these cases must be viewed in light of its partnership in a consortium in which its financial contribution was relatively small (5–10 percent at most) and the usefulness of the signal that its presence sends to the markets.

Sustainability of the interventions has been mixed—some reforms were successful, but deeper structural issues have persisted. The actions supported in less-affected countries were often general, incremental, and medium-term in orientation rather than crisis related; occasionally, significant financial sector issues were neglected. The Financial Sector Assessment Programs conducted before the crisis helped the Bank assess the level of country stress and design follow-up operations. The Bank's overall engagement in the financial sector with the countries that received loans was adequate, though there had been some decline in Bank-wide volumes of financial analytic and advisory activity in the preceding years.

As for IFC, in response to the 2008–09 economic crisis, it first conducted an extensive portfolio review to identify clients that were most at risk from the shocks of the financial crisis. Measures such as deal restructuring or follow-on investments were taken to help stabilize client businesses. The Global Trade Finance Program and Global Trade Liquidity Program initiatives leveraged and built on IFC's strengths—global and local knowledge of financial markets and its AAA credit rating—to help alleviate potential trade finance shortages.

IFC financial sector projects pursue the goal of creating opportunities for people to escape poverty and improve their lives in four ways: promoting open and competitive financial markets in developing countries; filling gaps in access to finance, especially among the underserved; addressing capacity gaps in financial institutions and generating productive jobs in these countries; and encouraging productive investments in developing financial markets. IFC's financial sector investments have grown rapidly over the past years, driven by an increase in short-term trade finance. Development outcome ratings for IFC financial markets operations have declined from 75 percent to 64 percent (results refer to three-year rolling averages for 2006–08 versus 2009–11; change not statistically significant), and are now performing below the average for other IFC industry clusters. IFC's Access to Finance advisory projects performed above other advisory business lines

Projects in the financial sector demonstrate financial and nonfinancial additionality. Among the frequently observed examples are the provision of local currency financing, long-term financing, and expertise in financial structuring. Partner selection, financial structuring, and the addition of IFC Advisory Services are among the drivers of project success. Projects with excellent private sector development impact tended to demonstrate successful risk taking in the face of well-understood uncertainties.

Results of IFC financial markets projects are sensitive to the quality of sponsors and changes in countries' business climate. Based on IEG's analysis, good IFC work quality can mitigate shortcomings in the business environment. In that regard, overall work quality of evaluated financial markets projects has declined from 77 percent satisfactory or higher in 2006–08 to 68 percent in 2009–11. Among the aspects comprising work quality, appraisal quality was lowest (66 percent satisfactory and higher), but the difference in the work quality between financial markets and all projects was largest for the quality of supervision (74 percent for financial markets projects and 81 percent for IFC projects overall).

Financial sector project outcome ratings in Europe and Central Asia declined considerably, from 82 percent in 2006–08 to 51 percent in 2009–11 (21 of 41 projects), in large part because of the effects of the crisis and structural issues in financial institutions that the crisis amplified. A review of projects in Europe and Central Asia, the region with the largest number of financial markets projects evaluated as well as the steepest decline in performance, showed that all but one of the 20 financial markets projects with low outcome ratings were affected by the crisis. This was also reflected in less than satisfactory business success ratings in all projects but one. Low-performing projects were associated with rapid growth that was not commensurate with capacity (six projects), an increase in related party lending (three projects), excessive portfolio concentration (four projects), or weak corporate governance (seven projects).

Based on a purposive sample of financial markets evaluations completed in 2008–10, IEG extracted a number of issues and lessons to generate insights for IFC's financial sector interventions. Evaluative evidence pointed to the importance of a good understanding of project risk for achieving successful development outcomes, especially where risk taking and mitigation occurred with well-understood uncertainties. IFC's value added to its clients is enhanced when its participation in projects goes beyond financing to include broader types of support to help financial intermediaries grow and make financial sectors more competitive. In this respect, Advisory Services are a key instrument for addressing nonfinancial additionality and synergies between knowledge products and investments. Moreover, evaluations point to the need for clarity about key assumptions on the links to achieve results and the conditions and context that are critical for project success.[5]

MIGA's outstanding guarantees portfolio is concentrated in the financial sector (42 percent of outstanding guarantee exposure).[6] In addition, its financial sector portfolio is also concentrated regionally in Europe and Central Asia (94 percent of new guarantee issuance during FY09–11) and among a few client banks. The sector concentration reflected in part MIGA's strong response to the financial crisis in 2008-09; during that period capital flows for investments in other sectors were also constrained—notably in infrastructure. MIGA's Financial Sector Initiative, part of a wider Joint International Financial Institution Action Plan, played a modest but important role in helping improve banking sector conditions in countries in Europe and Central Asia in the wake of the global crisis. The broader International Financial Institution Action Plan (and therefore MIGA, as one player) successfully contributed to stabilizing and restoring confidence in the financial markets, although it is difficult to attribute results solely to MIGA's contribution.

MIGA-supported banks performed well in crisis conditions, whether during 2008–09 or earlier crisis episodes in Brazil, the Russian Federation, and Turkey. Projects were strategically relevant to their host countries, especially in the Europe and Central Asia Region, which underwent financial liberalization in the last decade but where state-owned banks remain dominant. Successful projects in the region helped introduce competition and new banking products and services, which local banks subsequently adapted, and provided financing and banking services to clients not served by the host countries' dominant state-owned banks. Although these projects are profitable and efficient, the financial crisis has highlighted the need for foreign subsidiaries to mobilize local currency funding to avoid devaluation risks.

Evaluations have identified several factors contributing to the strong development outcomes of relevant projects in that such projects had established and experienced sponsors, quickly introduced new products ahead of local competitors, and specialized in specific business segments (corporate or retail markets) that large local and state-owned banks were unable to serve.

AGRICULTURE

The relevance of the agricultural sector has grown considerably in light of volatility in food prices in recent years. There are demand factors behind the food price rise: growing population, rapid urbanization, and increasing incomes around the world are adding to demand. Proximate causes also include the lack of buffer stocks and market speculation. However, a fundamental factor has been stagnation in the growth in agricultural productivity in recent years. Intensification of production and improvement in efficiency of inputs are also relevant in the context of efforts to mitigate global warming, as agriculture contributes about 15 percent of annual greenhouse gas emissions (forestry contributes an additional 19 percent), compared with 13 percent from transportation (World Bank 2007c).

The Bank Group uses a wide range of channels to enhance agricultural productivity, and, as a result, there is considerable opportunity for synergies in this sector through leveraging the expertise in the World Bank and IFC. IEG's evaluation on agriculture and agribusiness (IEG 2011d) notes that the requirements for successful agriculture projects are multifaceted, and all relevant facets must function effectively together for success and growth. Farming is essentially a private sector activity in which farmers apply their labor and capital to land to produce crops. The role of the private sector in linking farmers with the market (including international markets) is critical.

Informal links exist between Bank and IFC staff in the preparation of specific projects, programs, and strategies, such as the IFC Agribusiness Strategic Action Plan FY12–14 and the forthcoming World Bank Group Agriculture Action Plan: 2013–15, among others. To take better advantage of potential complementarities, efforts to establish a Bank Group-wide mechanism to enhance communication and collaboration in a systematic rather than ad hoc manner need to continue.

MANUFACTURING, AGRIBUSINESS, AND SERVICES

The performance of IFC's MAS investments has improved considerably over the past decade. For the 2009–11 cohort of evaluated projects, 74 percent of projects achieved mostly successful or better development outcome ratings, an increase over the 68 percent of those evaluated during 2006–08 (not statistically significant). Ratings for this cluster have long been among the lowest for IFC (with a success rate of 49 percent in 2003–05).

The increase in performance appears to have been based on a number of factors, including IFC's changing strategy with respect to traditionally challenging sectors such as agribusiness and tourism. This included focusing on different types of clients, for example, on secondary processing companies in agribusiness (rather than primary agriculture) or on integrated tourism companies (rather than individual hotels). The performance levels achieved may also reflect improvements in IFC's work quality, which is now above that of other industry clusters.

A review of a purposive sample of evaluated IFC MAS projects (2009–11) revealed some common lessons and factors of success.[7] Given the sample size and heterogeneity of projects, these should be regarded as examples rather than generic lessons with wider application (Box D.1). The review found that a large share of projects had encountered crisis episodes. The companies that weathered them best were found to share one or more common characteristics. They tended to be low-cost producers with export potential and diversified concerns, both in terms of products or markets or were supported by strong sponsors that could provide financial backup. Other successful strategies include retrenching (postponing or downsizing the project) or, to a lesser extent, trying to renegotiate the IFC loan covenants that were deemed too restrictive. The sample featured a high ratio of prepayments or cancellations, affecting 50 percent of loans.

Box D.1. Summary of Lessons from a Sample of IFC MAS Projects

Deal structuring: Deals should be structured to ensure that the returns to the various stakeholders are commensurate with their contributions and risks. In this context, IFC should be adequately compensated for its appraisal and other up-front costs when a loan is prepaid or when some components of a deal structured and priced as a "package" are dropped. In a project in Africa, IFC financing consisted of a senior (A) loan at the London Interbank Offered Rate (LIBOR) plus a small spread and a subordinated (C) loan with an income-participation feature to boost the IFC total return. The subordinated loan was cancelled at the sponsors' request, leaving the IFC only with the less-rewarding senior loan.

Covenants: Loan covenants protect the lender by ensuring that the borrowing company maintains conservative financial policies and a sound balance sheet. In some cases, sponsors perceived IFC covenants as too restrictive, leading them to prepay the IFC loan. Reassessing and, if necessary, readjusting covenants is typically not too onerous a task for IFC should the sponsors request it.

Securities have proven difficult to perfect in highly regulated economies, when a sharing agreement with previous lenders was required, or when too many different assets were involved. In addition, the timing of security releases has been contentious. As with the covenants, IFC may reassess the securities and release them if appropriate at the sponsor's request.

Environment and Social Effects: Few clients consider the E&S investments a priority. E&S effects were rated satisfactory in 56 percent of MAS projects evaluated in 2009–11. Successful and timely implementation of E&S requirements depended on the sponsors' commitment to improving E&S performance, which in turn depends on IFC establishing mutual trust and goodwill with the sponsors. In addition, managing E&S issues involves close interdepartmental cooperation within IFC. Though time consuming, effort should be made to convince the sponsors of the critical importance of E&S requirements and of the need for timely and accurate reporting on such matters.

Committed sponsors: Several projects received sponsor support as cash infusions for working capital or to compensate for losses. These included subordinated loans from the sponsors, periodic infusions of capital to support growth, deep-pocketed sponsors that financed the project on their own and kept the company afloat, technical know-how, cash for working capital and debt service, sponsors assuming losses resulting from low-price strategy, and providing liquidity and subloans. In addition, the sponsors' interests need to be aligned with IFC's, and this should never be taken for granted. In one case a sponsor's low-price strategy conflicted with IFC's and other shareholders' financial interests. In multiple instances, the sponsors did not implement the project that had been appraised. It is up to the appraisal and supervision teams to maintain this alignment. The key lesson is for IFC to track project implementation such that it is aware of changes in project scope and the reasons behind such changes.

Source: IEG.

Seven of nine evaluated MIGA projects in the agribusiness, manufacturing, and services sector were rated satisfactory or better in development outcomes. Projects with good performance include a large-scale integrated paper mill; a thick-gauged galvanized roofing factory; custom inspection services companies; and two projects involving sales, maintenance, and repair of heavy equipment used by companies of national economic importance.

Successful projects tended to produce goods or services targeted to the needs of the domestic market. These projects fill the gap that local companies are unable to, as in the case of two projects involving customs inspection services. The projects introduced new technology and systems that are unavailable in the host country and upgraded the skills and capacity of national customs and project staff. Two manufacturing projects successfully competed with local manufacturers by meeting homeowner demand for quality home construction products. The unsuccessful projects involved a public-private partnership housing project that was not implemented when the joint venture collapsed and the privatization of a large-scale agribusiness project that was renationalized after the project failed.

Building Infrastructure

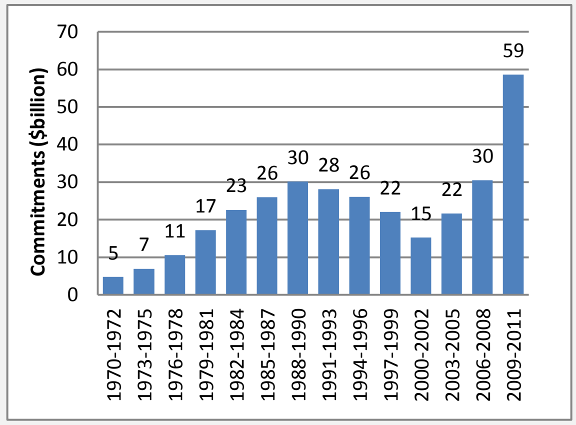
Infrastructure operations cover a large proportion of World Bank investment projects; accordingly, the performance of infrastructure operations has significant bearing on the overall effectiveness of the World Bank. Infrastructure lending represents about 40 percent of the total World Bank commitments approved during the period FY09–11.

There are elements of commonality in the types of objectives pursued by infrastructure projects including, for example, improving the quality and accessibility of infrastructure services. There is a growing level of support for activities that address climate change as well as operations that seek to prevent environmental degradation and to mitigate damages associated with natural disasters. More generally, however, a wide and diverse range of activity is supported across the infrastructure sectors that include transport, water, energy, urban development, and information and communication technologies.

The World Bank has significantly expanded its operations in infrastructure since 2003. The pace of expansion accelerated during the crisis response. Many World Bank client countries maintained their infrastructure spending for its critical role in retaining short-term employment during the crisis. Lending to infrastructure projects almost doubled, from $30 billion in FY06–08 to $59 billion in FY09–11 (Figure D.1).

The average commitment amount per project in FY09–11 was $147 million, an increase of more than 60 percent as compared with $89 million in FY06–08. Transport and energy and mining are the largest sector boards, each representing 37 percent of total infrastructure lending. Water and urban development sector boards represent about 12 percent and 13 percent respectively, followed by the global information and communications sector board, representing 1 percent of the total infrastructure lending.

Figure D.1. Trends in Infrastructure Lending



Source: World Bank data.

In contrast, IFC investments in infrastructure have declined since the financial crisis. IFC's infrastructure investments amounted to $5.6 billion in FY09–11, a decline of 12 percent from $6.3 billion of investments made in FY06–08. In FY11, infrastructure investments were below pre-crisis levels. South Asia infrastructure investments declined to only 2 percent of the total in FY09–11, from 20 percent in FY06–08. Infrastructure investments in IDA countries have declined since their peak of $0.98 billion (FY08). This reflected the challenges of projects during the financial crisis, and in the case of Africa, the limited amount of transactions, as development finance institutions provided much of the financing to a public sector–dominated infrastructure sector.[8] With a share of 31 percent of infrastructure investments, electric power remained the largest area during FY09–11, followed by transportation (27 percent), telecom/information technology (IT) (20 percent), and utilities (9 percent).

After a decline in MIGA insurance for infrastructure projects during the crisis, linked to a decrease in global capital flows, the guarantee issuance in this sector increased, buoyed in part by a new type of coverage. Infrastructure investments accounted for $1.2 billion in guarantees during FY09–11, compared with $1.7 billion during the previous three years, as the availability of project finance for such projects was negatively affected by the crisis. Post crisis, and following the expansion of MIGA's mandate, MIGA has seen a strong rebound in guarantees in this sector (54 percent of guarantee coverage issued in FY11).

CHALLENGES AND LESSONS: INFRASTRUCTURE OPERATIONS

The challenges in infrastructure are diverse and complex. Considerable variations exist in the availability, coverage, quality, and efficiency of infrastructure services among developing countries; associated difficulties are more explicitly manifest in certain sectors. Overall, there is significant consistency in the lessons associated with the evaluation of infrastructure projects supported by the Bank. Most lessons emphasize the need to take the time to get things right at entry and the early stage of project implementation by identifying all potential stakeholders and consulting widely; making a realistic assessment of what is possible taking into account commitment, context, and capacity; and making project design as simple as possible. It is also critical to develop simple, implementable M&E systems associated with clearly defined and relevant indicators for which there are readily available supporting data sources.

Particularly in relation to large-scale, multicomponent projects, the evaluations emphasize the need to ensure strong commitment from government. They also warn against underestimation of the risk of delays from social, environmental and political factors, particularly in relation to setting realistic project durations. Project evaluations also stress the need to fully assess the impact that vested interests may have on project delivery during implementation. Project implementation lessons highlight the need to ensure early availability of qualified staff and for as much continuity in personnel as possible. The need for fully thought-through sequencing of actions to allow for smooth implementation geared toward effective delivery is also highlighted, as is the need to formally absorb lessons learned as the project progresses.

One area that usefully illustrates the evolving opportunities and challenges in infrastructure is information and communication technologies (ICT). The IEG evaluation on ICT (IEG 2011b) found that countries with Bank Group support for policy reform or to catalyze private investment for mobile telephony in difficult environments and in the poorest countries have increased competition in and access to ICT faster than countries without such support.

However, the Bank Group's contributions have been limited in other priority areas, including ICT components in projects in other sectors (such as health, education, public sector management), an area where ICT is expected to deliver the largest development impacts. Moreover, efforts to increase access to ICT infrastructure to the underserved beyond what was commercially viable (for example, through universal service funds) have been largely unsuccessful. Support to such programs was largely superseded by the rollout of phone services by the private sector, in some cases supported by World Bank sector reforms. Access for the poor has been more effectively supported through general, nontargeted interventions and reforms focused on the enabling environment and direct support to private investments (IEG

2011b). The Bank Group has launched a new ICT sector strategy, which provides the strategic directions in this area.

Although the majority of Bank financed projects in infrastructure sectors continue to perform well relative to other sectors, the share of investment projects rated moderately satisfactory or better by IEG has declined in recent years. Because of the significance of infrastructure within the overall portfolio, this fall has consequently brought down the overall share of Bank financed investment projects rated moderately satisfactory or better. More detail and discussion on ratings can be found in Appendix E.

With the growing significance of private sector players in this area, IFC projects show that alignment of private and public interests is critical for the success of infrastructure. IFC infrastructure projects were more successful when they aligned public and private interests well, for instance, through the existence of a government program to reform the sector. The existence of a World Bank program to support sector reforms helped mitigate the project's regulatory and government performance risk. Where such World Bank programs did not exist, IFC's assessment of regulatory risk was critical to project success. In contrast, IFC's record of addressing regulatory weaknesses was limited. IFC's impact was highest when its projects could demonstrate the viability of private sector investments in infrastructure, supporting first movers in newly liberalized or restructured infrastructure sectors.

The regulatory environment is important for the success of IFC infrastructure projects. In telecom projects, a level playing field and pro-competition regulatory environment are important for projects to achieve their development objectives of improved coverage and reduced prices. For regulated industries such as electricity distribution, strong government ownership of a sector reform is necessary, because IFC's leverage is often limited. Small local sponsors require strong lender support and proper finance structuring to enter into capital-intensive infrastructure investments. IFC can also play a significant role as an honest broker in the event of disputes between operators and government entities, as in the case of a telecom operator facing issues with interconnection fees. Similarly, several international finance institutions can collaborate to share risks and provide development impacts in untested markets.

Performance of IFC infrastructure projects has remained on par with IFC's overall performance. Sixty-eight percent of projects had mostly successful or higher ratings (2009–11)—similar to the percentage achieved three years prior (72 percent). Infrastructure cluster projects in IDA-eligible countries performed well below those in International Bank for Reconstruction and Development (IBRD) countries (38 percent [5 of 13 projects] versus 77 percent [27 of 35 projects]). IFC Advisory Services provided by the Public-Private Partnerships business line performed lowest among IFC Advisory Services (46 percent for FY08–10). Low-performing projects reflected low government commitment to reform and shortcomings in regulatory frameworks.

The ICT sector has been challenging for IFC for two main reasons: (i) most telecom sector projects in the portfolio performed strongly in achieving development results, but project level results for IT projects were modest; and (ii) increasing competition and declining revenues per user in the mobile telephony sector that affected the profitability of some IFC-supported operators. IEG's evaluation found a 25 percent success rate for IT projects, reflecting the venture capital, high-risk nature of these projects, but also shortcomings in IFC's work quality and lack of additionality. When looked at from a portfolio perspective, IFC's returns on its IT sector portfolio were consistent with those of industry benchmarks (IEG 2011b).

A review of a sample of evaluated IFC-supported infrastructure projects suggests that such investments had higher ratings for economic sustainability than projects in other sectors.[9] More than half of them had economic rates of return above 50 percent. Telecom projects were highly successful in enhancing access to phone services, but the record of electricity projects was mixed with regard to access—all but one of the five projects were in countries where access was already high.

With regard to enhancing efficiency, telecom projects were generally associated with increased competition and—driven by economies of scale—contributed to reduced prices and improved penetration rates. They also introduced innovative products in their markets. Projects in the transportation sector also contributed to reduced logistics costs, and some power projects improved reliability of service and transmission losses. Some IFC-supported infrastructure projects were designed with specific pro-poor components (for example, Village Phone Program and a water project in the East Asia and Pacific Region).

MIGA-supported projects in infrastructure faced greater challenges in achieving development outcomes than projects in other sectors. Five of nine evaluated projects had low development outcomes, even though all projects were strategically relevant to the host countries. Most projects had concession agreements with the national or subnational government and many were public-private partnerships and therefore faced regulatory and payment risks. Contrary to IFC's experience with infrastructure projects, the host country's regulatory environment had mixed influence on the outcomes of MIGA infrastructure projects: three of the four projects had satisfactory and better development outcomes despite adverse regulatory environments.

Common patterns of successful MIGA infrastructure projects include the level of clarity, "fair" risk-reward allocation, and mitigants being embedded in the concession agreement or project design to preclude regulatory weaknesses. A toll road concession succeeded without a government guarantee because of defenses in the financial covenants and the stringent monitoring system put in place by the lenders' consortium to remedy an adverse regulatory environment and a financially strapped local partner. Forming a joint venture with a local government entity enabled a sponsor's first water supply and wastewater treatment project in the host country to surmount regulatory uncertainty and expand its business area. In a telecom project in a conflict-affected country, the telecom license prepared by a bilateral donor agency and an international telecom body ensured that the license terms and conditions were transparent and fair, with clear indicators that could be monitored while the country's telecom regulations were still being drafted.

Another common pattern among successful MIGA infrastructure projects is the quality of the sponsors—they are not only experienced but they also have strong financial capacity. Finally, regardless of the regulatory environment, successful infrastructure projects were able to charge tariffs to end users without government subsidies.

Financial losses and sustainability problems characterized less successful MIGA-supported infrastructure projects. In one example, a solid waste management project failed because of the combined effects of availability of a more efficient or cheaper alternative, ability of consumers in the concession area to pay fees, lack of clarity on payment parameters in the concession agreement, and inability of the subnational government counterpart to honor its commitment. In another case, a less successful electricity generation project was highly leveraged, operating in a country that is increasingly hostile to foreign investments and undergoing rapid changes in the operating environment, using old albeit refurbished equipment that is costly to maintain, and with heavy government subsidy to end users.

Enhancing Human Development

The Bank Group's efforts to enhance human development are multifaceted and increasingly complex. IEG's Results and Performance of the World Bank Group for 2011 (IEG 2011h) highlighted some of the challenges. It suggested that whereas the World Bank seeks to continue to increase access to basic services, it also aims to address broad systemic improvements, such as building demand for improved and more advanced services in education, health, and social protection. The Bank Group also faces ongoing challenges, particularly in the area of human development, in terms of its interaction with global programs and other significant donors—IEG's Global Program Review of the Global Fund (IEG 2012b) references the practical challenges for the World Bank in ensuring effective collaboration. Harmonization and alignment of donor operations has emerged as an important agenda, particularly in human development and in that regard, the Bank Group is expected to play a key role in advancing the principles set out in the Paris Declaration (IEG 2011n).

Global-level indicators point to real progress in some areas under human development. For example, there has been an overall improvement in the primary completion rate among males and females between 2002 and 2009 (from 85.8 percent to 89.5 percent for males and from 80.9 percent to 87.3 percent for females). However, the overall rate of improvement in health outcomes remains sluggish, and there is significant variability in performance across the regions.[10] The World Bank's 2011 Global Monitoring Report notes that poor countries tend to lag in progress toward attaining the Millennium Development Goals (MDGs) and that, despite improvement, most regions are lagging in relation to certain targeted health outcomes, such as child and maternal mortality and access to sanitation, so that is unlikely that these MDGs will be reached by 2015. There has been general improvement in health outcomes, but it has not occurred at a rate commensurate with projections and expectations.

The achievement of the MDGs and the Bank Group's higher-level goals continue to be affected by a variety of powerful, dynamic factors. For example, increased volatility in the markets has resulted in higher food prices that not only affect income poverty but can have a knock-on effect for health outcomes, education results, and gender equality. The 2012 Global Monitoring Report concludes that high food prices complicate policy making and make progress toward achieving the MDGs more difficult (World Bank 2012b).

BANK GROUP'S ENGAGEMENT IN HUMAN DEVELOPMENT

The Bank Group has supported projects that have contributed, in part, to the substantial gains that have been made in improving access and equality of access to education over the last decade in particular. The number of out-of-school children of primary school age fell from 106 million in 1999 to 68 million in 2008. Between 1991 and 2007, the ratio of girls to boys in primary and secondary education in the developing world improved from 84 to 96 percent. Successes achieved to date have turned attention to other challenges that are now being tackled by projects supported by the Bank Group. These include improving the quality of education and accelerating learning; developing the link between education and the labor market; and integrating information and communication technologies into education.

In health, notwithstanding increased levels of support, there is need, as recognized in the World Bank's 2007 Strategy for health, nutrition, and population, to continue to improve health results, particularly for the poorest and most vulnerable. In that regard, significant obstacles remain—from poor infrastructure and weak logistics to inadequate policies and lack of sustainable financing or health insurance coverage—that prevent life-saving resources and other inputs from reaching those who need them most.

Social safety nets programs are a dynamic and growing part of the World Bank portfolio. An IEG evaluation of social safety nets (IEG 2011j) found that Bank support evolved over the decade as it moved from a project-focused approach that emphasized delivery of social assistance benefits toward an approach that focuses on helping countries build systems and institutions to respond better to poverty, risk, and vulnerability. The Bank's support has relied heavily on both lending and knowledge sharing to engage clients.

The evaluation concludes that, whereas the Bank made significant progress in developing safety nets and addressing crises, key areas of the Bank's support need to improve, including: ongoing engagement during stable times to help countries develop the capacity to respond to future shocks; continued emphasis on building social safety net systems and institutional capacity; stronger engagement with low-income countries; improved short- and long-term results frameworks to underpin social safety net efforts; and continued efforts to ensure cross-network coordination.

CHALLENGES AND LESSONS: HUMAN DEVELOPMENT

Recent evaluations of Bank support in human development tend to emphasize several challenges. They point to a need to further increase focus on human development challenges in low-income countries and the most vulnerable groups; build projects that have conceptually stronger results frameworks backed up by sound analysis and reliable baseline data; and improve overall design and ongoing project management. The latter two issues are frequently echoed in the CASCR-Reviews and PPARs that were reviewed and analyzed for this report. For example, IEG found that (i) initial risk analysis and contingency planning were often less than satisfactory, taking into account the readiness of existing systems and personnel and

(ii) broadly speaking, project objectives were overly ambitious within the planned timeframes and project implementation period.

IEG's portfolio note on education (IEG 2011o) and its 2009 evaluation of World Bank support for health, nutrition and population (IEG 2009c, pp. 27–31) touch upon the challenges in engaging in complex, higher-end activities and pursuing the benefits for the most vulnerable groups. For example, in education, if the Bank increases its focus on higher levels of education, there will be a diminishing level of direct interaction with the poor, as the poor tend to benefit proportionately less from senior cycle, secondary education and even less from tertiary education. Where investment in higher education is in question, linking that investment into benefits for the very poor becomes challenging.

Findings from CASCR-Reviews, ICRs, and PPARs point to several challenges in attaining intended outcomes where projects seek to achieve system reform. A range of issues and challenges may contribute to this: the complexity of the challenges in question in terms of stakeholder buy-in and capacity (such as national and local government and representative organizations such as trades unions); management of cultural nuance; and the fact that achievement of desired reform may over-reach project duration (an issue that applies more generally to Bank Group projects as referenced elsewhere in this report).

The shift in emphasis towards systems change will place even more pressure on results frameworks and M&E systems, as the indicators of success are likely to be more elusive. To manage the variables encountered, to better identify and control for risk, and to maximize project potential, evaluations suggest a number of actions that can be taken. In particular, they emphasize the need for high-quality analytical and advisory activities in which national or local authorities and stakeholders have an interest and about which they are consistently consulted and updated and more selectivity in setting objectives, noting that what appears to be a defining factor is not the magnitude of the risk involved but how the intersection between risk and realism is managed and how it is reflected in project design and implementation.

In certain instances, poor ratings are associated, at least in part, with the absence of indicators of change and/or poor M&E systems,[11] which suggests that poor M&E systems should not be considered mere technical faults in project/program design and implementation; instead, the absence of a robust M&E system can sometimes represent a strategically important gap that may result in a significant understatement of the results of Bank support.

Where project performance is rated through the PPAR process to fall below expected standards, the rating typically has to do with failure to identify and effectively manage risk. Risk management is closely related to the issue of realism and selectivity, particularly with regard to gauging the strength of political will necessary to implement reforms.

The need for risk management is also echoed in IFC's experience in the health and education sectors. IFC has supported investments in private health care providers that own and operate hospitals, clinics, and laboratories. Evaluated health projects had largely positive outcomes. IFC has successfully helped client companies expand and take advantage of the opportunity to become "first movers" in their markets, playing a unique role through its ability to provide long-term financing. In some cases, demonstration of success has helped encourage other private providers to enter the market or improve their facilities and quality of service. The experience has shown that a sound project screening process to identify sponsors with sound management practice and favorable regulatory environments for the investments are key to success.

In education, IFC has invested in diverse private educational institutions ranging from K–12 schools, to universities, to a financial institution to serve private schools. The experience shows high complexity in the sector because of the strong influence of government policy and regulations, increasing competition, and high sensitivity of demand for private education to developments in the broader economy—associated with mixed development outcomes of IFC investments. IFC's experience also shows that the improved physical infrastructure for schools or new financial institutions to serve them cannot substitute for sound management practices within the educational institutions themselves.

The CASCR-Reviews suggest that the long-standing relationships with countries, and a significant amount of mutual respect and understanding between the authorities and the Bank, matter. Reference is also made in evaluations to the need for Bank staff to better understand the cultural and political context of their work, and to calibrate project aspiration and design accordingly. This emphasizes the degree to which system, technical and other solutions have to be understood and implemented paying due regard to context and culture. The social safety nets evaluation (IEG 2011j) references the Bank's successful support to Brazil's *Bolsa Familia*, which involved "timely, technically advanced, and politically savvy interventions at the critical early stages of the reform" (p. 69). The evaluation finds that strategic rather than project-by-project engagement strengthens the effectiveness of the Bank's efforts overall.

Ensuring Environmentally and Socially Sustainable Development (Environment, Social Development, and Gender)

Addressing environmental issues in a sustainable manner within an overarching anti-poverty agenda is demanding. IEG's environment evaluation (IEG 2008d) notes that the World Bank's approach to environmental sustainability has evolved from an initially preventive "do no harm" or safeguards approach to a proactive "do good" approach in recognition of the multifaceted approach to environmental sustainability that the Bank is engaged in. Tackling environmental degradation often involves some form of negative impact on the poor through, for example, physical displacement or disruption of traditional economic activity.

Promoting social development by empowering poor and marginalized people and addressing gender disparities and inequalities are at the core of the development challenge. The World Bank's approach to social development aims to "put people first" through a bottom-up approach that seeks to empower the poor and least privileged and to bring their voices into the development equation.

IFC and MIGA apply their E&S standards to all investment and guarantee projects they support. IFC also plays an important role in setting E&S standards. IFC's performance standards have been emulated by other development finance institutions, including the European Bank for Reconstruction and Development, and are also reflected in the Equator Principles applied by 72 financial institutions. The E&S performance of IFC-supported projects has remained stable (67 percent of projects rated in 2009–11 with satisfactory or higher ratings). Sustainable Business Advisory projects performed on a par with IFC Advisory Services (57 percent for FY08-10). Successful advisory projects were associated with good pre-implementation work (including an assessment of the sector, market, supply chain, identification of key stakeholders and needs) and customized replication.

Evaluated MIGA projects performed well with respect to E&S effects, although the findings are limited because of low evaluability, especially of financial sector projects. Only 11 of the 26 evaluated projects were rated for E&S effects;[12] of these, 73 percent were rated satisfactory or better. A common feature among projects with high E&S effects ratings is sponsor and project management commitment to meet MIGA's standards and reporting requirements stipulated in the contract of guarantee. Projects with less than satisfactory performance have had compliance problems with MIGA's environmental and/or social requirements. In nearly all of the less than satisfactory projects, MIGA monitoring or follow up with the guarantee holder on the submission of E&S reporting requirements in the contract of guarantee was lacking.

Challenges and Lessons: Environment, Social Development, and Gender

The environment, social development, and gender evaluations highlight a number of lessons. First, IEG's evaluations on the environment, social development, and gender emphasize the centrality of integrating relevant issues into the Bank Group's strategic directions and its country assistance programs. IEG recognizes that individual projects may contribute to desired impact if they are set in the context of appropriate policies and are complemented by other projects and interventions.

Second, there is a need to improve quality at entry, particularly given the increasing complexity of the issues. IEG's evaluations suggest this can be achieved through a combination of quality supporting analysis, ongoing dialogue with government and partners, and enhanced risk management. Failure to get things right from the outset and failure to identify, anticipate, and manage risk almost inevitably leads to delays to projects; possible underutilization of available resources; and rushed investment and decision making. Ultimately it can contribute to failure to achieve outcomes notwithstanding the delivery of outputs.

Finally, the evaluations suggest a need for improvement in results frameworks and M&E systems with a view to better capture and articulate achievement. This is increasingly important in a complex environment where it can be difficult to isolate achievement beyond the production of outputs or the utilization of inputs because of the high level of interdependencies.

The following sections provide findings pertaining specifically to environment, social development and gender based on recent IEG reports.

Environment

IEG's environment evaluation (IEG 2008d) recommended increasing the amount of attention paid to environmental sustainability by ensuring that environmental issues are fully included in any discussion of the Bank's overall strategic direction as well as regional and country assistance programs. To achieve this, a joint effort across the Bank Group to reformulate and update the 2001 Environment Strategy was recommended (a new strategy, *Toward a Green, Clean, and Resilient World for All: A World Bank Group Environment Strategy 2012–2022* was published in May 2012). The environment evaluation also found that the results of Bank nonlending activities have often been as significant as those of lending operations in terms of environmental improvement. However, the relative effectiveness of such input (for example, quality analytical work) depends on a range of factors, including the level of resources available for country programs, the level of client demand, and the capabilities of national and local institutions.

The cross-boundary nature of many of the issues that the Bank tackles adds to the challenge. The environment evaluation emphasized the need to move to more cross-sectoral and spatially oriented approaches to environmental support. A similar point was made in the first phase of IEG's climate change evaluation. That report promoted a system approach by providing incentives to address climate change issues on a cross-sectoral basis (IEG 2008c). In addition, the evaluation notes that, given the World Bank's country strategies typically take into account national environmental priorities, it is sometimes the case that insufficient attention has been given to longer-term sustainability concerns and, in particular, to transregional and transnational environmental issues. In that regard, the evaluation suggests the country-based planning model within the Bank Group may act as an impediment.

The interlinked relationship among environmental sustainability, climate change, economic growth, and poverty reduction points to the importance of breaking down the silos between Bank Group institutions and sectoral experts. Better coordination among Bank Group institutions would go a long way toward improving overall corporate effectiveness. Whereas cross-sectoral and spatial approaches are increasingly used in analytic work, working across boundaries remains a challenge, as indicated in the IEG's evaluation of the Bank's matrix system (IEG 2012c).

The PPAR, CASCR, and ICR evaluations reviewed for this report echo these findings and emphasize, for environmental projects, that government ownership is of particular importance because the durability of successes associated with many environment projects is inherently dependent on sustained government support (for example, regulatory and enforcement regimes) over the medium to longer term.[13] The evaluation of safeguards and sustainability recognizes the wide range of analytical and advisory services offered by the Bank Group that are designed to help build client institutions and capacities. Where local capacities are weak, results are weak. Results can also be weak where project success or progress is dependent on decision making or action required by an authority external to the project itself. This is true with respect to projects where on-the-ground development is/was under way as well as for projects where there is an attempt to influence policy through new research (Box D.2).

Box D.2. Examples of How Buy-In Affects Project Outcomes

Tanzania: The failure to secure the establishment of the Tanzanian Forest Service undermined progress achieved by forest conservation projects. Also the lack of government buy-in reduced the impact of the Bank's analytical work on the charcoal sector, even though the quality of the work was considered high by the donor community and experts in the field (World Bank 2010a).

South Africa: The PPAR for the Cape Peninsula Biodiversity Conservation Project (IEG 2010d) notes that the government fully owned the project and supported its implementation through the passage of timely and effective conservation-related legislation, thereby enabling its success.[a]

Source: IEG PPARs.
a. More generally, the Cape project provides a good example of contextual and project characteristics that appear to have contributed to success, as follows: evidence-based rationale; political buy-in and involvement; strong relationship between the Bank and relevant authorities; flexible design and robust monitoring and evaluation; strong, consistent and flexible supervision.

The environment evaluation recommends that the Bank Group improve its ability to monitor and evaluate the results of its environment-related interventions. The need for enhanced measurement and results frameworks was also echoed in the second phase of IEG's climate change evaluation (IEG 2010b). That evaluation notes the Bank Group should measure projects' economic and environmental impact during execution and after closure and aggregate this information for analysis. It should also link these measures to a results framework of the Strategic Framework on Development and Climate Change. Work is under way with a view to improving the monitoring, evaluation, and reporting of environment sector performance and the results of lending operations. This includes the development of core biodiversity indicators and the introduction of indicators of environmental sustainability at project and country levels. The evaluations suggest a need to press on with these and other improvements.

Gender

The Bank's focus on gender has evolved since 1977, when it made consideration of women's issues an explicit item of attention as part of the social analysis conducted for supported projects. Since then, the Bank's approach has kept pace with international development and practice, shifting from a focus on women to a broader focus on gender equality. The Bank's focus also shifted from a generalized integration of gender at the project level to a more selective, country-level approach that, since 2003, requires integration of gender considerations at the project level only in the sectors identified in the CAS.

IEG's gender evaluation (IEG 2010c), however, found that although gender mainstreaming needs to be selective, given limited resources, it also needs to (i) address both institutional and policy reform and (ii) ensure Bank-supported operations are gender responsive, to encourage the participation of both men and women in project activities and access to benefits.[14] It noted that World Bank management commitment—especially at the country director and more senior levels—is critical to implementing the Bank's gender policy. It also suggested that such commitment needs to be reflected in clear steps to institutionalize gender policy consistently in the CAS, within the framework envisaged in the 2001 World Bank Gender Strategy.

Various steps have been taken to strengthen gender consideration in World Bank operations. As part of the IDA16 replenishment, the World Bank committed to new gender-related targets. Linked with the launch of the 2012 World Development Report (World Bank 2012g), which focused on gender equality and development, a series of new steps forward was presented to and endorsed by the Development Committee. In addition, a set of expanded and operationally focused CAS guidelines are being developed.

IEG's gender evaluation also highlights the need to strengthen the collection, analysis, and dissemination of gender-disaggregated, gender-relevant data and statistics. IEG urges the World Bank to 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. Establishment of a results framework to facilitate consistent adoption of an outcome approach to gender integration in the World Bank's work was also found to be crucial.

Safeguards and Social Sustainability

IEG's evaluation of safeguards and sustainability policies (IEG 2010g) found that, overall, these policies have helped prevent or mitigate the adverse impacts of development projects on people and the environment.[15] In this evaluation, IEG recommended that IFC, MIGA, and the World Bank jointly adopt and use a shared set of objective criteria to assess social and environmental risks to ensure adequacy and consistency in project categorization across the Bank Group. The attempt to achieve harmonization of classification for Category A across the Bank Group has been initiated, and similar actions on Categories B and C are pending. The Bank has developed and has been offering an operational course on safeguards for task team leaders, and environment and social accreditation processes are being implemented. The evaluation also notes that the World Bank does not have a clear framework to assess the performance and impacts of its safeguards policies and that supervision and monitoring deficiencies constrain the Bank's ability to evaluate safeguards results. It makes strong recommendations for the World Bank, IFC, and MIGA with a view to strengthen safeguards monitoring, evaluation, and completion reporting.

An evaluation of the Poverty and Social Impact Analysis promoted its further integration into the CASs (IEG 2010a) to increase effectiveness through, for example, greater clarity in objectives and enhanced ownership by staff and managers. The revised Good Practice Note on this analysis (World Bank 2008) strengthens the need for poverty, social, and distributional impact analysis to be anchored in the CAS. In addition, with support from the Multi-Donor Trust Fund, a number of learning events and an e-learning tool have been organized.

A review of 10 extractive industries projects supported by IFC suggests that there is insufficient emphasis on the sustainability of social programs beyond the life of the project, especially in cases where the local community has become dependent on a given company for the delivery of certain services. The review also found that broad community support cannot be taken for granted. Without proactive anticipation and appropriate stakeholder engagement, community support for this type of project may wane. This echoes recent ICR assessments on the sustainability of activities initiated under social development projects, particularly where local capacity is weak and/or where follow-on funding is not available. Associated with this, in certain instances, is the capacity of community-based organizations to contribute to project cofinancing; this also needs to be taken into account in project design and planning.

Appendix E
Project Performance Ratings of World Bank Operations

The share of World Bank–financed investment projects rated moderately satisfactory or better went from 78 percent for projects that were completed in FY06–08 to 70 percent for projects that were completed in FY09–11. The change is statistically significant (in this report, "statistically significant" means significant at least at the 95 percent confidence level, unless otherwise noted). The following paragraphs present the main points from the review of the development outcome ratings for Bank operations. In conducting the analyses, the IEG used project evaluation data as of July 2, 2012.

Development Outcome Ratings of Investment Projects

The composition of projects rated moderately unsatisfactory or worse shows weakening in the areas that had performed above the Bank average in the past. These areas include infrastructure-related sectors and the agriculture and rural development sector.

INFRASTRUCTURE SECTORS

The overall performance of infrastructure-related sectors in the past has typically been high. For example, IEG's evaluation of water-related projects at the World Bank (IEG 2010h) reports that they had higher-than-average project outcome ratings and performance has improved during the review period (1997–2007), especially in Africa. The transport sector has usually been among the highest performing sectors, based on IEG's outcome ratings. The majority of sectors within the infrastructure area continue to perform well relative to other sectors. However, relative to past performance, the share of projects rated moderately satisfactory or better by IEG has declined. The share of the number of infrastructure investment projects rated moderately satisfactory or better remains at around the Bank average, but there was a significant drop from 87 percent for projects completed in FY06–08 to 72 percent for those concluding in FY09–11 (Table E.1).

Among the infrastructure sectors, 65 percent of projects mapped to the urban development sector and the water sector were rated moderately satisfactory or better, a decline of close to 25 percentage points. There was also a 15 percentage point decline in the share of projects rated moderately satisfactory or better among the transport sector projects. However, it should be noted the number of transport projects that concluded in FY09–11 and were rated by IEG is significantly lower compared to the number of rated projects that closed in FY06–08.

Table E.1. Development Outcome Ratings by Major Operation Areas

	FY06-08		FY09-11	
Operation Areas	**# Rated**	**% MS+**	**# Rated**	**% MS+**
Economic opportunities*				
Agriculture and Rural Dev**	88	85	65	71
Economic Policy	5	100	8	63
Financial Management	0	NA	1	100
Finance and Private Sector Dev	33	67	38	71
Public Sector Governance	35	69	33	64
	161	**78**	**145**	**69**
Infrastructure**				
Energy and Mining	50	74	23	74
Global ICT	4	100	5	100
Transport**	78	94	32	78
Urban Development**	28	89	23	65
Water**	38	89	31	65
	198	**87**	**114**	**72**
Human Development				
Education	68	66	45	71
Health, Nutrition, and Population	67	60	59	68
Social Protection	34	79	21	76
	169	**66**	**125**	**70**
Environmentally and Socially Sustainable Development				
Environment	46	80	28	64
Gender Development	1	100	0	NA
Social Development	13	77	12	75
	60	**80**	**40**	**68**
Bank-wide**	**588**	**78**	**424**	**70**

Source: IEG data.
Note: MS+ = moderately satisfactory or better. The difference in the share of projects rated MS+ between FY06–08 and FY09–11 is statistically significant at 95 percent confidence level (**) and 90 percent confidence level (*).

Among the Regions, all Bank infrastructure projects concluded in FY09–11 in South Asia that IEG reviewed were rated moderately satisfactory or better. Projects in the Middle East and North Africa were rated the lowest, at 46 percent rated moderately satisfactory or better. Without the projects in Middle East and North Africa, the overall share of infrastructure investment projects rated moderately satisfactory or better improves to 75 percent—still far from the level achieved for projects closing in FY06–08. The decline is most significant among projects in upper-middle-income countries, 67 percent of which were rated moderately satisfactory or better (closed in FY09–11)—another group that was high performing in the past. The share was 97 percent for projects closed in FY06–08 (Table E.2).

Table E.2. Development Outcome Ratings for Infrastructure

	FY06-08		FY09-11	
Region	**# Rated**	**% MS+**	**# Rated**	**% MS+**
Africa	36	69	21	71
East Asia and Pacific**	52	100	17	82
Europe and Central Asia**	43	91	29	69
Latin America and the Caribbean**	35	94	21	67
Middle East and North Africa	14	71	13	46
South Asia*	18	78	13	100
Country's Income Level	**# Rated**	**% MS+**	**# Rated**	**% MS+**
High Income	8	75	8	75
Lower middle income	66	82	28	71
Upper middle income**	90	97	49	67
Middle Income**	156	90	77	69
Low income	34	76	24	79
Total Infrastructure**	198	87	114	72

Source: IEG data.
Note: MS+ = moderately satisfactory or better. The difference in the share of projects rated MS+ between FY06-08 and FY09-11 is statistically significant at 95 percent confidence level (**) and 90 percent confidence level (*).

The declining outcome rating of Bank infrastructure projects requires close monitoring. Given the surge in volume since FY03, its impact on the overall ratings for Bank operations will continue to be substantial. The reasons for less-than-satisfactory ratings in the efficacy of development outcomes are diverse. They include partial completion of project activities; outcome targets not being met at the time of project closing; lack of evidence on achievement of objectives; inability to solely attribute outcomes to the project; no baselines or quantifiable indicators; lack of borrower commitment; and frequent changes in senior management within the implementing agency.

A review of the ICR-Reviews of water sector projects closed in FY09–11 conducted for this report shows that difficulties in this sector tend to be associated with projects in the urban settings. It appears that projects implemented in urban areas have particular challenges involved in planning and implementation with reference to the need to engage with multiple stakeholders and to be aware of a potentially wide range of vested interests. More generally the ICR-Reviews in this sector urge broad consultation and the need to pay close attention to the political economy and to ensure greater realism in targets set.

These urban-related challenges are also relevant to projects in the urban development sector, which performed less well than those in other infrastructure sectors. Twenty-three ICR-Reviews for urban development projects completed in FY09–11 were analyzed for this report, twelve of which focused on natural disaster relief. The analysis shows that most of the non-disaster relief urban projects rated moderately unsatisfactory or worse by IEG in project development outcomes are in middle income countries. This may suggest the Bank's programs in middle income countries are more ambitious, going beyond direct provision of access to basic urban infrastructure and services to more sector policy and capacity issues (including local government finance).

Disaster response projects have performed strongly with 10 of 12 projects reviewed were rated moderately satisfactory or better. Most projects involved the provision of finance for reconstruction of housing and basic infrastructure for disaster affected communities (or post-conflict communities). Overall, the analysis suggests the Bank tends to do better in helping government agencies construct basic infrastructure and deliver services but has more challenges with policy and institutional development where it appears there is a tendency to ask too much too soon.

An analysis of the ICR-Reviews of transport sector projects that closed in FY09–11 indicate that transport sector projects tend to benefit from well-established methodologies that allow for economically viable designs and more straightforward implementation. Some projects are focused on much more complex and difficult institutional issues that often cannot be addressed within a single operation. The ICR-Reviews confirm that this is a high-performance sector that is achieving most of the objectives set out at appraisal and resulting in good prospects of sustainability. As for energy sector operations, lessons tend to emphasize the need for government ownership, simplicity in design, realism in objective setting, and independence in project actions.

AGRICULTURE AND RURAL DEVELOPMENT

IEG's outcome ratings for investment projects managed by the agriculture and rural development sector board declined in recent years, although the sector's ratings are still slightly higher than for the Bank as a whole. The share of projects rated moderately satisfactory or better in terms of their development outcome rating fell from 85 percent for projects completed in FY06–08 to 71 percent for those completed in FY09–11.

The ICR Reviews for 64 agriculture projects that closed in FY09–11 were analyzed for this report. The analysis shows that in 31 cases, the development outcome ratings differed between the ICR and IEG's review. In four of the 31 cases, IEG upgraded the rating provided in the ICRs and, in seven of the remaining 27 cases, IEG's ratings resulted in a change from moderately satisfactory or better to moderately unsatisfactory or worse. These projects operated across various regions

(Africa, Europe and Central Asia, the Middle East and North Africa, and Asia) and pursued diverse objectives including, for example, objectives focused on capacity development, food production and sustainable resource management.

Lessons learned are also diverse, although there is an emphasis on the need to take more time to ensure effective design of large-scale, complex projects and to ensure that indicators and M&E systems allow for proper reporting of project outcomes. The most significant point of disagreement between the ICR and IEG review relates to Bank performance as discussed later in this appendix. Differences in the assessment of Borrower performance exist but are not as acute.

HUMAN DEVELOPMENT

Human development was the only operational area that showed an improvement in IEG's overall outcome ratings for investment projects between FY06–08 and FY09–11 (4 percentage points), although the increase was not statistically significant.[16] In particular, development outcome ratings for projects mapped to the health, nutrition and population sector board show improving trends, from 60 percent in those projects closing in FY06–08 to 68 percent for those closing in FY09–11.

DEVELOPMENT OUTCOME RATINGS BY REGIONS

The share of investment projects rated moderately satisfactory or better showed a declining trend across Regions (Table E.3). Development outcome ratings for investment projects in the East Asia and Pacific Region (at 77 percent) declined by 13 percentage points—from a very high level of 90 percent. This decline was the most significant of all Bank regions. The Africa Region and the Middle East and North Africa Region had the lowest share of investment projects rated moderately satisfactory or better at 59 percent. As for the Middle East and North Africa Region, five of six projects in Iran were rated moderately unsatisfactory or worse on development outcomes. The share of that rating in the rest of the region without Iran would increase to 68 percent.

Table E.3. Development Outcome Ratings by Regions

	FY06-08		FY09-11	
Region	**# Rated**	**% MS+**	**# Rated**	**% MS+**
Africa	119	62	110	59
East Asia and Pacific**	107	90	47	77
Europe and Central Asia	125	82	87	77
Latin America and the Caribbean*	128	84	98	76
Middle East and North Africa	41	68	37	59
South Asia	67	75	45	73
Other	1	100	0	NA
Bank-wide**	**588**	**78**	**424**	**70**

Source: IEG data.
Note: MS+ = moderately satisfactory or better. The difference in the share of projects rated MS+ between FY06-08 and FY09-11 is statistically significant at 95 percent confidence level (**) and 90 percent confidence level (*).

Bank Performance

There has been a decline in the overall Bank Performance ratings, from 80 percent in projects closing in FY06–08 to 70 percent in those closing in FY09–11. The share of investment projects with a rating of moderately satisfactory or better in quality at entry went from 73 percent to 61 percent. Similarly, the share of projects with that rating in quality of supervision for investment projects concluded in FY09-11 declined by 7 percentage points, compared with projects closing in FY06–08.

There is a strong positive correlation between Bank performance indicators and development outcome ratings for projects that closed in FY06–11 (Table E.4). Caution is needed in interpreting the results. Correlation does not indicate causality between the two factors. It is also possible that evaluators are likely to see projects that produce satisfactory outcomes as having been produced by satisfactory Bank performance.

Table E.4. Pair-wise Correlation between Bank Performance and Development Outcomes

	Development Outcomes Rating	Quality at Entry	Quality of Supervision	Overall Bank Performance
Development Outcomes	1.0000			
Quality at Entry	0.6584	1.0000		
Quality of Supervision	0.6586	0.5997	1.0000	
Overall Bank Performance	0.7697	0.8121	0.8284	1.0000

Source: IEG.

At 77 percent, the quality at entry for the projects in infrastructure sectors was significantly above the Bank-wide average; however, it declined from 85 percent for the projects that closed in FY06–08 (Table E.5).

Table E.5. Quality at Entry Ratings by Area of Operations

	FY06-08		FY09-11	
Operation Areas	**# Rated**	**% MS+**	**# Rated**	**% MS+**
Expanding economic opportunities*				
Agriculture and Rural Development	88	63	66	55
Economic Policy	5	60	8	25
Financial Management	0	NA	1	100
Finance and Private Sector Development	34	59	38	55
Public Sector Governance	38	66	34	53
	165	**62**	**147**	**53**
Infrastructure**				
Energy and Mining	50	80	24	83
Global ICT	4	100	5	100
Transport	78	90	32	81
Urban Development*	28	79	23	57
Water	38	87	31	77
	198	**85**	**115**	**77**
Enhancing human development*				
Education	69	70	50	60
Health, Nutrition, and Population	68	63	60	55
Social Protection	35	71	21	62
	172	**67**	**131**	**58**
Env./socially sustainable dev.**				
Environment**	47	83	28	43
Gender Development	1	100	0	NA
Social Development	14	64	12	67
	62	**79**	**40**	**50**
Bank-wide**	**597**	**73**	**433**	**61**

Source: IEG data.
Note: MS+ = moderately satisfactory or better. The difference in the share of projects rated MS+ between FY06-08 and FY09-11 is statistically significant at 95 percent confidence level (**) and 90 percent confidence level (*).

Among infrastructure sectors, transport as well as energy and mining sectors had quality at entry ratings of above 80 percent, but the share of urban development sector projects rated moderately satisfactory or better in quality at entry declined.

A significant change is also observed for projects mapped to the environment sector. An analysis of ICR Reviews of the environment sector projects suggests the following key weaknesses in quality at entry. One set of weaknesses pertains to the failure to fully understand limitations in the local context resulting in an overestimation of institutional capacity or an underestimation of legal and regulatory complexities. A second set of weaknesses relates to design. These weaknesses also involve a failure to take local capacity into account resulting in overly complex project design as well as planning deficiencies regarding, for example, the sequencing of activities required to ensure successful achievement of objectives. A third set of weaknesses relates to poor quality in data and technical systems and includes deficiencies such as inadequate baseline data, inadequate indicators and targets, and a lack of coherence and integration among objectives, results frameworks, and M&E systems. Other weaknesses identified are related to poor financial management and procurement arrangements.

A smaller share of investment projects closed in FY09–11 were rated moderately satisfactory or better in the quality of supervision ratings compared to those closed in FY06-08 (Table E.6). The ratings for expanding economic opportunities projects (73 percent) declined the most, by close to 12 percentage points, mainly because of weak ratings for projects mapped to agriculture and rural development (68 percent). In the ICR-Reviews for agriculture projects closed in FY09–11, supervision is often noted as a key challenge to address. Frequently mentioned items include: long gaps in supervision missions; absence of candor in the Implementation Status and Results Report (ISR) ratings; failure to follow up on problems identified during supervision missions; persistence in focusing on disbursement progress rather than development impact and other problems; delay in baseline study; lack of updated indicators in the supervision reports; and failure to carry out a formal midterm review.

Table E.6. Quality of Supervision Ratings by Area of Operations

	FY06-08		FY09-11	
Operation Areas	**# Rated**	**% MS+**	**# Rated**	**% MS+**
Expanding economic opportunities **				
Agriculture and Rural Development**	87	87	66	68
Economic Policy	5	80	8	63
Financial Management	0	NA	1	100
Finance and Private Sector Development	34	82	38	84
Public Sector Governance	37	84	34	74
	163	**85**	**147**	**73**
Infrastructure**				
Energy and Mining	50	86	24	92
Global Information and Communication Technology	4	100	5	100
Transport	78	97	32	91
Urban Development	27	89	23	74
Water*	38	95	31	81
	197	**93**	**115**	**85**
Enhancing human development				
Education	68	85	46	76
Health, Nutrition, and Population*	67	63	59	78
Social Protection	34	79	21	76
	169	**75**	**126**	**77**
Env./socially sustainable dev.				
Environment	47	83	28	71
Gender Development	1	100	0	NA
Social Development	14	86	12	83
	62	**84**	**40**	**75**
Bank-wide**	**591**	**85**	**428**	**78**

Source: IEG data.
Note: MS+ = moderately satisfactory or better. The difference in the share of projects rated MS+ between FY06-08 and FY09-11 is statistically significant at 95 percent confidence level (**) and 90 percent confidence level (*).

The share also dropped for infrastructure projects, but the overall share remains the highest among the major operation areas. By contrast, the ratings for the quality of supervision improved by 15 percentage points for projects managed by the Health, Nutrition, and Population Sector. The quality of supervision for infrastructure (85 percent) was significantly above the Bank-wide average.

Among the regions, East Asia and Pacific (81 percent) had the highest quality at entry ratings, whereas, the Middle East and North Africa Region (43 percent) had the lowest, with a decline of close to 20 percentage points compared to FY06–08. The Latin America and the Caribbean Region had the largest fall in quality at entry ratings from 81 percent to 56 percent. The Europe and Central Asia Region (66 percent) also showed a significant decline—11 percentage points, compared with projects closing in FY06–08. The quality of supervision ratings for the Latin America and the Caribbean Region (88 percent) was the highest, whereas the Middle East and North Africa Region (59 percent) was the lowest and declined by 17 percent (Table E.7).

Table E.7. Quality at Entry and Quality of Supervision by Region

	FY06-08		FY09-11	
Quality at Entry	**# Rated**	**% MS+**	**# Rated**	**% MS+**
Africa	120	56	111	55
East Asia and Pacific	105	86	47	81
Europe and Central Asia*	127	77	89	66
Latin America and the Caribbean**	136	81	101	56
Middle East and North Africa*	41	61	40	43
South Asia	67	70	45	67
Other	1	0	0	NA
Bank-wide**	**597**	**73**	**433**	**61**
Quality of Supervision	FY06-08		FY09-11	
Africa	118	72	110	66
East Asia and Pacific	105	90	47	85
Europe and Central Asia	127	87	88	82
Latin America and the Caribbean*	132	95	99	88
Middle East and North Africa	41	76	39	59
South Asia	67	82	45	84
Other	1	0	0	NA
Bank-wide**	**591**	**85**	**428**	**78**

Source: IEG data.
Note: MS+ = moderately satisfactory or better. The difference in the share of projects rated MS+ between FY06-08 and FY09-11 is statistically significant at 95 percent confidence level (**) and 90 percent confidence level (*).

Monitoring and Evaluation

About a quarter of the World Bank investment projects exiting the portfolio in FY09-11 have been rated substantial or high in quality of M&E. Among the sectors, the projects mapped to the energy and mining sector board had the highest share of projects rated substantial or high in quality of M&E ratings. On the other hand, the share fell for projects mapped to the environment and transport sector boards that closed in FY09–11 compared to those closed in FY06–08. Among the regions, the share for projects in the Latin America and Caribbean Region declined from 44 percent to 29 percent (Table E.8).

Table E.8. Quality of M&E by Operation Area and Region

	FY06-08		FY09-11	
Operation Areas	**# Rated**	**% Sub+**	**# Rated**	**% Sub+**
Expanding economic opportunities				
Agriculture and Rural Development	65	34	62	39
Economic Policy	4	25	8	13
Financial Management			1	0
Finance and Private Sector Dev	23	22	38	26
Public Sector Governance	26	42	33	21
	118	**33**	**142**	**30**
Infrastructure*				
Energy and Mining	39	49	21	57
Global ICT	3	67	5	40
Transport**	50	40	31	13
Urban Development	14	21	23	22
Water	27	26	31	26
	133	**38**	**111**	**28**
Enhancing human development				
Education	52	27	46	26
Health, Nutrition, and Population	55	22	58	17
Social Protection	27	19	20	25
	134	**23**	**110**	**22**
Env./socially sustainable dev				
Environment**	32	47	28	21
Gender Development	0	NA	0	NA
Social Development	11	27	11	36
	43	**42**	**39**	**26**
Regions				
Africa	87	25	109	20
East Asia and Pacific	77	38	47	26
Europe and Central Asia	88	35	84	37
Latin America and the Caribbean**	94	44	95	29
Middle East and North Africa*	32	6	37	22
South Asia	49	29	44	20
Other	1	0		
Bank-wide*	**428**	**32**	**416**	**26**

Source: IEG data.
Note: Sub+ = substantial or high. The difference in the share of projects rated Sub+ between FY06-08 and FY09-11 is statistically significant at 95 percent confidence level (**) and 90 percent confidence level (*).

Development Policy Operations

The share of DPOs rated moderately satisfactory or better for development outcomes and Bank performance remained high for those completed in FY09–11 (Table E.9).

Table E.9. Ratings of DPOs

	2006-2008		2009-2011	
	# Rated	% MS+	# Rated	% MS+
Development Outcomes	152	80	82	83
Overall Bank Performance	155	86	83	86
Quality at Entry	155	84	83	89
Quality of Supervision	149	92	80	89
Monitoring and Evaluation*	122	46	81	44

Source: IEG data.
Note: MS+ = moderately satisfactory or better. (*): The share of DPOs of which M&E is rated substantial or high.

Table E.10. IEG Ratings—Investment Projects (FY06-11)

Investment	% Outcomes MS+	% Bank Quality at Entry MS+	% Bank Quality of Supervision MS+	% Overall Bank Performance MS+	% Overall Borrower Performance MS+	% M&E Rated Substantial+	% Outcomes MS+	% Bank Quality at Entry MS+	% Bank Quality of Supervision MS+	% Overall Bank Performance MS+	% Overall Borrower Performance MS+	% M&E Rated Substantial+
	09-11	**09-11**	**09-11**	**09-11**	**09-11**	**09-11**	**06-08**	**06-08**	**06-08**	**06-08**	**06-08**	**06-08**
BY World Bank Areas of Operation												
I. Expanding Economic Opportunities	**69%**	**53%**	**73%**	**66%**	**65%**	**30%**	**78%**	**62%**	**85%**	**75%**	**73%**	**33%**
Agriculture and Rural Development	71%	55%	68%	67%	67%	39%	85%	63%	87%	81%	78%	34%
Economic Policy	63%	25%	63%	38%	50%	13%	100%	60%	80%	60%	80%	25%
Financial and Private Sector Development (I)	71%	55%	84%	71%	68%	26%	67%	59%	82%	65%	62%	22%
Financial Management	100%	100%	100%	100%	100%	0%	NA	NA	NA	NA	NA	NA
Financial Sector (I)	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Poverty Reduction	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Private Sector Development (I)	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Public Sector Governance	64%	53%	74%	65%	62%	21%	69%	66%	84%	74%	71%	42%
II. Building Infrastructure for Growth	**72%**	**77%**	**85%**	**80%**	**70%**	**28%**	**87%**	**85%**	**93%**	**90%**	**86%**	**38%**
Energy and Mining	74%	83%	92%	83%	75%	57%	74%	80%	86%	80%	76%	49%
Global Information/Communications Technology	100%	100%	100%	100%	100%	40%	100%	100%	100%	100%	100%	67%
Transport	78%	81%	91%	88%	69%	13%	94%	90%	97%	94%	88%	40%
Urban Development	65%	57%	74%	65%	65%	22%	89%	79%	89%	93%	93%	21%
Water	65%	77%	81%	77%	65%	26%	89%	87%	95%	92%	89%	26%
III. Enhancing Human Development	**70%**	**58%**	**77%**	**68%**	**69%**	**22%**	**66%**	**67%**	**75%**	**72%**	**73%**	**23%**
Education	71%	60%	76%	64%	61%	26%	66%	70%	85%	78%	77%	27%
Health, Nutrition and Population	68%	55%	78%	69%	69%	17%	60%	63%	63%	63%	66%	22%
Social Protection	76%	62%	76%	71%	86%	25%	79%	71%	79%	74%	77%	19%
IV. Environmentally and Socially Sustainable Dev	**68%**	**50%**	**75%**	**65%**	**73%**	**26%**	**80%**	**79%**	**84%**	**82%**	**79%**	**42%**
Environment	64%	43%	71%	57%	64%	21%	80%	83%	83%	81%	81%	47%
Gender and Development	NA	NA	NA	NA	NA	NA	100%	100%	100%	100%	100%	NA
Social Development	75%	67%	83%	83%	92%	36%	77%	64%	86%	86%	71%	27%
BY REGION												
AFR	59%	55%	66%	60%	59%	20%	62%	56%	72%	65%	66%	25%
EAP	77%	81%	85%	81%	81%	26%	90%	86%	90%	89%	87%	38%
ECA	77%	66%	82%	76%	72%	37%	82%	77%	87%	86%	87%	35%
LCR	76%	56%	88%	77%	73%	29%	84%	81%	95%	86%	79%	44%
MNA	59%	43%	59%	50%	55%	22%	68%	61%	76%	66%	66%	6%
SAR	73%	67%	84%	73%	73%	20%	75%	70%	82%	78%	75%	29%
OTH	NA	NA	NA	NA	NA	NA	100%	0%	0%	0%	100%	0%
BY COUNTRY's FRAGILE STATE												
Fragile State	67%	60%	69%	65%	64%	16%	68%	71%	77%	74%	73%	16%
Non-Fragile State	71%	61%	80%	71%	69%	28%	79%	73%	86%	80%	79%	35%
BY SOURCES OF FUND												
IDA	67%	62%	75%	69%	66%	23%	74%	68%	81%	77%	75%	28%
IBRD	74%	60%	79%	72%	72%	30%	82%	77%	89%	83%	80%	36%
GEF	62%	48%	79%	59%	62%	28%	80%	83%	77%	76%	83%	48%
MONT	100%	67%	100%	100%	100%	67%	100%	100%	100%	100%	80%	80%
RAIN	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
RETF	72%	67%	89%	78%	67%	18%	100%	100%	100%	100%	100%	67%
SPF	67%	60%	80%	70%	70%	33%	77%	85%	85%	85%	92%	8%
Trust Funds	68%	57%	83%	68%	67%	28%	82%	86%	82%	82%	86%	42%
Grand Total	**70%**	**61%**	**78%**	**70%**	**68%**	**26%**	**78%**	**73%**	**85%**	**80%**	**78%**	**32%**

Source: IEG data.

Table E.11. IEG Ratings—Development Policy Operations (FY06-11)

Development Policy Lending	% Outcomes MS+	% Bank Quality at Entry MS+	% Bank Quality of Supervision MS+	% Overall Bank Performance MS+	% Overall Borrower Performance MS+	% M&E Rated Substantial+	% Outcomes MS+	% Bank Quality at Entry MS+	% Bank Quality of Supervision MS+	% Overall Bank Performance MS+	% Overall Borrower Performance MS+	% M&E Rated Substantial+
	09-11	09-11	09-11	09-11	09-11	09-11	06-08	06-08	06-08	06-08	06-08	06-08
BY World Bank Areas of Operation												
I. Expanding Economic Opportunities	**85%**	**91%**	**90%**	**88%**	**88%**	**46%**	**84%**	**86%**	**91%**	**87%**	**84%**	**48%**
Agriculture and Rural Development	100%	100%	100%	100%	100%	100%	NA	NA	NA	NA	NA	NA
Economic Policy	86%	90%	90%	88%	88%	44%	89%	90%	91%	92%	91%	56%
Financial and Private Sector Development (I)	80%	91%	90%	82%	82%	40%	85%	85%	100%	92%	69%	55%
Financial Management	NA	NA	NA	NA	NA	NA	100%	100%	100%	100%	100%	0%
Financial Sector (I)	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Poverty Reduction	50%	100%	50%	50%	50%	50%	78%	85%	81%	81%	81%	32%
Private Sector Development (I)	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Public Sector Governance	89%	89%	100%	100%	100%	56%	76%	76%	100%	76%	76%	42%
II. Building Infrastructure for Growth	**50%**	**50%**	**100%**	**50%**	**50%**	**50%**	**38%**	**62%**	**100%**	**77%**	**46%**	**0%**
Energy and Mining	0%	0%	100%	0%	0%	0%	0%	67%	100%	67%	0%	0%
Global Information/Communications Technology	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Transport	100%	100%	100%	100%	100%	100%	50%	50%	100%	100%	50%	0%
Urban Development	NA	NA	NA	NA	NA	NA	57%	57%	100%	71%	71%	NA
Water	NA	NA	NA	NA	NA	NA	0%	100%	100%	100%	0%	0%
III. Enhancing Human Development	**67%**	**83%**	**67%**	**67%**	**67%**	**17%**	**80%**	**81%**	**90%**	**86%**	**81%**	**47%**
Education	100%	100%	100%	100%	100%	50%	70%	100%	90%	90%	90%	25%
Health, Nutrition and Population	NA	NA	NA	NA	NA	NA	67%	67%	67%	67%	67%	33%
Social Protection	50%	75%	50%	50%	50%	0%	100%	63%	100%	88%	75%	83%
IV. Environmentally and Socially Sustainable Dev	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**67%**
Environment	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	67%
Gender and Development	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Social Development	NA	NA	NA	NA	NA	NA	100%	100%	100%	100%	100%	NA
BY REGION												
AFR	82%	86%	81%	82%	86%	27%	76%	78%	87%	85%	83%	26%
EAP	100%	100%	100%	100%	100%	50%	82%	82%	100%	82%	82%	38%
ECA	88%	94%	88%	83%	89%	50%	89%	86%	96%	86%	82%	48%
LCR	79%	88%	92%	88%	83%	58%	81%	85%	94%	87%	82%	68%
MNA	83%	100%	100%	100%	83%	50%	70%	90%	100%	90%	70%	25%
SAR	78%	78%	89%	78%	78%	33%	81%	90%	86%	90%	81%	61%
OTH	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
BY COUNTRY's FRAGILE STATE												
Fragile State	78%	83%	82%	83%	89%	56%	77%	70%	91%	74%	70%	50%
Non-Fragile State	84%	91%	90%	86%	85%	41%	81%	86%	92%	89%	83%	45%
BY SOURCES OF FUND												
IDA	81%	90%	87%	87%	84%	29%	79%	81%	89%	84%	80%	40%
IBRD	89%	91%	91%	87%	89%	57%	82%	88%	96%	90%	83%	59%
GEF	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
MONT	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
RAIN	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
RETF	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
SPF	50%	67%	83%	67%	67%	33%	100%	100%	100%	100%	100%	0%
Trust Funds	50%	67%	83%	67%	67%	33%	100%	100%	100%	100%	100%	0%
Grand Total	**83%**	**89%**	**89%**	**86%**	**86%**	**44%**	**80%**	**84%**	**92%**	**86%**	**81%**	**46%**

Source: IEG data.

Appendix F
Projection of Development Outcome Ratings

The data set for projecting development outcome ratings for FY09–11 and FY12–14 exits is based on the method described in Table F.1. Table F.2 shows the disconnect rates used in projecting development outcomes ratings.

Table F.1. Projection of Development Outcome Ratings

Project Status	Ratings Used
Project already reviewed by IEG	The development outcome ratings in IEG's Implementation Completion Report Review (ICR-R)
Project with ICR	The development outcome ratings in the ICR after discounting for historical disconnect between development outcome ratings in ICR and in ICR-R
Closed projects that do not have ICRs	The development outcome ratings in the last ISR after discounting for historical disconnect between development outcome ratings in the last ISR before closing and ICR-R
Projects in active portfolio	The development outcome ratings in the most recent ISR after discounting for:
Projects scheduled to close during FY12	Historical disconnect between development outcome ratings in last ISR -1 before closing and development outcome ratings in the ICR-R
Projects scheduled to close during FY13	Historical disconnect between development outcome ratings in the last ISR -2 before closing and development outcome ratings in the ICR-R.
Projects scheduled to close during FY14	Historical disconnect between development outcome ratings in the Last ISR -3 before closing and development outcome ratings in the ICR-R.

Source: IEG.
Note: The data set for computing the various discounting rates is based on the latest 1,000 IEG evaluations sorted by descending order of two sort keys: Closing Date; and Evaluation Date. ICR-R = Implementation Completion Report Review; ISR = Implementation Status and Results Report.

Table F.2. Disconnect Rates

Disconnect type	Data points	# disconnect	% disconnect rate
Last ISR DO to ICR Outcome	995	63	6.3
ICR Outcome to IEG Outcome	995	88	8.8
Last ISR DO to IEG Outcome	1,000	152	15.2
(ISR-1) DO to IEG	972	184	18.9
(ISR-2) DO to IEG	969	202	20.8
(ISR-3) DO to IEG	957	173	18.1

Source: IEG data.
Note: DO = development outcome; ISR = Implementation Status and Results Report.

Appendix G
Assessments of Possible Factors Underlying the Decline in Outcome Ratings for World Bank Investment Projects

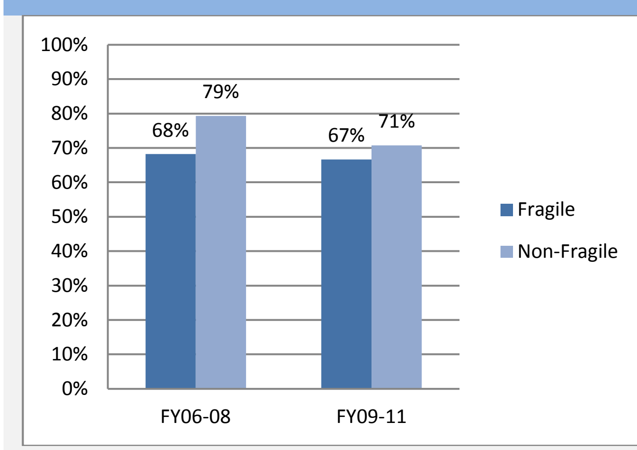
As part of the effort to identify the underlying factors of the decline in the development outcome ratings of World Bank–financed investment projects, five possibilities were examined:

- Is the decline caused by lower ratings for projects in fragile states?
- Did changes in regional or sector composition have an impact on the performance of infrastructure projects that closed in FY09–11?
- Did expansion of additional financing affect the overall development outcome ratings?
- Is the decline in project performance of the infrastructure segment caused by safeguard problems?
- Is the decline in the quality of entry ratings for infrastructure projects caused by smaller preparation costs?

Is the decline caused by lower ratings for projects in fragile states?

The decline in the development outcome ratings for non-fragile states is from 79 percent in projects closing in FY06–08 to 71 percent for those closing in FY09–11. This decline is significantly larger than the decline for fragile states, which moved from 68 percent to 67 percent, which is not statistically significant (Figure G.1). Given this, the decline in the outcome ratings for the projects closing in FY09–11 is not because of a decline among projects in fragile states.

Figure G.1. Development Outcome Ratings for Fragile and Non-Fragile Countries



Source: IEG.

Did changes in regional/sector composition have an impact on the performance of infrastructure projects that closed in FY09–11?

A regression analysis was conducted to (i) measure the performance decline in infrastructure projects after controlling for the influence of sector or region; and to (ii) estimate sector- or region-specific performance differences, using projects completed between FY06 and FY11 and rated by IEG. The analysis followed the approach used in Annual Review of Development Effectiveness 2009 (IEG 2009a, pp. 13–15). The performance is indicated using the six-point scale: 6 points are assigned to highly satisfactory, 5 to satisfactory, 4 to moderately satisfactory, 3 to moderately unsatisfactory, 2 to unsatisfactory, and 1 to highly unsatisfactory projects.

The analysis shows that the changes in regional and sectoral composition contributed negatively to overall performance to the extent that operations shift away from high-performing categories toward low-performing categories. However, the impact of both the regional shifts and sector board changes were modest. Adding everything together, the full performance deterioration in infrastructure projects from all the composition changes comes to –0.063 of a point on the six-point scale (Tables G.1 and G.2).

Table G.1. Effect of Changes in Project Composition on the Overall Outcome Ratings

Segments	A. Share of projects in FY06–08[d]	B. Share of projects in FY09–11[e]	C. Change(FY06–08)-(FY09–11) (B-A)	D. Estimated effect/impact[c]	E. Overall effect of change (C x D)
Region					
East Asia and Pacific	0.263	0.149	-0.114	(reference)[a]	(reference)[a]
Africa	0.182	0.184	0.002	-0.605	-0.001
Europe and Central Asia	0.217	0.254	0.037	[b]	[b]
Latin America and the Caribbean	0.177	0.184	0.007	-0.406	-0.003
Middle East and North Africa	0.071	0.114	0.043	-1.030	-0.045
South Asia	0.091	0.114	0.023	-0.369	-0.009
Total					-0.058
Sector Board					
Transport	0.394	0.281	-0.113	(reference)[a]	(reference)[a]
Energy and Mining	0.253	0.202	-0.051	-0.270	0.014
Global ICT	0.020	0.044	0.024	[b]	[b]
Urban Development	0.141	0.202	0.060	[b]	[b]
Water	0.192	0.272	0.080	-0.239	-0.019
Total					-0.005
Total Region/Sector Board					**-0.063**

Source: IEG and World Bank data.
a. Average performance among sectors is estimated relative to transport, and among regions, relative to East Asia and the Pacific.
b. Only regions and sector boards with significant estimated performance effects of at least 90 percent confidence level (Table G.2) are included in column D.
c. This column (Column D) reports the estimated effects from the regression (Table G.2). For the Sector Board and Region variables, what is reported is the average increase (on the six- point rating scale) in project performance associated with each Sector Board or Region. For example, projects in Energy and Mining performed, on average, 0.27 points worse than those in transport (the reference sector).
d. Share of number of FY06–08 exits evaluated by IEG.
e. Share of number of FY09–11 exits evaluated by IEG.

Table G.2. Regression Estimates of Average Differences in Performance by Region and Sector Board, FY06–11

Segments	Estimated effect	T-ratio
Region		
East Asia and Pacific	-[a]	
Africa	-0.605	-3.650
Europe and Central Asia	-0.242	-1.540
Latin America and the Caribbean	-0.406	-2.400
Middle East and North Africa	-1.030	-4.730
South Asia	-0.369	-1.820
Sector Board		
Transport	-[a]	
Energy and Mining	-0.270	-1.900
Global Information/Communications Technology	0.032	0.100
Urban Development	-0.022	-0.140
Water	-0.239	-1.670

Source: World Bank data.
Note: N=312; R^2=10.40; time period: FY06-11 Exits.
a. The dependent variable is the rating of project performance, measured on the six-point scale. The sector and region effects are impacts relative to the highest performing sector and Region: transport and East Asia and Pacific. Hence, performance ratings for energy and mining were 0.270 points lower, on average, than for transport over this period. Performance ratings for projects in the Africa Region were 0.605 points lower, on average, than for East Asia and Pacific over this period.

Did expansion of additional financing affect the overall development outcome ratings?

A simple exercise was undertaken to estimate how the recent expansion of additional financing contributed to the decline in the overall development outcome ratings for projects closed in FY09–11. Additional financing is provided only to those investment projects that are well-performing. Therefore, it is possible that the group of projects closed in FY09–11 and evaluated by IEG does not include a cohort of projects that are more likely to achieve their stated objectives.

In FY09–11, additional financing for about 260 unique projects was provided. This exceeds the average number of investment projects completed and rated by IEG in a year during FY00–09, indicating a potentially substantial impact on the overall performance of Bank financed projects as measured by the share of projects rated moderately satisfactory or better.

These projects are rated moderately satisfactory or better in the development outcome ratings in the last ISR before the additional financing is provided. Assuming that these projects had closed without additional financing and 60 percent of them had been rated by IEG as for the rest of the projects closed in FY09–11, and applying the disconnect rate between the final ISR ratings and the IEG ratings in the last 1000 investment projects rated by IEG (15.2 percent; see Appendix F), the share of moderately satisfactory or above projects would be 74 percent. The decline compared to the share for investment projects closed in FY06–08 is not significant at the 95 percent confidence level, but significant at the 90 percent confidence level.

Table G.3. Additional Financing

Number of Projects with Additional Financing Approved in FY09-11	257
Percent of investment projects closed in FY09-11 and rated by IEG	60
Number of projects which would have been rated by IEG	154
Of which, projects expected to be rated moderately satisfactory or better with 15.2 % disconnect rate	131
Expected total number of investment projects rated moderately satisfactory or better	428
Expected total number of investment projects rated by IEG	578
Share of moderately satisfactory or better	74%

Source: IEG.

Is the decline in infrastructure project performance caused by safeguards requirements?

An assessment was undertaken to identify the relationship between the outcome ratings and environmental safeguards requirement for projects mapped to the infrastructure sectors (Table G.4) and the World Bank's Sustainable Development Network (Table G.5). For projects mapped to the infrastructure segment, the analysis found that the decline in performance from 83 percent in projects closing in FY06–08 to 67 percent in FY09–11 for projects that required partial environment assessment to be significant at 95 percent confidence level. However, there was also a statistically significant decline in performance for projects that did not require any environmental assessment to be significant at 95 percent confidence level. Projects that require full environmental assessment did not experience a significant decline.

As for the projects mapped to the Sustainable Development Network, the decline in performance from 84 percent (projects closing in FY06–08) to 67 percent (FY09–11) for projects that required partial environment assessment was found to be significant at 95 percent confidence level. However, the declines in ratings for projects requiring full environment assessment and those that do not require any assessments were significant at the 90 percent confidence level.

These analyses suggest that the fall in the share of projects rated moderately satisfactory or better in infrastructure projects occurred most significantly among those which require partial assessment. They do not provide evidence to support that the decline was caused by the severity of safeguard requirements.

Table G.4. Relationship between Environment Category and Development Outcomes for Infrastructure Development Goal

	2006–2008				2009–2011					
	# Rated	% MS+ Outcomes	Significance w.r.t Total at 95	Significance w.r.t Total at 90	# Rated	% MS+ Outcomes	Significance w.r.t Total at 95	Significance w.r.t Total at 90	Significance of 09-11 w.r.t 06-08 at 95	Significance of 09-11 w.r.t 06-08 at 95
Full environmental assessment	51	92	No	No	23	83	No	No	No	No
Partial assessment	109	83	No	No	60	67	No	No	Yes	Yes
Financial intermediary assessment	4	100	No	No	14	86	No	No	No	No
Not rated (for all adj. op. except SECA)	1	100	No	No						
Not required	33	91	No	No	17	65	No	No	Yes	Yes
Total	**198**	**87**			**114**	**72**				

Source: IEG and World Bank data.
Note: w.r.t = with respect to. SECA = Sector Adjustment Loan.

Table G.5. Relationship between Environment Category and Development Outcomes for Projects Mapped to the Sustainable Development Network

	2006–2008				2009–2011					
	# Rated	% MS+ Outcomes	Significance w.r.t Total at 95	Significance w.r.t Total at 95	# Rated	% MS+ Outcomes	Significance w.r.t Total at 95	Significancew .r.t Total at 95	Significance of 09-11 w.r.t 06-08 at 95	Significance of 09-11 w.r.t 06-08 at 95
Full environmental assessment	57	91	No	No	32	81	No	No	No	No
Partial assessment	209	84	No	No	140	67	No	No	Yes	Yes
Financial intermediary assessment	14	93	No	No	17	82	No	No	No	No
Not rated (for all adj. op. except SECA)	1	100	No	No	1	100	No	No		
Not required	64	84	No	No	29	69	No	No	No	No
Total	**345**	**86**			**219**	**71**				

Source: IEG and World Bank data.
Note: w.r.t. = with respect to. SECA = Sector Adjustment Loan.

Is the decline in the quality at entry ratings for infrastructure projects caused by lower preparation costs?

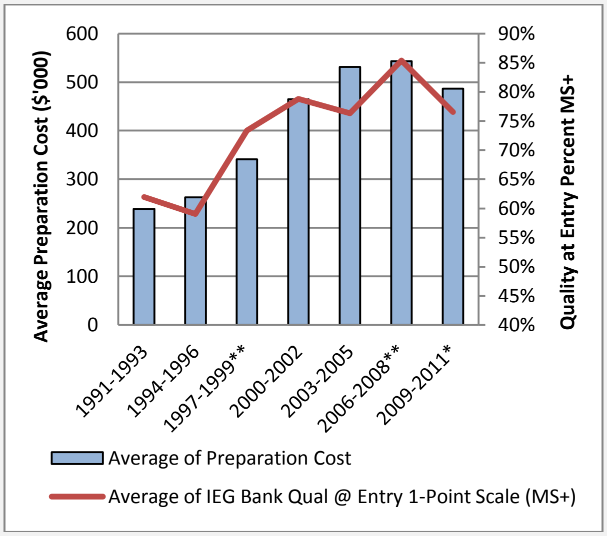
An assessment was undertaken to identify the relationship between the preparation costs and the quality at entry ratings for projects mapped to the infrastructure sectors (Figure G.2.A) and the sustainable development network (Figure G.2.B).

The average preparation costs increased significantly from $263,000 in FY94–96 to $341,000 in FY97–99, and the quality at entry ratings also improved from 59 percent to 73 percent. Similarly, the average preparation costs increased from $532,000 in FY03–05 to $543,000 in FY06–08; the quality at entry ratings improved from 76 percent to 85 percent. In contrast, the average preparation cost decreased from $543,000 in FY06–08 to $486,000 in FY09–11—the periods of attention for this report—and the quality at entry ratings declined from 85 percent to 77 percent. Similar trends are observed for sustainable development network mapped projects.

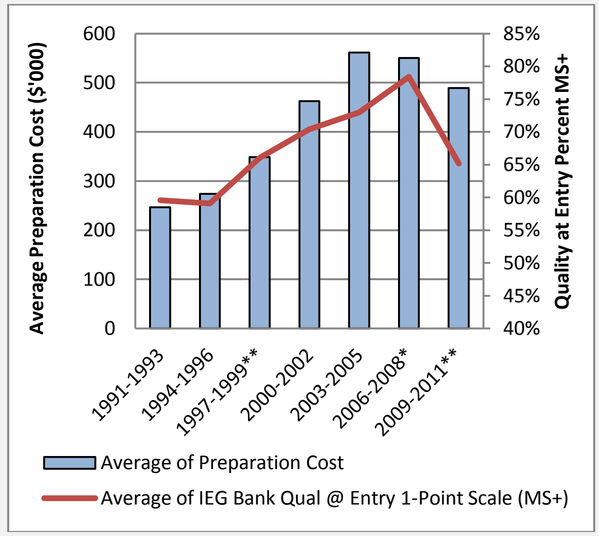
The preparation costs and quality at entry ratings shifted in the same directions with statistically significant changes in quality at entry ratings in those three periods. However, the relationship is not significant[17] throughout the period.

Figure G.2. Preparation Costs and Quality at Entry Ratings (FY1991–2011 Exits)

A. Infrastructure Sectors



B. SDN Network



Source: IEG and World Bank data.

Note: MS+ = moderately satisfactory or better.

** Changes in quality at entry ratings between the previous and current period statistically significant at 95 percent confidence level.

* Changes in quality at entry ratings between the previous and current period statistically significant at 90 percent confidence level.

Appendix H
IFC Operations

Recent Trends in IFC's Operations

Under its mandate to support private sector development, IFC offers three main lines of business: investment services, advisory services, and, since 2009, the Asset Management Company (AMC). Within its investment services, the main instruments are loans, equity, and guarantees. Whereas loans and equity are considered long-term finance instruments, most guarantees (and some types of loans) make up the bulk of short-term finance.

Since the financial crisis, the instrument mix for IFC investments has shifted significantly, with short-term trade finance guarantees now the most frequently used product. IFC's overall investment commitment recovered from a decline during the global financial crisis and reached a peak in FY10. In FY11, the total original commitment for IFC's own account amounted to $12.2 billion ($10.7 billion in total net commitment). The growth in commitments is caused by an increase in short-term finance products, which expanded rapidly in response to demand during the crisis.

Short-term finance products increased rapidly while long-term finance remains below the pre-crisis level. Short-term products grew from nil in FY05—the year they were established—to $4.9 billion in FY11, increasing their share in total IFC investments to 45 percent in FY11. By contrast, IFC's traditional long-term finance has shown less dynamism and remains below the level reached in FY08 (Figure 2.3 in the main text). This shift was driven by several factors, including increasing demand for trade finance during the crisis. Global uncertainty related to the crisis also adversely affected long-term capital projects in developing countries.

This decline in long-term financing largely affected loans, which have decreased steadily. By contrast, equity investments have increased in line with IFC's strategic intentions, although their share of IFC commitments has remained relatively stable, averaging around 20 percent of net commitments (FY06–11).[18] Weighted by the riskiness of different instruments, short-term finance instruments account only for a small fraction of economic capital requirements, whereas equity investments take the largest share. This risk dynamic, together with an increasingly constrained capital situation for IFC, may also explain the focus on short-term products. The trend characterized by the growth in short-term finance products and the uncertain environment for private capital flows to developing countries present challenges for IFC. These include challenges for the sustainable growth of its long-term portfolio, its revenues, and the measurement of its contribution to development results.[19]

Two characteristics should be noted when interpreting numbers for IFC's short-term finance products. First, the total of $4.3 billion recorded for the Global Trade Finance Program (GTFP) alone during FY11 captures each trade transaction for which a guarantee is issued (the "flow"), but it does not reflect the balance of outstanding contingent liabilities (the "stock"). The latter amount is smaller, and the Global Trade Finance Program continues to operate within the Board-approved product ceiling of $3 billion—reflecting an average guarantee tenor of five months (The outstanding balance under the Program was $2.9 billion as of June 2012). Second, the Program operates as a guarantee program to cover the payment risk related to a trade transaction. As such, it does not provide "financing" but assumes a contingent liability, which would result in a payment in the event a guarantee is called.

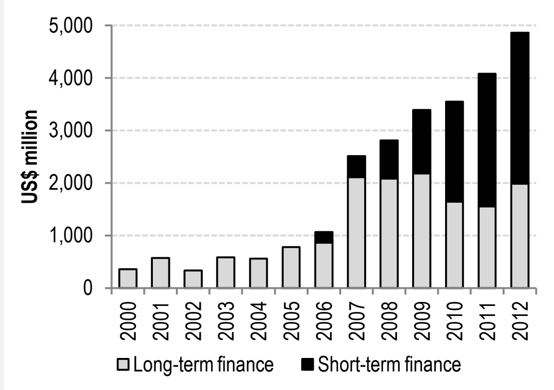
Financial sector projects, which include short-term trade finance products, dominate IFC's investment volume; commitments for infrastructure and real sectors declined. The share of financial markets projects increased from 47 percent of net commitments in FY05 to 73 percent in FY11. The other two industry clusters had much smaller—and shrinking—shares: infrastructure accounted for 15 percent, and manufacturing, agribusiness, and services sectors for 12 percent in FY11 (each averaged 23 percent of IFC commitments during FY06–11).

The absolute and relative decline of IFC's nonfinancial sector portfolio was not uniform across regions and subsectors. Infrastructure investments in the South Asia Region decreased fully 92 percent during FY09–11, compared with the preceding three years, driven by a decline of volume in India. In contrast, investments increased in Latin America and Sub-Saharan Africa, the latter driven by a 3.5-fold increase of investment in telecom/IT even as commitments in the power sector in the region declined by three-quarters. Overall, among infrastructure sectors, investments grew in the utilities (water and sanitation), telecom/IT, and transportation. Commitments for oil, gas, and mining projects declined substantially (by 70 percent)—mainly in Latin America and the Caribbean, Africa, South Asia, and Europe and Central Asia— as did the electric power sector.

The overall decline in real sectors was reflected throughout most regions, but commitments in Sub-Saharan Africa increased by 78 percent between the FY06–08 and FY09–11 periods—driven by a near doubling of agribusiness investments. Overall, however, commitments in all subsectors of the manufacturing, agribusiness, and services cluster declined. This includes IFC's targeted sectors (in addition to infrastructure and financial markets), the shares of which have tended to decrease: agribusiness from 7 to 4 percent, whereas health and education remained constant at 2 percent. The declining share of investments in infrastructure and agribusiness reflected demand and supply constraints, including cancellation and postponement of projects, relatively longer preparation time for project financing, and limited sponsor contribution to project financing, particularly for infrastructure projects.

IFC has pursued a strategic focus on frontier markets since the early 2000s and significantly increased its investments in IDA countries (Figure H.1).[20] Over time, IFC support in IDA countries has become more diversified by the number of countries covered (reaching 60 of 81 IDA-eligible countries during FY09–11), but commitments were concentrated in a few IDA countries, as noted in the evaluation of IFC's poverty focus and results (IEG 2011a): the top five countries by investment volume accounted for two-thirds (67 percent) of net commitments during FY09–11.[21] During the 2008–09 crisis, IFC continued its focus on IDA countries, whereas non-IDA countries saw a precipitous decline in commitments in FY09, most strongly in Europe and Central Asia. Over the past two years, short-term finance has become the main instrument of IFC support in IDA countries (62 percent of net commitments in FY11).

Figure H.1. IFC Net Commitments in IDA Countries



Source: IFC.

IFC's AMC aims to help mobilize capital from the private sector and other partners. Among the main instruments for mobilization, or leveraging IFC's own capital, are the IFC's Syndicated Lending Program and the AMC. The AMC, a wholly owned IFC subsidiary, was established in FY09 to act as a fund manager for third-party capital to invest alongside IFC. It currently manages three funds that have committed a combined $1.5 billion. The AMC can play a critical role in leveraging IFC's increasingly constrained capital and presents an opportunity to expand its development impact.

IFC Operational Performance

For IFC projects, this report draws on project evaluations conducted between 2009 and 2011. For investment services projects, these include 243 investment services projects reaching early operational maturity during CY2009–11 covered by XPSRs, randomly selected from 522 projects approved between CY2004 and 2006, representing a 47 percent coverage rate. For advisory services projects, findings are based on 275 project completion reports (PCRs) validated by IEG for projects that closed in FY08–10. Non-client-facing advisory services projects (that is, those addressing IFC's internal strategy formulation or capacity building) are not included in IEG validations. IEG validated all 160 PCRs for client-facing projects closed in 2008 and 2009 (100 percent coverage). For projects closed in FY10, IEG validated 115 PCRs randomly selected out of a population of 144 (80 percent coverage rate). These projects were approved between 2005 and 2010. IEG excludes from the population PCRs prepared for non-client facing and/or knowledge management Advisory Services projects.

The tables at the end of this appendix provide more details about the scope and ratings given to various aspects of IFC operations. Table H.1 provides information on the sample of investments covered in the project evaluations conducted between CY2009 and CY2011. Table H.2 presents information on trends for new commitments. Tables H.3 and H.4 provide information on ratings for evaluated IFC investment operations by various categories. Tables H.5 and H.6 present the summary of results of the regression analysis of determinants of development outcomes conducted for IFC projects evaluated between 2000 and 2010. The remaining part of this section presents the main features of the performance of IFC-supported projects, based on project evaluations. The review covers IFC's long-term finance products, as the short-term finance operations have not been evaluated by IEG.[22]

DEVELOPMENT OUTCOME RATINGS

The development outcome ratings of IFC-supported projects did not change significantly in recent years. Sixty-eight percent of the 243 mature investment operations evaluated in 2009–11 had development outcome ratings of mostly successful or higher, compared with 72 percent of the 176 operations in the 2006–08 cohort, based on three-year rolling averages (results for 2011 include preliminary ratings). Projects rated mostly successful or higher on balance meet or exceed financial, economic, environmental, and social performance benchmarks and contribute more broadly to the development of the private sector in the local economies.

On an annual basis, development outcome ratings of rated projects peaked in 2008 (75 percent mostly successful or higher) and have since declined to 61 percent for the most recent 2011 cohort. The investment outcomes for IFC projects, measuring the profitability of IFC's investments, have remained strong, with 82 percent rated satisfactory or better for the 2009–11 cohort of evaluations. Investment results for equity operations have remained below those for loans (56 percent satisfactory or higher versus 92 percent, respectively, for 2009–11).[23] This reflects the high-risk/high-reward nature of equity investments, coupled with an expectation that in the aggregate, IFC's portfolio of equity investments would contribute positively to profitability.

The underlying reasons for the decline in performance present a complex picture. They include direct and indirect effects of the 2008–09 global financial crisis on IFC's portfolio, specific regional or industry factors, and internal factors related to IFC's work quality. Previous IEG studies have observed that development results were significantly better for projects approved post-crisis than pre-crisis. Projects begun shortly before the crisis did not have sufficient time to build institutions and capacity before experiencing an adverse external operating environment.

Investments in IBRD countries have performed strongly, but evaluated operations in IDA-eligible countries, an area of growth for IFC, have seen a statistically significant decline in performance. The ratings for projects in non-IDA countries remained at a very high level despite the more challenging global economic environment: 75 percent of evaluated projects were rated mostly successful or higher during 2009–11, versus 73 percent for 2006–08. In contrast, just over half (52 percent; 36 of 69 projects) of projects in IDA countries that were evaluated in 2009–11 were rated mostly successful or higher for development outcomes, compared with 73 percent (30 of 41) for the 2006–08 cohort, which had the strongest performance of IDA projects in IFC's portfolio to date. The long term average for projects in IDA countries evaluated over the period 2000–11 is 57 percent. The results of the more recent cohort (2009–11) reflect projects approved in 2004–06 as part of the increased focus on IDA countries following the adoption of IFC's frontier market strategy in about 2000. The decline in performance in IDA countries reflects weak results in financial markets projects (53 percent mostly successful or higher outcome ratings, 18 of 34 projects), which comprise the largest cluster in the cohort of evaluated projects. The financial sector accounted for half of IDA projects (34 of 69 projects).

Regionally, the weakest results were recorded for IDA projects in the Middle East and North Africa (30 percent; 3 of 10 projects) and Europe and Central Asia (45 percent, 5 of 11), whereas Sub-Saharan Africa projects performed close to the average (50 percent, 8 of 16). Results in the Middle East and North Africa largely reflected the performance of projects in Pakistan and the challenging political and business environment in the country. Projects in IDA countries in Sub-Saharan Africa showed low performance in infrastructure and financial markets. The Europe and Central Asia Region's performance was driven by the effects of the 2008–09 crisis on financial markets projects, which achieved a success rate of only 33 percent (3 of 9).

The increasing gap between project performance in IDA and IBRD countries observed over the past three years is caused by a number of factors including: the higher risk of operations in those countries; issues related to IFC's work quality; effects of the global financial crisis of 2008–09; and specific regional and industry factors.[24] Regarding the riskiness and complexity of the business environment, IFC projects in IDA countries typically face higher risks (market risks and sponsor risks are higher than for non-IDA countries). Improvements in the country's business climate, which are associated with better development outcomes for IFC projects, have been more limited in IDA countries than in non-IDA countries.

Aspects of IFC's project execution and role suffered significant declines for projects in IDA countries. The assessment of IFC's work quality considers three indicators: (i) quality of screening, appraisal, and structuring, (ii) quality of supervision, and (iii) IFC's role and contribution. Between 2006–08 and 2009–11, positive ratings for IFC's work quality fell from 78 percent to 59 percent. This was driven by low ratings for IFC's screening, appraisal, and structuring (59 percent) and for IFC's role and contribution where positive ratings fell from 83 percent to 60 percent. In contrast, supervision quality remained high (83 percent for 2009–11). The declines for both overall work quality ratings and IFC's role and contribution are statistically significant. Ratings for IFC's appraisal quality and at-entry role and contribution largely reflect practices and quality standards at the time the evaluated projects were approved (2004–06). IFC has put in place changes affecting its organization, business processes and systems, and staffing, including increased local presence, deployment of more senior staff in the field, and enhanced integrity due diligence on project sponsors.[25] It is too early to assess the impact, if any, of these initiatives on IFC's work quality and, ultimately, on its development impact.

IEG analysis indicates that IFC's work quality is the most important determinant of the likelihood of achieving positive development outcome ratings in IDA countries. Building on a model presented in *Results and Performance of the World Bank Group 2011* (IEG 2011h), IEG conducted a regression analysis including variables thought to affect development outcomes for XPSRs completed in 2000–10.[26] For this cohort of projects, IFC work quality was the main determinant of development outcomes.[27] Excluding IFC-internal work quality factors from the analysis indicates that sponsor risk is the main factor influencing development outcomes.

The evaluation findings of projects evaluated in 2009–11 corroborate the importance of IFC's work quality for achieving success. For the cohort of projects evaluated in

2009–11, positive development outcomes in IDA countries were associated with satisfactory work quality: projects with high work quality had a 73 percent success rate. Similarly, projects with low work quality ratings were far more likely to fail from a development point of view (24 percent development outcome success rate).

IEG reviewed the issues that led to low work quality ratings for IDA projects (22 projects that had both low development outcome and work quality ratings). Among financial sector projects, shortcomings were related to appraising the ownership structure or political exposure of the bank's shareholders, failure to fully appraise the status of environmental and social management systems or to include E&S requirements in legal documents, failure to address corporate governance issues, and passive supervision that did not provide assistance to clients regarding their risk management and portfolio supervision. The main work quality issues for non-financial sector projects were incorrect E&S categorization at appraisal and thus a lost opportunity to achieve impact in a material area; overestimating management capacity, financial viability, or growth prospects of the company; support to projects with unsuitable sponsors and being too accommodating to sponsors; and lack of leverage over the client.

IEG also reviewed IDA projects with low IFC role and contribution (28 projects) and found several of issues such as weak justification for IFC financing or limited financing role (for instance, due to early prepayments) (39 percent); a passive or nonspecific role for IFC in the project (36 percent); and weak commitment of clients in raising standards/limited leverage of IFC in influencing client's decisions (21 percent). Twelve of 28 projects rated low for IFC's role and contribution in IDA countries were in India. Focused efforts to enhance the work quality of projects in IDA countries would be advisable to address shortcomings in IFC's work quality and enhance the chance of projects success.

Development Outcome Ratings by Industry Cluster and Region

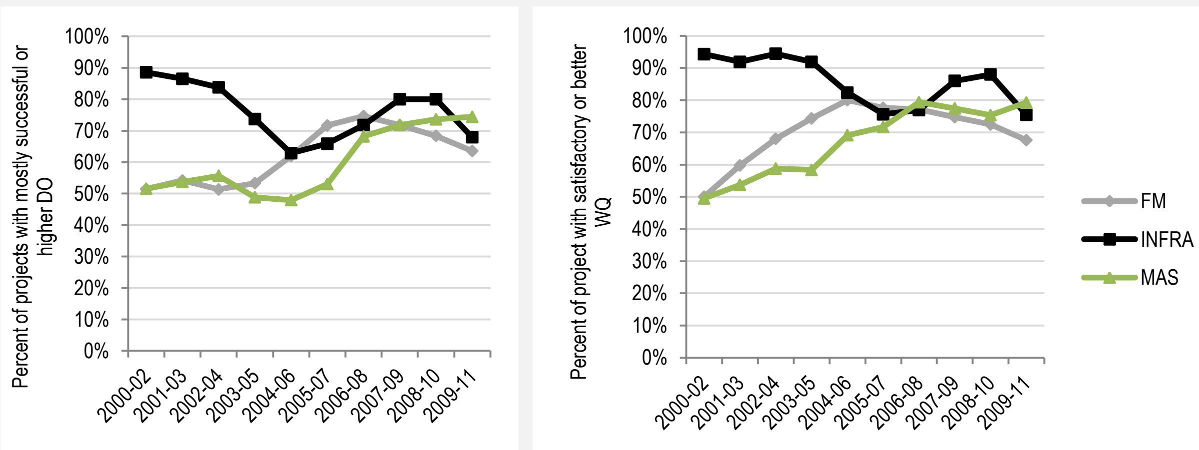
Among the industry clusters, the performance of financial markets projects—IFC's largest and fastest growing cluster—declined and was lower than for other clusters, as the financial crisis revealed underlying structural and institutional problems associated with financial intermediaries. Overall, 64 percent of financial markets projects had mostly successful or higher outcomes, compared with 75 percent for 2006–08 (not statistically significant) (Figure H.2.A). Results were low for financial markets projects in Europe and Central Asia (51 percent mostly successful and higher, 21 of 41 projects) and East Asia and Pacific (58 percent, seven of 12 projects), but financial markets projects performed largely successfully in South Asia (100 percent, 4 projects), the Middle East and North Africa (77 percent, 10 of 13), and

Latin America and the Caribbean (76 percent, 16 of 21). The decline in development outcome ratings was mirrored by a statistically significant decrease in the proportion of projects with positive business success ratings, from 70 percent to 53 percent (for 2006–08 and 2009–11, respectively).

In contrast, the performance of investments in the MAS industry cluster has improved. Ratings for this cluster have long been among the lowest for IFC (they had a success rate of 49 percent in 2003–05). However, for the 2009–11 cohort of evaluated projects, 74 percent of manufacturing, agribusiness, and services projects achieved mostly successful or higher development outcome ratings, compared to 68 percent of those evaluated during 2006–08. The improvement in performance is based on a number of factors, including a change in IFC's strategy of engaging in traditionally challenging sectors, such as agribusiness and tourism, and improvements in IFC's work quality in this area. The changes in the performance of IFC industry clusters, however, were not statistically significant.

Figure H.2. Development Outcome and Work Quality Ratings (2000–11)—Financial Markets, Infrastructure, and MAS

A. Development Outcome Ratings **B. IFC Work Quality Ratings**



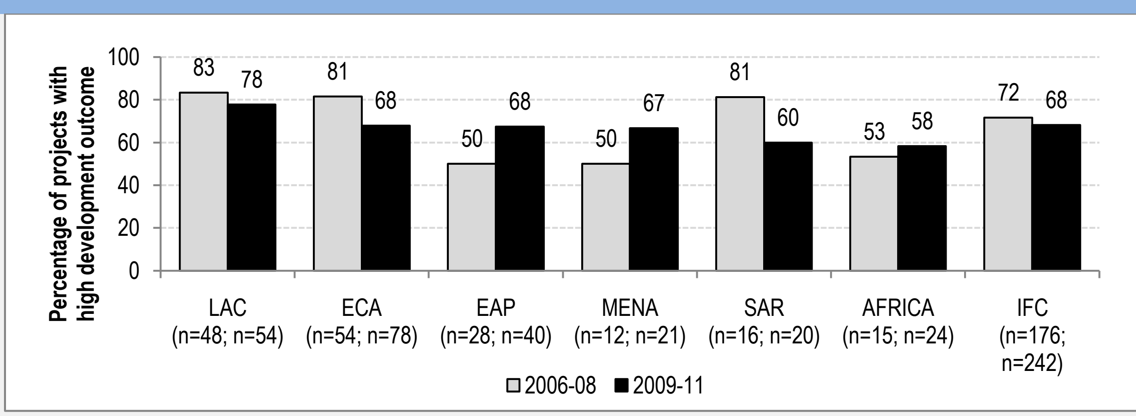
Source: IEG data.
Note: DO = development outcome; FM = financial markets; INFRA = infrastructure and natural resources; MAS = manufacturing, agribusiness, and services; WQ = work quality.

IEG's analysis of the drivers of results for each industry cluster confirms the significance of IFC's work quality. For the 2000–10 cohort of evaluated projects, industry clusters had different sensitivities to risks: for financial markets projects, sponsor quality and changes in business environment matter; for infrastructure and natural resources projects only sponsor quality was significant. MAS projects were sensitive to sponsor quality, market risk, changes in the business climate, and the type of project (greenfield versus expansion). When adding IFC's work quality to the analysis, sensitivity to risks is reduced.

For financial markets projects, business climate is mitigated by IFC's work quality (all of which matter: appraisal, supervision, and role and contribution). By contrast, appraisal quality and role and contribution can mitigate risks in infrastructure projects, pointing to the importance of high-quality appraisal and structuring of such projects, as supervision is less likely to influence project outcomes. For MAS projects, the project type risk remains even though work quality mitigates other risks: greenfield MAS projects pose a higher risk that needs to be carefully managed.

Among the regions, Latin America and the Caribbean remains the strongest in terms of development outcome ratings (78 percent), whereas the ratings in Europe and Central Asia (68 percent) and South Asia (60 percent) have declined. Results in Europe and Central Asia—by far the largest region in terms of evaluated projects in 2009–11—were affected by the impact of the global financial crisis especially on the financial markets portfolio (as discussed above), and poor results for evaluated projects in Russia (45 percent mostly successful or higher; 10 of 22 projects) that were due to weak sponsors, corporate governance issues, and the difficult business environment. These risks are magnified as IFC moves into frontier regions in Russia and supports second-tier clients. Results in the Middle East and North Africa improved (67 percent) but remained challenging, given the volatile situation following the political changes in 2011 (Figure H.3).

Figure H.3. IFC Development Outcome Ratings by Region



Source: IEG.
Note: Global projects are not shown. None of the changes is statistically significant at 95 percent and 90 percent of confidence level. **Regions**: 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.

Advisory Services

IFC advisory services continued to be an important means of engagement with clients, particularly in the poorest countries and in countries with more difficult business environments. IFC has sought to enhance the focus and selectivity of its advisory services. Its strategy has also evolved considerably, reflecting the goal of enhanced focus and better alignment with IFC's strategic priority areas. In implementing its strategy, IFC has identified targets for its work in IDA countries, fragile and conflict-affected states, and climate change–related work, among others.

After a period of rapid growth in the 2000s, IFC's Advisory Service operations have gone through a phase of consolidation. IFC's advisory services grew more than tenfold in expenditures and sixfold in staffing between FY01 and FY10.[28] However, the number of new client-facing projects approved has declined since FY08, from 212 to 118 in FY11, although project expenditures for client-facing advisory projects increased from $132 million in FY08 to $182 million in FY11. The total number of different Advisory Service products offered decreased from 50 to 32, organized in four business lines.[29] This reflected a strategic decision to reform and better focus IFC's Advisory Service line; enhance results focus and measurement; strengthen alignment between advisory and investment services; refine organization and accountabilities; and strengthen staffing, knowledge, and funding models.

Access to Finance and Sustainable Business Advisory continue to be the two largest business lines in terms of the number of new projects, representing 39 percent and 28 percent, respectively, of new approved advisory projects during FY10–11. By project expenditure, the Sustainable Business Advisory, Access to Finance, and Investment Climate business lines each accounted for just below 30 percent of the total. The share of the Sustainable Business line has declined in both the number of projects and the level of project expenditures during the past two years, although the Access to Finance business line is growing.

IFC has enhanced the focus of its Advisory Services in IDA countries. Projects in IDA countries accounted for 60 percent of total Advisory Service projects (51 percent of client-facing project expenditure) in FY10–11.[30] This compares with an average of 40 percent of client-facing project expenditures during FY08–09, indicating good progress in achieving its objective of having a 67 percent share of advisory service project spend in IDA countries by FY14. By region, new projects were concentrated in South Asia (23 percent) and Sub-Saharan Africa (21 percent) during FY10–11; Sub-Saharan Africa (28 percent) had by far the largest total expenditures among regions.

Of projects that closed in FY08–10,[31] 58 percent of advisory service projects achieved mostly successful or higher development effectiveness, meaning that they delivered relevant and measurable development benefits to clients. A downward trend has been observed for development effectiveness ratings since systematic evaluation of advisory service began in FY08, with projects that closed in FY10 achieving a 51 percent success rate versus 65 percent (FY08).

Based on results for FY08–10 closed projects, Access to Finance projects performed strongest (69 percent success rate), and the public-private partnership business line (46 percent) had the lowest development effectiveness ratings. Access to Finance advisory services is currently the largest business line and one that IFC expects to grow. Contrary to investment operations, advisory service projects in IDA countries performed on a par with projects in non-IDA countries.

Overall, almost four-fifths (79 percent) of advisory services projects rated high for achieving their immediate outputs. A majority of projects (59 percent) were rated satisfactory or higher for their achievement of outcomes. However, projects rated low (39 percent success rate) for the achievement of longer-term impacts (such as higher financial intermediation in a target group, the implementation of a public-private partnership project). A modest proportion of projects could be evaluated for their impact achievement: fully 61 percent could not be rated in this dimension. This was mainly because of projects that had yet to achieve their expected impacts at the time of completion, which highlights the need to conduct post-completion follow-up when intended impacts are expected to be achieved.[32]

About three-quarters of evaluated projects were strategically well aligned with country strategies, fit political and economic conditions in the country, and had selected the right client. Projects that failed to be strategically relevant showed low client commitment during implementation (because of political economy issues and effects of the financial crisis), lacked relevance for the client or the market, or showed a lack of IFC understanding of the market gap it intended to fill. Separately from development effectiveness, IEG rates IFC's role and contribution, which looks at whether IFC played a catalytic or innovative role, or a unique role that could not be easily filled by others. Eighty percent of projects had positive ratings in this respect. Negative ratings indicated flaws in project design or implementation that prevented IFC from fulfilling its expected role.

The quality of project design is key to the success of advisory service projects, as 72 percent of unsuccessful projects had poor design. Thirty-eight percent of evaluated projects had poor project design. These included the lack of identification of proper indicators and baseline data, the lack of a proper needs or market assessment, and lack of clear objectives with realistic outputs and impacts and adequate mix of activities to achieve intended objectives.

For Access to Finance, projects providing advice to IFC investment clients performed well and were relevant to the client. For Investment Climate advisory services, projects with programmatic or phased interventions and those that retained client commitments throughout implementation were more successful. Successful projects had a link to another advisory service, as part of a program in the region; half of these projects have led to a follow-up advisory services intervention. Identifying the right counterpart in the country and understanding the political priorities was a key success driver. Sustainable business advisory projects benefited from good pre-implementation work (such as market and needs assessments) during the project design phase and customized replication of successful models. For public-private partnership projects, the main determinant of poor project performance was lack of client commitment. Challenging political environments and obstacles and IFC work quality shortcomings drove low development effectiveness ratings. Although in many instances, teams identified the main risks facing the projects correctly, IFC's project preparation and design fell short, and it lacked a more proactive approach to mitigate and manage the identified risks. Earlier and more active client and broader stakeholder engagement during design and implementation, and sequencing of projects in high-risk environments could enhance the chances of project success.

IEG found that results for IFC advisory services that are linked to investment projects[33] are similar to those of projects without such links (IEG 2009d). IFC has sought to strengthen the link between advisory and investment services, to increase synergies and development impact through a more programmatic approach. Overall, more than one-third of Advisory Services projects (closed in FY08–10) in IEG's database of evaluated projects were linked to existing investment projects (37 percent). The majority of access to finance projects evaluated (63 percent) and a significant share of sustainable business advisory projects (43 percent) were linked to an investment services project. Conversely, there was limited scope for linkages for investment climate and public-private partnerships projects.[34] Sixty-two percent (49 of 79) of linked advisory service projects had high success ratings, compared with 56 percent (76 of 135) for projects without a link to investments; this is not a significant difference. The nature of linked projects and transmission mechanisms that are expected to lead to better outcomes has to be better understood.

APPENDIX H
IFC OPERATIONS

Table H.1. Representativeness of the CY2009–11 Net Approvals Population

	Number of investments					Value of investments ($ millions)				
	CY2009–11 XPSRs		*CY2004–06 NAP*		*(c) =*	*CY2009–11 XPSRs*		*CY2004–06 NAP*		*(c) =*
	(a)		*(b)*		*(a)/(b)*	*(a)*		*(b)*		*(a)/(b)*
	No.	*%*	*No.*	*%*	*%*	*Amt.*	*%*	*Amt.*	*%*	*%*
	255	***100***	**522**	***100***	**49**	**6,553**	***100***	**13,393**	***100***	**49**
Net IFC:										
Mean					-	24.4	-	25.6	-	
Median					-	15.0	-	17.0	-	
Investment Size:										
X=<7.27	49	*19*	103	*20*	48	171	*3*	346	*3*	49
7.27<X=<57.21	166	*65*	337	*65*	49	3,289	*50*	6,882	*51*	48
X>32.91	40	*16*	82	*16*	49	3,092	*47*	6,165	*46*	50
	255	***100***	**522**	***100***	**49**	**6,553**	***100***	**13,393**	***100***	**49**
Instruments:										
Equity only	64	*25*	124	*24*	52	1,450	*22*	2,874	*21*	50
Other	191	*75*	398	*76*	48	5,102	*78*	10,519	*79*	49
	255	***100***	**522**	***100***	**49**	**6,553**	***100***	**13,393**	***100***	**49**
Sectors:										
Financial markets	118	*46*	244	*47*	48	2,961	*45*	6,075	*45*	49
Non-financial markets	137	*54*	278	*53*	49	3,592	*55*	7,318	*55*	49
	255	***100***	**522**	***100***	**49**	**6,553**	***100***	**13,393**	***100***	**49**
Departments:										
Agribusiness	20	*8*	41	*8*	49	503	*8*	955	*7*	53
Global Financial Markets Group	95	*37*	196	*38*	48	2,643	*40*	5375	*40*	49
Global Inform. & Comm. Tech.	14	*5*	26	*5*	54	203	*3*	429	*3*	47
Global Manufacturing & Services	43	*17*	89	*17*	48	1,356	*21*	2501	*19*	54
Health and Education	10	*4*	19	*4*	53	114	*2*	208	*2*	55
Infrastructure	29	*11*	59	*11*	49	667	*10*	1607	*12*	42
Oil, Gas, Mining And Chemicals	22	*9*	46	*9*	48	765	*12*	1649	*12*	46
Private Equity & Investment Funds	22	*9*	46	*9*	48	302	*5*	669	*5*	45
	255	***100***	**522**	***100***	**49**	**6,553**	***100***	**13,393**	***100***	**49**
Regions:										
Sub-Saharan Africa	26	*10*	56	*11*	46	639	*10*	1267	*9*	50
East Asia and Pacific	41	*16*	86	*16*	48	979	*15*	1992	*15*	49
South Asia	20	*8*	40	*8*	50	541	*8*	919	*7*	59
Central and Eastern Europe	44	*17*	94	*18*	47	770	*12*	2152	*16*	36
Southern Europe and Central Asia	38	*15*	73	*14*	52	1313	*20*	2274	*17*	58
Latin America & Caribbean	59	*23*	118	*23*	50	1612	*25*	3697	*28*	44
Middle East and North Africa	22	*9*	47	*9*	47	655	*10*	1010	*8*	65
World	5	*2*	8	*2*	63	45	*1*	82	*1*	55
	255	***100***	**522**	***100***	**49**	**6,553**	***100***	**13,393**	***100***	**49**
Indicative Performance:										
(as of 12/30/2011)										
(i) all investments:[a]										
With loss reserves	7	*3*	14	*3*	50	144	*2*	621	*5*	23
Without loss reserves	248	*97*	508	*97*	49	6,409	*98*	12,772	*95*	50
	255	***100***	**522**	***100***	**49**	**6,553**	***100***	**13,393**	***100***	**49**
(ii) equity only:[a]										
With loss reserves	1	*2*	3	*2*	-	75	*5*	151	*5*	-
Without loss reserves	63	*98*	136	*98*	46	1,375	*95*	2,723	*95*	51
	64	***100***	**139**	***100***	**46**	**1,450**	***100***	**2,874**	***100***	**50**
(iii) all investments:[b]										
With write-offs	39	*15*	82	*16*	48	1,124	*17*	2,079	*16*	54
Without write-offs	216	*85*	440	*84*	49	5,429	*83*	11,314	*84*	48
	255	***100***	**522**	***100***	**49**	**6,553**	***100***	**13,393**	***100***	**49**
Status:										
Active	200	*78*	407	*78*	49	5,292	*81*	10,843	*81*	49
Closed	55	*22*	115	*22*	48	1,261	*19*	2,550	*19*	49
	255	***100***	**522**	***100***	**49**	**6,553**	***100***	**13,393**	***100***	**49**
Countries (incl. regional)**:**	**68**		**78**							

Source: IEG data.

a. Amounts with loss reserves are the IFC approved investments that are affected by loss reserves (and not the actual amount reserved).

b. Amounts with write-offs are the IFC approved investments that are affected by write-offs (and not the actual amount written-off).

Table H.2. IFC Investments: Commitments FY06–11

IFC INVESTMENTS	No of investments FY06–08	Total net commitment (US$M) FY06–08	No of investments FY09–11	Total net commitment (US$M) FY09–11	Share of total (by$) FY06–08	Share of total (by$) FY09–11	Growth in $ commitment between FY06–08 and FY09–11
By development goal							
I. Expanding Economic Opportunities and Strengthening Institutions	806	16,436	875	24,015	70%	79%	46%
II. Building Infrastructure for Growth	209	6,335	283	5,589	27%	18%	-12%
III. Enhancing Human Development	54	634	44	745	3%	2%	18%
Global Product Group	0	0	5	67	0%	0.2%	
Total	**1,069**	**23,405**	**1,207**	**30,416**	**100%**	**100%**	**30%**
By Region							
East Asia and the Pacific	164	2,716	164	3,709	12%	12%	37%
Europe and Central Asia	278	6,087	271	6,704	26%	22%	10%
Latin America and the Caribbean	234	5,526	293	7,500	24%	25%	36%
Middle East and North Africa	128	3,081	93	3,389	13%	11%	10%
South Asia	96	2,515	121	2,189	11%	7%	-13%
Sub-Saharan Africa	154	3,118	232	5,768	13%	19%	85%
WORLD	15	361	33	1,157	2%	4%	220%
Total	**1,069**	**23,405**	**1,207**	**30,416**	**100%**	**100%**	**30%**
By cluster							
FM	533	10,582	603	19,254	45%	63%	82%
MAS	327	6,488	316	5,506	28%	18%	-15%
INFRA	209	6,335	283	5,589	27%	18%	-12%
GPD	0	0	5	67	0%	0.2%	
By industry group							
Financial Markets	377	7,107	392	6,755	30%	22%	-5%
Funds	68	1,004	74	2,003	4%	7%	100%
Trade Finance (TF)	88	2,471	137	10,496	11%	35%	325%
Agribusiness & Forestry	103	1,889	104	1,491	8%	5%	-21%
Manufacturing	111	2,875	99	2,422	12%	8%	-16%
Consumer & Social Services	111	1,722	104	1,443	7%	5%	-16%
Other MAS Sectors	2	2	9	149	0%	0%	6796%
Infrastructure	103	3,632	149	3,732	16%	12%	3%
Telecom & IT	47	863	59	1,126	4%	4%	30%
Other Infra Sectors	5	52	6	188	0%	1%	260%
Oil, Gas & Mining	54	1,788	69	543	8%	2%	-70%
Global Product Group (CBG/CSG)	0	0	5	67	0%	0.2%	
By IDA/non-IDA							
IDA	350	6,389	471	11,016	27%	36%	72%
non-IDA	636	15,662	617	15,750	67%	52%	1%
Region and World	83	1,354	119	3,650	6%	12%	170%
By instrument							
Equity	317	3,767	405	5,593	16%	18%	48%
Loan	686	16,799	747	23,198	72%	76%	38%
Equity and Loan	66	2,839	55	1,625	12%	5%	-43%
By Country's Income level							
Low income	100	1,023	153	1,752	4%	6%	71%
Middle income	846	20,517	920	24,731	88%	81%	21%
High income	40	512	15	283	2%	1%	-45%
Not applicable	83	1,354	119	3,650	6%	12%	170%
Total	**1,069**	**23,405**	**1,207**	**30,416**	**100%**	**100%**	**30%**

Source: IEG data.
Note: Investments with recurring commitments were counted only once in the year of their first commitment.

Table H.3. IFC Investments: Development Outcomes CY06–11

IFC EVALUATED INVESTMENT PROJECT RATINGS	Development Outcome Percent HIGH (3-year rolling averages)		Project Business Success Percent SAT (3-year rolling averages)		Economic Sustainability Percent SAT (3-year rolling averages)		Environmental & Social Sustainability Percent SAT (3-year rolling averages)		Private Sector Development Percent SAT (3-year rolling averages)	
	2006–08	2009–11	2006–08	2009–11	2006–08	2009–11	2006–08	2009–11	2006–08	2009–11
PROJECT RATINGS BY DEVELOPMENT GOAL										
I. Expanding Economic Opportunities	70%	68%	67%	60%	77%	68%	56%	63%	79%	81%
II. Building Infrastructure for Growth	72%	68%	64%	66%	79%	68%	85%	80%	77%	72%
III. Enhancing Human Development	100%	78%	67%	67%	100%	78%	100%	78%	100%	89%
Grand Total	72%	68%	66%	61%	78%	68%	63%	67%	79%	79%
PROJECT RATINGS BY IBRD/IDA										
IDA & Blend	73%	52%	63%	53%	85%	60%	54%	65%	73%	64%
Non-IDA	73%	75%	70%	66%	78%	72%	66%	66%	82%	86%
Not applicable	61%	70%	50%	56%	67%	72%	70%	76%	72%	78%
Grand Total	72%	68%	66%	61%	78%	68%	63%	67%	79%	79%
PROJECT RATINGS BY LIC/MIC										
Low Income	73%	54%	80%	50%	80%	50%	50%	80%	70%	79%
Lower middle income	66%	62%	57%	58%	81%	69%	59%	64%	74%	72%
Upper middle income	78%	74%	72%	67%	81%	70%	69%	65%	85%	85%
High income	50%	88%	67%	75%	67%	75%	25%	80%	67%	75%
Not applicable	56%	65%	44%	48%	63%	67%	67%	79%	69%	78%
Grand Total	72%	68%	66%	61%	78%	68%	63%	67%	79%	79%
PROJECT RATINGS BY INSTRUMENT TYPE										
Equity	69%	62%	54%	47%	73%	63%	62%	79%	77%	80%
Loan	77%	70%	72%	64%	84%	71%	64%	68%	82%	77%
Equity and loan	56%	68%	65%	68%	65%	65%	67%	48%	70%	86%
Grand Total	72%	68%	66%	61%	78%	68%	63%	67%	79%	79%
PROJECT RATINGS BY CLUSTER										
FM	75%	64%	70%	53%	83%	68%	55%	70%	81%	77%
INFRA	72%	68%	64%	66%	79%	68%	85%	80%	77%	72%
MAS	68%	74%	63%	70%	73%	69%	61%	56%	78%	87%
Grand Total	72%	68%	66%	61%	78%	68%	63%	67%	79%	79%
PROJECT RATINGS BY REGION-7										
Sub-Saharan Africa	53%	58%	50%	48%	57%	60%	58%	67%	64%	80%
East Asia and Pacific	50%	68%	50%	60%	58%	67%	72%	53%	65%	83%
Europe and Central Asia	81%	68%	76%	56%	87%	64%	70%	76%	83%	77%
Latin America & Caribbean	83%	78%	77%	76%	91%	80%	64%	64%	91%	85%
Middle East and North Africa	50%	67%	42%	62%	50%	76%	50%	53%	75%	71%
South Asia	81%	60%	69%	65%	94%	65%	46%	75%	69%	75%
WORLD	33%	60%	33%	40%	33%	50%	0%	100%	67%	60%
Grand Total	72%	68%	66%	61%	78%	68%	63%	67%	79%	79%
PROJECT RATINGS BY INDUSTRY GROUP CLASSIFICATION										
Agribusiness & Forestry	71%	71%	72%	68%	78%	68%	36%	53%	83%	87%
Consumer & Social Services	82%	68%	59%	53%	82%	58%	71%	71%	82%	74%
Financial Markets	74%	65%	70%	58%	82%	70%	49%	68%	80%	75%
Funds	80%	53%	70%	20%	90%	47%	88%	85%	90%	87%
Infrastructure	94%	73%	76%	69%	100%	73%	94%	88%	94%	65%
Manufacturing	60%	86%	61%	83%	61%	79%	74%	56%	70%	97%
Oil, Gas & Mining	60%	71%	80%	79%	80%	71%	60%	64%	60%	100%
Other FM Sectors	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Other Infra Sectors	100%	N/A	100%	N/A	100%	N/A	100%	N/A	100%	N/A
Other MAS sectors	0%	33%	N/A	67%	N/A	33%	0%	0%	N/A	67%
Telecom & IT	47%	54%	40%	46%	53%	54%	75%	100%	60%	54%
Grand Total	72%	68%	66%	61%	78%	68%	63%	67%	79%	79%

Source: IEG data.

Table H.4. IFC Investments: IFC Investment Outcomes and Work Quality CY06–11

IFC EVALUATED INVESTMENT PROJECT RATINGS	Investment Outcome Percent SAT (3-year rolling averages)		Loan Investment Outcome Percent SAT (3-year rolling averages)		Equity Investment Outcome Percent SAT (3-year rolling averages)		IFC Work Quality Percent SAT (3-year rolling averages)		IFC Appraisal Work Quality Percent SAT (3-year rolling averages)		IFC Supervision Work Quality Percent SAT (3-year rolling averages)		Work Quality—IFC Role & Contribution Percent SAT (3-year rolling averages)	
	2006–08	2009–11	2006–08	2009–11	2006–08	2009–11	2006–08	2009–11	2006–08	2009–11	2006–08	2009–11	2006–08	2009–11
PROJECT RATINGS BY CORE DEVELOPMENT GOAL														
I. Expanding Economic Opportunities	77%	81%	91%	93%	60%	52%	77%	72%	72%	70%	85%	80%	81%	77%
II. Building Infrastructure	74%	83%	93%	88%	44%	71%	77%	75%	77%	70%	87%	85%	79%	72%
III. Enhancing Human Development	100%	89%	100%	90%	N/A	100%	100%	89%	100%	78%	100%	89%	100%	89%
PROJECT RATINGS BY IBRD/IDA														
IDA & Blend	76%	70%	92%	82%	59%	46%	78%	59%	75%	59%	88%	83%	83%	60%
Non-IDA	84%	89%	92%	95%	68%	68%	77%	79%	73%	75%	85%	81%	80%	84%
Not applicable	39%	74%	88%	100%	21%	53%	83%	81%	78%	74%	89%	81%	89%	78%
PROJECT RATINGS BY LIC/MIC														
Low Income	82%	71%	100%	75%	75%	50%	80%	71%	80%	71%	90%	86%	80%	71%
Lower middle income	73%	79%	93%	91%	61%	50%	71%	63%	64%	63%	81%	78%	81%	67%
Upper middle income	86%	86%	92%	93%	66%	67%	82%	79%	80%	74%	90%	84%	82%	83%
High income	83%	100%	83%	100%	100%	N/A	50%	88%	33%	75%	50%	75%	67%	88%
Not applicable	31%	70%	83%	100%	15%	53%	81%	78%	75%	74%	88%	83%	88%	74%
PROJECT RATINGS BY INSTRUMENT TYPE														
Equity	50%	56%	N/A	N/A	50%	56%	73%	80%	69%	71%	85%	91%	77%	69%
Loan	94%	92%	94%	92%	N/A	N/A	82%	71%	78%	70%	86%	78%	84%	79%
Equity and loan	60%	70%	80%	91%	70%	60%	70%	73%	65%	73%	90%	84%	80%	73%
PROJECT RATINGS BY CLUSTER														
FM	76%	76%	95%	94%	59%	44%	77%	68%	73%	66%	86%	74%	79%	78%
INFRA	74%	83%	93%	88%	44%	71%	77%	75%	77%	70%	87%	85%	79%	72%
MAS	81%	89%	89%	92%	64%	73%	79%	79%	73%	77%	86%	89%	86%	77%
PROJECT RATINGS BY REGION-7														
Sub-Saharan Africa	67%	64%	89%	88%	56%	42%	64%	76%	57%	72%	79%	80%	71%	80%
East Asia and Pacific	55%	85%	83%	97%	47%	67%	50%	75%	54%	70%	77%	88%	62%	75%
Europe and Central Asia	91%	86%	96%	93%	69%	65%	89%	76%	83%	72%	94%	77%	87%	83%
Latin America & Caribbean	88%	93%	97%	96%	69%	70%	83%	80%	81%	80%	85%	80%	85%	83%
Middle East and North Africa	58%	67%	67%	81%	33%	14%	75%	71%	67%	71%	75%	81%	92%	71%
South Asia	81%	75%	100%	79%	63%	67%	88%	45%	81%	45%	94%	90%	81%	35%
WORLD	0%	60%	0%	100%	0%	50%	67%	60%	33%	40%	67%	100%	100%	60%
PROJECT RATINGS BY NEW SECTOR CLASSIFICATION														
Agribusiness & Forestry	89%	87%	88%	93%	100%	73%	78%	81%	67%	77%	83%	97%	94%	74%
Consumer & Social Services	86%	89%	95%	89%	33%	100%	86%	79%	77%	79%	91%	84%	82%	79%
Financial Markets	84%	85%	95%	94%	68%	58%	75%	63%	70%	62%	87%	71%	77%	76%
Funds	30%	20%	N/A	N/A	30%	20%	90%	93%	90%	87%	80%	93%	90%	87%
Infrastructure	100%	88%	100%	86%	100%	100%	94%	81%	94%	73%	94%	85%	88%	73%
Manufacturing	76%	90%	86%	93%	67%	71%	74%	79%	74%	79%	83%	83%	83%	79%
Oil, Gas & Mining	80%	86%	100%	100%	50%	71%	100%	93%	100%	86%	100%	86%	80%	100%
Other FM Sectors	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Other Infra Sectors	100%	N/A	100%	N/A	100%	N/A	50%	N/A	50%	N/A	100%	N/A	100%	N/A
Other MAS sectors	0%	100%	N/A	100%	N/A	0%	N/A	67%	N/A	33%	N/A	100%	N/A	67%
Telecom & IT	40%	69%	75%	78%	20%	50%	53%	46%	53%	46%	73%	85%	67%	38%
Grand Total	77%	82%	92%	92%	56%	58%	78%	73%	74%	70%	86%	81%	81%	76%

Source: IEG data.

Table H.5. Regression Results for External Variables

	All XPSR	IDA and Non-IDA		Industry Clusters		
		IDA	Non-IDA	FM	INFRA	MAS
Change in Business Climate	0.01**	0.00	0.01**	0.01**	-0.00	0.01**
Sponsor	-0.20**	-0.16**	-0.22**	-0.15**	-0.23**	-0.22**
Market	-0.15**	*-0.15**	-0.13**	-0.08	*-0.11**	-0.15**
Proj type	-0.03	-0.01	0.03	-0.03	0.08	-0.14**
Adj A2	0.08	0.03	0.10	0.06	0.14	0.12
N	665	204	459	249	135	281

Source: IEG data.
* = Significant at 90 percent confidence level.
** = Significant at 95 percent confidence level.

Table H.6. Regression Results for External and IFC Internal Variables

	All XPSR	IDA versus non-IDA		Industry Clusters		
		IDA	Non-IDA	FM	INFRA	MAS
Change in Business Climate	0.00**	-0.00	0.01**	0.01	-0.00	*0.01**
Sponsor	-0.11**	-0.07	-0.12**	*-0.15**	-0.12	-0.08
Market	-0.14**	-0.04	-0.13**	*-0.16**	-0.34	*-0.14**
Proj type	-0.07	-0.12	-0.05	-0.08	0.05	-0.15**
Appraisal	0.33**	0.22**	0.36**	0.21**	0.32**	0.37**
Supervision	0.29**	0.45**	0.22**	0.35**	0.07	0.26**
Roles	0.44**	0.55**	0.38**	0.48**	0.51**	0.37**
Adj A2	0.36	0.39	0.37	0.35	0.49	0.338
N	657	202	453	248	134	275

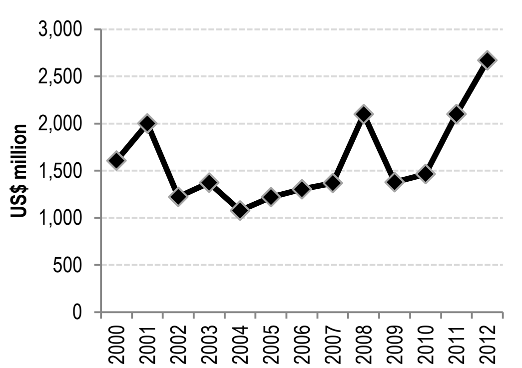
Source: IEG data.
* = Significant at 90 percent confidence level.
** = Significant at 95 percent confidence level.

Appendix I
MIGA Operations

Recent Trends in MIGA Operations

MIGA's guarantee volume has rebounded from a decrease during the crisis. The annual volume of guarantee issuance declined to about $1.4 billion during the economic crisis (FY09–10), reflecting a decrease in capital flows to developing countries. Similarly, until FY10 the number of new projects that MIGA supported declined each year, indicating MIGA's business has been lumpy and concentrated in relatively few guarantee projects each year. In FY11, MIGA activities rebounded, with guarantees totaling $2.1 billion (Figure I.1), the highest in MIGA's history, and it also reversed the declining trend in the number of projects supported each year.

Figure I.1. MIGA Guarantee Issuance



Source: IEG and MIGA.

Driven by the recent increase in the volume of guarantees and below-average cancellations of existing guarantees, MIGA's outstanding guarantee portfolio has reached a record high. Its gross outstanding portfolio rose to $9.6 billion as of March 2012, up 81 percent from the level prior to the crisis (FY07). MIGA's net exposure, that is, after reinsurance, increased by a similar proportion. This was driven by a significant drop in MIGA's annual portfolio runoff, especially early cancellations, in the years since FY08, affected by above average perceptions of risk by MIGA clients.

MIGA has made progress in diversifying its guarantee issuance. This was overwhelmingly concentrated in the financial sector in the Europe and Central Asia Region during FY09 and FY10, reflecting in part the strong demand for political risk insurance from financial institutions for their subsidiaries in Europe and Central Asia—the region most affected by the crisis. In addition, MIGA's guarantee issuance was also highly concentrated among a few clients.

Since FY11, its new guarantees issuance has been more balanced by sector and region. The share of guarantees in the financial sector declined from 89 percent in FY09 to 24 percent in FY11. Infrastructure accounted for 43 percent of guarantee volume (five projects) in FY11 because of strong demand in the telecom and transport subsectors. MIGA's new coverage against the risk of nonhonoring of sovereign financial obligations, which is used mainly in the context of infrastructure projects, also contributed to the increase in activities in that sector.

The recent amendments to MIGA's Convention and Operational Regulations addressed the most severe external constraints the agency faced and allowed MIGA to offer new products, insure certain types of existing investments, and offer stand-alone debt coverage—the first such changes to the Convention since MIGA's inception (1988). The ability to offer new product types was also a factor behind the increase in business volume in FY11. MIGA issued guarantees for $950 million (FY11) involving new products (approximately 45 percent of the total guarantee amount for the year). About half of this amount was for two projects covered for nonhonoring of sovereign financial obligations ($429 million).

Performance of MIGA Operations

For MIGA, performance issues were drawn from (i) 26 ex post guarantee project evaluations completed in FY10–12 and underwritten by MIGA in FY01–09 (Table I.1) and (ii) assessments of MIGA institutional effectiveness in IEG-MIGA annual reports and thematic evaluations produced by IEG in FY09–11.

Given the limited sample size, findings for MIGA projects are not representative of the performance of its operations as a whole. The sample of 26 projects comprises 24 selected randomly from eligible guarantee projects underwritten during FY01–08 and two projects from a purposive sample selected for a 2011 IEG report on MIGA's financial sector guarantees (these two projects were underwritten by MIGA in FY07 and FY09). The sample includes 19 projects directly evaluated by IEG and 7 self-evaluations validated by IEG.

Sixty-nine percent of a sample of 26 MIGA guarantees projects evaluated in FY06–11 were rated satisfactory or higher for development outcomes. MIGA-supported projects in the financial sector and in manufacturing, agribusiness and services performed well (86 percent and 78 percent, respectively), meeting the established performance benchmarks, although less than half of infrastructure projects had a positive performance (44 percent). Some regional patterns emerge from this limited sample: projects in Europe and Central Asia performed well, but results in Sub-Saharan Africa and Latin America and the Caribbean were more modest. Although projects in IDA countries demonstrated lower performance overall, those in conflict-affected countries performed well, signaling that good development results are possible in riskier environments.

During the financial crisis, MIGA support to financial sector projects in Europe and Central Asia countries ($2.1 billion in guarantees during FY09–10), as part of the Joint IFI Action Plan, was strategically relevant in responding to demands for political risk insurance in the region most severely affected by the crisis. It primarily supported capital injections to subsidiaries of European banks in countries in Europe and Central Asia. Successful financial sector projects in the region helped countries upgrade their banking systems and introduce modern banking products and services.

Table I.1. Evaluated MIGA Projects Reviewed

FY issued	Project	FY of evaluation completion
2001	JSBC Raiffeisen Bank Ukraine	2010
2002	HVB Bank Romania	2010
	Hydelec BPA	2010
	Lima Airport Partners S.R.L.	2006
	Manila North Tollways Corporation	2010
2003	Cotecna Destination Inspection Ltd	2010
2005	MINL Ltd	2010
	Anvil Mining Company	2011
	SOCOMA	2012
	Raiffeisen Leasing Croatia*	2012
	Priorbank Minsk JSC	2012
	Enser SA	2012
2006	Barclays Bank of Ghana Limited	2010
	Meridian Development Limited	2010
	SGS Scanning Nigeria Limited	2010
	Shenzhen Water Company Ltd[a]	2011
2007	Commercial DeltaCredit Bank[b]	2011
	PT MTU Detroit Diesel Indonesia	2011
	Areeba/MTN Afghanistan[a]	2012
	Aarti Steel[a]	2012
	Termoguayas Generation[a]	2012
	Vila do Conde Transmissora[a]	2012
	Botnia SA[a]	2012
2008	Congo Equipment SPRL	2012
	Orange Bissau[a]	2012
2009	ZAO Unicredit Bank[b]	2011

Source: IEG.
a. Project self-evaluated by MIGA and validated by IEG (seven MIGA projects).
b. Projects sampled purposively (two MIGA projects in the financial sector).

Positive development outcomes for MIGA-supported projects were associated with experienced and financially strong sponsors, mostly MIGA repeat clients. Financial, manufacturing, and service sector projects and projects in IBRD countries had better outcomes than projects in other sectors and those located in IDA countries. Projects with better development outcomes tended to be profitable, met their operational milestones, were efficient, and achieved high productivity. Projects with these attributes continued to expand their operations despite the global financial crisis. Projects with better development outcomes also benefitted host countries in terms of additional fiscal revenues, increased employment, skills upgrading, and technology transfer. Consumers gained from developmentally impactful projects through the availability of better quality products, improved access to financing, telecom, and other services. Projects with better development outcomes also benefitted local companies, introduced innovative products or services, and, in some cases, set industry standards in the host country.

Projects with less than satisfactory outcomes have suffered from continuous financial losses and proved unsustainable due, for example, to the availability of a more efficient, convenient, and cheaper alternative; a flawed business model; or external factors. In the case of one agribusiness project, the collapse of international commodity prices and a prolonged dry season compounded the effects of the project design shortcomings and management problems, which led to government take-over of the project. Another project was not implemented because the risk-reward allocation between the investor and the government was economically and politically unsustainable. Of the eight projects that had low development outcome ratings, six had concession agreements with the national or subnational government and one had an infrastructure license from government.

The quality of MIGA's underwriting and monitoring has shown some improvement, but recent cohorts of evaluated projects reveal persistent shortcomings. Although MIGA has little direct influence over the design of the projects it supports or on their financial success (it has limited leverage as an insurer, compared to a project financier or lender), its mandate calls for it to underwrite projects that are financially sound and generate positive development impact. The rating of MIGA's work quality is derived from good underwriting practices, as stipulated in MIGA's own policies and guidelines as well as industry practice relating to sound underwriting of political risks, and requirements derived from MIGA's mandate as a development institution that is part of the Bank Group. Sound underwriting and monitoring also help mitigate risk, inasmuch as they relate to the holistic assessment of risks for which MIGA provides coverage and ensure the alignment of projects with Bank Group strategies and policy advice.

Thirty-eight percent of evaluated MIGA projects had satisfactory or higher ratings for underwriting, assessment, and monitoring. Improvements among the cohort of FY06–11 evaluated projects have been in the following areas: more comprehensive assessment of project risks, including political, commercial, and reputational risks; more attention paid to the assessment of the project's financial viability and economic sustainability, including economic distortions; systematic assessment of environmental and social aspects of projects, now including financial sector projects; more detailed analysis of sector issues in projects; and more examples of following up on E&S requirements specified in the contract of guarantee.

Conversely, common shortcomings identified in MIGA self-evaluations and direct evaluations by IEG include inadequate analysis of development risks including business viability and project sustainability risks (six projects); insufficient follow-up on requirements in the contract of guarantee relating to environmental, social documentation, and monitoring reports (seven projects) and in general to keep MIGA abreast of relevant project-specific issues throughout the duration of the guarantee (four projects); and missing files of key project documents and requirements directly relating to the risks MIGA is covering (seven projects). Evaluations also showed lack of consideration of sustainability risks in public-private partnerships primarily related to imperfect risk allocation (five instances—three of which related to projects where the government took most of the risks or provided high subsidies to make the project viable; in two cases structures were not advantageous for concessionaires due to allocation of contracts based on the expected revenue for the government, that is, the "winner's curse") and the ability of government entities to comply with obligations (two projects); and instances of disconnect between project features and arrangements presented to the Board and what is negotiated in the contract of guarantee (two projects).

MIGA's new product range will have implications for its assessment work and for measuring results. As noted above, the share of new coverage types, such as for nonhonoring of sovereign financial obligations and coverage for existing investments, has been substantial since FY11. However, experience to date with new products also shows that these may require changes in MIGA's approach to assessing the financial and economic impacts of such projects. For one thing, it is inherently challenging to conduct due diligence to assess the financial viability or development impact of guarantees supporting existing investments, or portfolios of investments, or for capital market transactions. Second, the relationship between MIGA's guarantee holder to the underlying project becomes potentially more tenuous for new types of coverage, when it guarantees the risk of nonpayment of loans for construction. These have a finite duration, limiting MIGA's leverage to obtain project information. Third, assessing payment risk for financial guarantees issued by governments and subsovereign entities requires different kinds of analyses than MIGA has traditionally done for private sector investments, for example, assessing the creditworthiness of public sector entities.

Appendix J
IEG Development Outcome Ratings and Risk Flags

An analysis of the impact of portfolio riskiness on development outcomes rating based on a cohort of 959 World Bank investment projects that were completed during FY06–11 and that IEG evaluated was conducted. The analysis is based on the following questions, and the findings are shown in Table J.1.

- Extent to which identification of "problem" projects before or at the time of midterm review have impact on development outcome ratings
- Extent to which identification of "potential problem projects" before or at the time of midterm review have impact on development outcome ratings
- Extent to which proactive actions taken by task teams on "problem projects" before or at the time of midterm review have impact on development outcome ratings
- Extent to which the risk flags could impact development outcome ratings.

Table J.1. Portfolio Riskiness and Development Outcomes Ratings (FY06–11 exits)—Investment Projects

		Yes		No			Significant at 99 percent confidence level?	Significant at 95 percent confidence level?	Significant at 90 percent confidence level?
	No. of IEG evaluations	# Proj	% MS+ IEG outcomes	# Proj	% MS+ IEG outcomes	Difference			
(I) Was the project identified as "problem project" at any time during its life?	959	427	57%	532	90%	33%	Yes	Yes	Yes
(a) Was the project identified as "problem project" before or at MTR?	371	291	65%	80	38%	-28%	Yes	Yes	Yes
(II) Was the project identified as a "potential problem project" any time during its life (but not a problem projects)?	959	77	83%	882	74%	-9%	No	No	Yes
(a) Was the project identified as a "potential problem project" before or at MTR?	66	46	91%	20	60%	-31%	Yes	Yes	Yes
(III) Did the tasks team take any Proactive actions on that were identified as "Problem Projects" during the life of the Project?	427	395	60%	32	19%	-42%	Yes	Yes	Yes
(a) Were proactive actions taken on a problem project before or at MTR?	344	201	67%	143	57%	-10%	No	No	Yes
(IV) Risk Flags									
(a)Did the Project Have Country Record Flag any time during the life of the Project?	959	527	69%	432	83%	14%	Yes	Yes	Yes
(b) Did the Project Have Country Environment Flag any time during the life of the Project?	959	289	70%	670	78%	8%	Yes	Yes	Yes
(c) Did the Project Have Counterpart Funds Flag any time during the life of the Project?	959	234	63%	725	79%	16%	Yes	Yes	Yes
(d) Did the Project Have Disbursement Delay Flag any time during the life of the Project?	959	462	73%	497	78%	5%	No	No	Yes
(e) Did the Project Have Effectiveness Delay Flag any time during the life of the Project?	959	249	71%	710	76%	5%	No	No	No
(f) Did the Project Have Financial Management Flag any time during the life of the Project?	959	240	60%	719	80%	20%	Yes	Yes	Yes
(g) Did the Project Have Legal Covenants Flag any time during the life of the Project?	959	188	64%	771	78%	13%	Yes	Yes	Yes
(h) Did the Project Have Long-term Flag any time during the life of the Project?	959	230	58%	729	81%	23%	Yes	Yes	Yes
(i) Did the Project Have M&E Flag any time during the life of the Project?	959	253	55%	706	82%	27%	Yes	Yes	Yes
(j) Did the Project Have Project Management Flag any time during the life of the Project?	959	302	56%	657	84%	28%	Yes	Yes	Yes
(k) Did the Project Have Procurement Flag any time during the life of the Project?	959	352	62%	607	83%	20%	Yes	Yes	Yes
(l) Did the Project Have Safeguards Flag any time during the life of the Project?	959	113	64%	846	77%	13%	Yes	Yes	Yes

Source: IEG data.

Appendix K
Governance and Anticorruption

The World Bank Group supports countries in building accountable governments that can work effectively to reduce poverty and promote growth. Events such as the Arab Spring and mass anticorruption movements in India and Brazil are part of a much broader global desire by citizens for more effective governance and greater success in combating corruption. Bank Group support in these areas includes a wide range of analytical and advisory activities and lending operations to improve, for example, public financial management, tax and revenue administration, and procurement. Support is also provided to promote civil service reform and improved management of ministries and agencies; support oversight and judicial institutions; strengthen the regulatory framework and investment climate for businesses; improve transparency; and enhance independent accountability by institutions and the demand for good governance from civil society (IEG 2008h, 2011h, pp. 67–78).

The Bank Group also addresses these issues in the way it does business across all areas of its work. For example, it uses political economy analysis to help select the right instruments and makes design and implementation of operations more suitable to country context. It uses enhanced measures to manage fiduciary and governance-related risks; makes use of country systems when they support the Bank Group's fiduciary, social, and environmental standards; improves transparency of the World Bank's own data and reports; and enhances results orientation across product lines.[35]

In 2007, the Bank Group sought to increase significantly the scope of its work in these areas through its strategy *Strengthening World Bank Group Engagement on Governance and Anticorruption* (GAC; World Bank 2007a). The strategy was recently evaluated by IEG (2011l), and a second phase was approved by the Board in 2012 (World Bank 2012d). Analyses have shown that GAC work poses several challenges, which include the difficulty in working in politically sensitive areas while staying within the limits of the Bank Group's mandate and avoiding partisanship; gauging how long desired reforms will take to gain traction; managing GAC risk; moving beyond an initial focus on the Bank's capacities to address GAC and reputational risks, to placing more emphasis on country capacities; and linking GAC responsiveness and outcomes.

Bank Group Support for GAC—IEG's Evaluation

IBRD/IDA commitments for governance-related themes are embedded as components of policy and investment operations. IEG's evaluation (IEG 2011l) shows that taking into account not only the value of the amounts coded to governance-related themes, but also other amounts supported by this work, these operations increased from about 12 percent of all commitments in FY91 to nearly 35 percent FY02. Since then, the proportion has declined to about 15 percent in FY10. Although commitments were at their highest levels ever in FY09–10, the overall increase in World Bank crisis-response commitments led to the percentage decline.[36]

With the adoption of the GAC strategy in FY08, enhanced administrative resources were allocated for GAC implementation, including Bank budget increments, and the Governance Partnership Facility trust fund. However, these parallel arrangements did not achieve their incentive objectives. Vice presidential units operating in a difficult zero-budget increase environment shifted a portion of incremental GAC resources to other priorities. The Partnership Facility allocations were outside the Bank's budget process and were not systematically linked to the quality and intensity of operations and country governance performance (Chatterjee 2011).

At the country level, IEG found that CASs approved prior to the adoption of the GAC strategy (FY04–07) were broadly similar in their GAC responsiveness as those approved afterward (FY08–10). In both cases, the Bank Group was selective in identifying entry points for a GAC dialogue with the relevant government, with nearly all CASs in both periods having GAC pillars. CASs were weak in signaling fiduciary risks, with fewer than a third using standard portfolio processes to identify, signal, and mitigate GAC risks. One notable area of improvement is that the post-GAC CASs are more likely to support country institutional strengthening through GAC components in projects and other mechanisms.

Looking at GAC features in project design, there was improved quality of political economy analysis, and greater use of country systems in project management in post-GAC projects, but little change in quality of fiduciary aspects, use of demand side of governance, quality of institutional strengthening, and results orientation (IEG 2011l, pp.63–73). Some examples of World Bank's engagement in GAC issues are shown in Box K.1.

Box K.1. Examples of World Bank Country Partnership Strategies addressing GAC challenges

The GAC pillar in the Country Partnership Strategy for **Panama** aimed to establish modern public financial management institutions. Together with the International Monetary Fund, the World Bank supported the enactment of a Social and Fiscal Responsibility Law in 2008 that strengthened the framework for fiscal management by setting a 1 percent ceiling on fiscal deficit—to be temporarily waived if growth is exceptionally weak—and a low target for the public debt ratio. There was also support to strengthen fiscal transparency and public procurement.

In **Sierra Leone,** despite an obvious lack of measurable progress in improving transparency and accountability in public financial management, the World Bank effectively utilized both investment and development policy credits to advance the decentralization agenda and build capacity for an improved budget process and better public financial management overall.

In **Bhutan,** some progress was achieved in budget predictability, preparation, and reporting, and preliminary steps were completed toward putting in place an M&E system to track and assess development outcomes. However, progress was limited or not well documented regarding public finance accounting and budget execution oversight, control and reporting, and reforms to improve procurement practices lagged.

Source: IEG.

Addressing Key GAC Challenges

The following highlights some recent developments in the Bank Group's GAC support, and how it is addressing key challenges. For a more complete picture, see IEG's evaluation (IEG 2011l, pp. 67–78), along with the many other evaluations and other sources cited below.

POLITICAL SENSITIVITY

The World Bank works to maintain a difficult balance between respecting the sovereign right of client countries to make their own political choices and seeking favorable governance conditions for achieving development outcomes. This is particularly difficult in the anticorruption area where it can be difficult to judge whether the right conditions are present for successful reform, both in the relevant sector and in the broader governance setting. Four examples of the Bank's work in this area (political economy analysis, investment climate, demand for good governance, and global GAC initiatives) are discussed further below.

Governance and Political Economy Analytics

The Bank Group is committed to increasing the use of governance and political economy analysis in its work. Although the Articles of Agreement of all Bank Group entities prohibit partisan political activity,[37] the Bank has incorporated political analysis into its work since its first report on a developing country (Colombia) in 1949. There has been a greater use by the Bank of such analytics in project design since 2007, particularly in fragile and middle-income countries. The intensity of upstream political economy analysis (PEA) work is positively associated with the "goodness of fit" of project design to country context, across all Bank regions.

However, the benefits of PEA work could be enhanced by improvements in the scope and targeting of the work. Evaluations suggest that benefits may be limited because of an overly academic orientation and uneven treatment of key topics, such as political incentives to implement governance reforms, stakeholder preferences, degree of mobilization, access to rents, and ability to veto reforms. Even when good-quality analysis leads to sensible recommendations, there may be lack of support from the project team or senior management (Beuran, Raballand, and Kapoor 2011; Desai 2011). The Bank is more likely to identify stakeholders than assess the incentives for stakeholders to commit credibly to reforms. Further, the Bank's recommendations tend to focus on standard solutions such as increasing pro-poor spending and decentralization, without adequately recognizing the political constraints to adopting them.

To address these challenges, there should be more focus on providing evidence to support sector-level recommendations, which are more likely to be actionable than countrywide ones. In addition, better integration of this work into standard World Bank economic and sector work is more likely to deliver results than confidential, freestanding PEA. In addition, more investment in PEA work alone will likely not improve portfolio performance; to achieve this, the Bank needs to improve its instruments and sector know-how, as well as results frameworks.

Investment Climate

Bank support to improve the regulatory framework and remove bottlenecks was a key component of engagement on private sector development. Areas of work included customs modernization, licensing and certification procedures, consultative mechanisms, and information disclosure. This work was less effective when politically driven, noncompetitive practices were the rule. In an assessment of project objectives by GAC entry points, only 28 percent of sample projects achieved their investment climate objective.

Demand Side

Sector investment and technical assistance is more likely to include demand-side approaches to good governance than policy operations. An analysis of a sample of projects approved since 2007 found that although 25 percent of investment operations incorporated smart design in the demand side of governance, only 6 percent of policy operations did so.

The Bank could do more to make better use of civil society capabilities to hold government and business accountable for quality services (Wescott and Desai 2011). In Guatemala, the Bank's public financial management (PFM) support to the government was enhanced through a parallel effort to offer citizens' user-friendly access and interpretation of financial reports (Migliorisi and Prabhu 2011). However, a Cambodian partnership between government and civil society could have allowed for testing of pilot concepts, scaling up of successful ones, and closing down of others (Girishanker and others 2011).

Nongovernmental organizations typically interact with the World Bank on a contract basis, providing services such as capacity building and third-party monitoring. There are risks of taking on conflicting roles when transferring grant resources to nongovernmental organizations; thus in Azerbaijan the Bank encouraged other partners to take the lead in financing (Wescott, Desai, and Talvitie 2011); and in Honduras, the Bank supported participatory approaches to water and sanitation planning (World Bank Institute 2010).

Although these and other interventions are delivering broadly promising results, there has been a reduction in Bank support for such interventions since 2007, both in numbers of operations and the amounts involved (Migliorisi and Wescott 2011). An explanation could be the increasing use of policy operations, as mentioned above (IEG 2011l). A possible change in this pattern could come from the recently approved Global Partnership for Social Accountability; when governments opt in, the Bank can make direct grants to nongovernmental organizations. Overall, in moving forward, more learning is needed on what works and under what conditions.

Global GAC Initiatives

In addition to country-level initiatives for addressing politically sensitive issues, the World Bank has helped catalyze action at the global level. For example, the Bank provides a global secretariat for the Extractive Industry Transparency Initiative, which works to promote greater transparency in revenues linked to resource extraction in 13 countries (as of April 2012, 20 more countries are candidates). Although there are many positive aspects to this initiative, there are concerns that the Initiative reports are unreadable by nonexperts and do not affect the distribution of contracts or management of revenues to the benefit key constituencies (Benner, de

Oliveira, and Kalinke 2010). Nor do the reports provide data on payments by individual companies, although this may change as a result of U.S. legislation adopted in 2010. In moving forward, there should be closer integration with participating countries' broader governance and sector strategies, and rigorous application of the principle that the Extractive Industry Transparency Initiative only supports countries where there is a high likelihood that its goals can be achieved (IEG 2011e).

In the Stolen Asset Recovery Initiative, the Bank Group works in partnership with the United Nations Office on Drugs and Crime to end safe havens, prevent money laundering, and return assets obtained through fraud and corruption. The Bank is also expanding its own investigations and sanctions activity and scaling up preventative work concerning corruption in Bank projects. It has reached agreements with other multilateral development banks to cross-debar firms and individuals when there is evidence of wrongdoing. The Bank Group is also becoming more transparent in its own work, with a new Access to Information Policy, an Open Data initiative, and publication of key documents.

LONG TIME HORIZON

A second broad challenge is that the time span required to effect desired reforms is generally uncertain and may well be beyond the duration of a single project or CAS cycle. Cautious estimates may signal the need for more time than the normal time span of a project; overambitious estimates may set the operation up for failure. Bank staff may be torn between the imperative to deliver the lending program and the need to allow crucial GAC measures to take hold. The situation may be worsened by factors such as under-resourcing of operational work and high turnover of task team leaders, which works against the deep country knowledge and strong teamwork needed for successful GAC results. The Bank Group is attempting to respond to these challenges through, for example, its support for PFM and procurement.

Public Financial Management and Procurement

Recent evaluations have highlighted that some instruments are better for promoting certain GAC objectives than others. For example, policy operations are better for promoting PFM and procurement than other GAC objectives, particularly when the measures being supported are within the control of the Ministry of Finance to implement. In Afghanistan, for example, a series of three policy operations, followed by a development policy grant, and complementary investment operations helped contribute to a relatively strong PFM and procurement framework, revenue growth, and fiduciary assurance for on-budget funding. Although the Bank's support also contributed to some improvements in pay and grading, pensions, and other civil service reforms, the quality of these reforms is uneven and relies on a highly paid "second civil service" outside the normal civil service.

In Morocco, a policy operation helped achieve flexible budgeting, sectoral medium-term expenditure frameworks, more reliable and transparent accounting, as well as improving audits. Although staffing and personnel management tools were also adopted, there is no evidence that the tools have led to improved performance; further, initial gains achieved in reducing the wage bill as a percentage of gross domestic product were lost with the subsequent approval of increases in all salaries and the creation of new jobs following national protests.

Despite the relatively good results associated with support to PFM, there remain serious challenges in many countries before reforms translate into overall improved performance of service delivery and other tasks. An analysis of 38 countries with repeat Public Expenditure and Financial Accountability (PEFA) assessments found that

> formal PFM features where progress can be achieved through adopting a new law, regulation, or technical tool, or focusing on no more than a few agencies, or at an early stage in the budget cycle are more likely to improve a score or maintain a highest score than functional PFM features where progress requires actually implementing a new law or regulation, or coordinating the work of many agencies, or working downstream in the budget cycle. The difference is most pronounced for PFM features where progress can be achieved working with one or a few agencies, in comparison with PFM features where many agencies are involved. Likewise, functional features are more likely to worsen a score or maintain a lowest score than formal features (PEFA Secretariat 2011).

These findings help to explain why in 2010, the average Country Policy and Institutional Assessment PFM score was only 3.5 out of 6, and less than one-third of all countries had ratings of 4.0 or better, which is the point where good practices in PFM may have a meaningful effect on improving government performance. An encouraging result is that more PEFA scores are improving than declining, even in the more difficult areas (PEFA Secretariat 2011).

MANAGING RISK

Another key challenge is managing the risks of politically sensitive, long-term GAC reforms. The high risks of working in the Bank Group's client countries are well known. The Bank Group's approach is to manage GAC risk rather than avoid it; yet it is unclear what planned measures should be taken when the risks are found to be too high. Actions by the World Bank's Integrity Vice Presidency may lead to soured relations with clients and separation of Bank-financed activities from the country systems. Although this may reduce improper use of Bank funds, it can also hamper efforts at building capacities to manage much larger government resources in order to achieve development outcomes. The following paragraphs highlight two of many possible examples of the Bank's work to manage such risk, that is, provision of support to combating corruption and to independent oversight bodies.

Combating Corruption

Corruption is acknowledged to be a significant problem for many of the Bank Group's borrowers; however, to date, the Bank Group has been unable to work with countries to effectively reduce systemic corruption. The Bank Group is perceived as having strict fiduciary standards to protect its funds, but it is unable to reduce systemic corruption. Aside from the deep challenges of changing behaviors supported by powerful, vested interests, the Bank Group has little leverage in countries with large natural resource revenues, other significant sources of funding, and geopolitical factors, leading to softer approaches from partners motivated by security concerns and trade and investment prospects. In cases where the Bank has scaled back its program in response to evidence of fraud and corruption in projects, this may limit its ability to have an impact on systemic corruption, as illustrated in the cases in Box K.2.

Likewise, the use of external fiduciary and procurement measures (for example, independent procurement and monitoring agents in Afghanistan and Cambodia) has had less impact on building local capacity in managing downstream, contract management processes, although it may help in achieving procedural compliance to mitigate the reputational risk of fraud and corruption in Bank projects. The practice shifts the task of managing reputational risk away from the government, and it may not have much impact on improving the procurement practices of government funded goods and services. Finally, it delays the inevitable transition to developing country systems that can be used for Bank projects.

Box K.2. Challenges of Balancing Risk and Reward in Bangladesh and Cambodia

Under its GAC strategy, the Bank is committed to staying engaged, even in poorly governed countries, so that the "poor do not pay twice." Yet at the same time, the strategy places considerable emphasis on safeguarding Bank funds from fiduciary risks. The result can be a difficult juggling act.

In Cambodia in 2006, an unprecedented, simultaneous release of findings on Integrity Department investigations across six ministries led to a temporary suspension of three projects. A sharper focus on procurement risks was warranted at the time, but the Bank has subsequently been preoccupied with the reputational risks of fraud and corruption on Bank projects, with less emphasis on a more developmental focus on using and strengthening country procurement systems.

In Bangladesh over the last decade, the Bank supported improvements in public financial management, procurement, local government, investment climate, rural roads, and primary education; it was less successful in attaining GAC improvements in national highways and independent accountability institutions. The strict approach to fiduciary risk increased the confidence of the Bank's shareholders, helping to enable a tenfold increase in Bank lending since 2001 and the creation of new trust funds under the Bank's management. Yet the same strict fiduciary standards led to the Bank's withdrawal from support to national highways because of fraud and corruption, meaning that the Bank now has little influence over a binding constraint for economic development and poverty reduction.

Sources: Girishankar and others 2011; Wescott and Breeding 2011.

Aside from these challenges, the World Bank did not adopt consistent approach for setting risk tolerances across regions. Thus, World Bank operations in Latin America and the Caribbean are less likely to use country systems because of perceived risks than in Sub-Saharan Africa, despite a higher quality of PFM in the former, as measured by Country Policy and Institutional Assessment (average score 3.7 versus 3.2).[38]

To address these challenges, the Bank Group needs to clarify its "zero tolerance" stance on corruption and improve operational controls. It should adopt greater consistency in managing systems-level fiduciary and GAC risks across instruments, not simply transaction-level risks in investment projects. The Operational Risk Assessment Framework can be useful in calibrating the design and management of operations by risk, but other approaches such as lending scenarios may also needed. The Bank Group presently has a target of 70 percent or better moderately satisfactory or better IEG ratings for operations in fragile states, 75 percent for operations in other IDA countries, and 80 percent in IBRD countries, recognizing that the former have higher risks, but where rewards to successful operations are particularly high (IEG 2011l, pp. xxxii–xxxiii). However, this does not invalidate the need for consistent definitions of risk tolerances, taking into account unusual features of country context: for example, a certain level of performance as measured by key PEFA indicators as a standard for channeling of Bank funds through country systems, with capacity building and exit strategies when ring-fenced practices are adopted.

Independent Oversight

The Bank has also supported independent oversight institutions through policy and investment operations. Building on the Bank's extensive support to PFM, supreme audit institutions are receiving Bank support in all regions, including, for example, in Mozambique, Azerbaijan, Cambodia, Haiti, West Bank and Gaza, and Afghanistan. The use of policy operations is positively associated with improvements in formal accountability/oversight arrangements. However, many challenges remain in this area. The independence of Indonesia's and Cambodia's supreme audit institution has been questioned (Migliorisi and Wescott 2011) as those institutions rely on the executive for their budgets and procedures. In Afghanistan, approval by Parliament of a new audit law providing for an independent SAI has been delayed. The Bank's overall approach across regions has been criticized as "sporadic and uncoordinated"; a more holistic approach supporting the audit institutions, public accounts committees, and civil society organizations, in partnership with other donors, could produce better results (Migliorisi and Wescott 2011).

The Bank has also worked with other oversight bodies, among them ombudsmen in Timor-Leste, Thailand, Gujarat State (India), Rwanda, Lesotho, and Columbia; access to information in Bangladesh and Thailand; ethics promotion in Thailand; and anticorruption bodies in Liberia and Bangladesh. Support to independent oversight bodies has been one way of building capacity to better manage country-level risk, not just the risk to the Bank's funds.

UNDERSTANDING LINKS BETWEEN GAC AND DEVELOPMENT OUTCOMES

There is broad agreement that institutions matter to development. Yet the evidence on how and why institutions change in different settings is inconclusive. There is ample evidence that the quality of institutions matters for economic growth and poverty reduction. However, the evidence also shows that poor quality institutions are the way they are because political elites who benefit want to keep them that way (Acemoglu, Johnson, and Robinson 2005; North, Wallis, and Weingast 2009). Much more work is needed to understand the best way out of this conundrum in different types of country contexts. Among the ways the Bank is addressing this is through work on sector governance, and developing actionable governance indicators.

Service Delivery Sectors

Countries face many GAC constraints on service delivery, including predictability and adequacy of budgets; recruitment and payment of field staff; provision of reliable operations and maintenance to support assets with minimal corruption; and ensuring that subsidies are targeted to benefit those most in need. The evidence on the efficacy of public sector governance components on operations supporting service delivery agencies is mixed. Looking at such operations that concluded in 2006–11 with public sector governance components, there is no statistically significant difference in ratings from those that do not have these components.

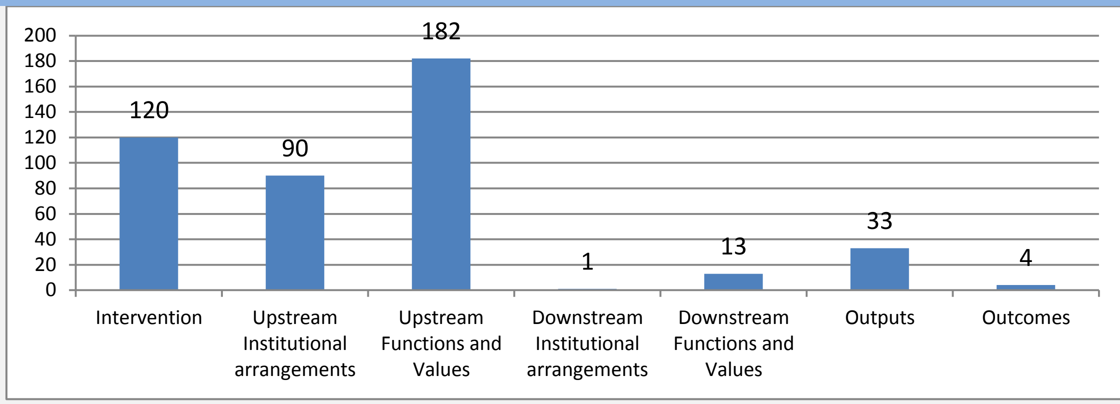
However, for projects designed starting in 2005, according to regression analysis, projects that included crosscutting public sector management components were 22 percent more likely to achieve sector capacity-building objectives. Similarly, projects with public disclosure mechanisms were 29 percent more likely to achieve these sector objectives (IEG 2011l, Appendix F, Table F.9). Other evaluations on health sector reform and social safety nets signal the importance of taking political economy analysis into account in sequencing, reducing complexity, ensuring adequate capacity, and reducing political risks (IEG 2009c, 2011j).

Actionable Governance Indicators

Because of the risks and long time that it takes governance reforms to gain traction and lead to desired development outcomes, it is crucial to define and monitor progress indicators such as those used by PEFA. Such indicators should be linked with desired outcomes, attributable to government actions and independently verifiable. As discussed above in connection with PEFA, some indicators measure formal features, whereas others measure the actual functioning of institutions and practices.

In addition to public financial management and procurement, the Bank is in the early stages of developing robust indicators for measuring the quality of public administration and public provision of information (World Bank, no date). An analysis of 471 indicators in a sample of 44 public sector operations found that about a half measured functions, values, outputs, and outcomes linked to behavioral changes (Figure K.1); the rest measured intervention processes and formal institutional arrangements. Under its most recent GAC strategy, the Bank is committed to increase the use of the former type of more ambitious, behavioral indicators in GAC operations.

Figure K.1. Types of Project Component Indicators Used in Sample of Public Sector Operations



Source: Manning 2010.

The Way Forward—Governance and Anticorruption

Starting in 1990, the Bank Group increased its support for GAC themes, reaching a high point in 2002, when nearly 35 percent of all operations had GAC components. The proportion has gone down since then, although the volume continues to go up with the overall increase in Bank financing. Although CASs are more likely to support country institutional strengthening since 2007, there are weaknesses in using standard portfolio processes to identify, signal, and mitigate GAC risks.

Although the overall treatment of governance and political economy increased for over two decades, it started to decline after 2003. However, there is evidence that the quality of political analysis in project design has improved since 2007. Future work should focus on sector-level recommendations and be better integrated into standard economic and sector work.

Demand-side approaches are also being used to address politically sensitive issues, particularly within investment operations. There were some successes in working with civil society organizations both as partners and as contractors, the Bank could do more in this area. Global programs provide a different tool for addressing political sensitivities. To succeed, they need to be based on credible results chains, and to be used in countries where there is a plausible prospect for achieving intended outcomes.

To address the long time horizon needed for key reforms to take hold, the Bank works to achieve and monitor medium-term results. For example, in supporting public financial management and procurement, formal features that can be achieved by working with one or a few agencies can take hold more quickly than functional features, where progress requires actually implementing a new law or regulation, or coordinating the work of many agencies, or working downstream in the budget cycle. An encouraging result is that even PEFA scores measuring functional dimensions are improving, albeit at a slower rate.

To better address the risks of working in difficult country settings, the Bank Group needs to adopt greater consistency in approaching systems-level fiduciary and GAC risks across instruments, with capacity building and exit strategies when ring-fenced practices to separate out the Bank finance activities from the country system are adopted. Support to independent oversight bodies has been one way of building capacity to better manage country-level risk, not just the risk to the World Bank's funds.

Finally, the Bank Group is working to better understand links between GAC and development outcomes. There is evidence that sector operations with GAC components are more likely to achieve intended results. There has also been progress in results orientation through the use of indicators measuring functional and behavioral changes, and a commitment under the new GAC strategy to do more. The Bank needs to heighten its commitment to institution building over the long term and to ensuring accountability for results (for example, progress on PFM, service delivery) in the short term. This commitment should be backed up with greater consistency in risk management and a more strategic approach to resourcing, with particular focus on countries with country-owned, time-bound strategies to improve governance.

Appendix L
Reforming the Management Action Record

IEG and Bank Group management have implemented reforms to improve the Management Action Record (MAR). In response to the Board's request for an improved MAR process, Bank Group managements and IEG submitted a joint proposal for reform of the MAR process to the Committee on Development Effectiveness (CODE) in November 2010. The proposal sought to strengthen the quality of IEG recommendations as well as their implementation by Bank Group management. In 2011, IEG and management piloted the approach in three evaluations to roll out MAR reform. The main elements of the reform included the following:

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 the recommendations.

The MAR tracking form will be revised to indicate progress by including monitorable actions and timelines and allowing for adjustments/drop outs, retirement after four years, and include a time dimension in the scale reflecting adoption (for example, too early to assess).

A user-friendly system for tracking and analysis is currently under development and will be completed by the end of FY12.

In December 2011, IEG and management reported to CODE that the MAR pilots had demonstrated positive results: 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 that 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, and had more interactions with management while drafting the recommendations. Management has also played a positive role and made significant contributions to the interactions and the process. Action plans with timelines have been submitted in the poverty and social safety nets evaluations. The engagement on recommendations prior to CODE discussion is being rolled out in all IEG evaluations that include recommendations, which may require additional time for IEG and management engagement throughout the evaluation cycle.

In addition, the stock of recommendations for IFC and MIGA has been reviewed, and outstanding recommendations that are no longer relevant have been retired. A similar process was carried out for the World Bank. A new standardized reporting system is also being developed for tracking recommendations for consistency across institutions and will be operational by FY13.

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Endnotes

[1] Revised Good Practice Standards were adopted by the members of the Evaluation Cooperation Group in 2011 (ECG 2012).

[2] In May 2012, IEG introduced an updated lessons retrieval system for IFC– E-LRN that makes available electronically to IFC staff all lessons from XPSRs completed since 1996.

Appendix B

[3] The number includes a CASCR for the Organization of Eastern Caribbean States.

[4] The World Bank Corporate Scorecard (April 2012) reports the share of CASCR-Reviews rated moderately satisfactory or better by IEG in the most recent four-year period up to February 2012 to be 59 percent.

Appendix D

[5] IEG reviewed 30 financial markets projects with XPSRs done in 2008–10 selected purposively to represent diverse types of interventions and issues to extract lessons.

[6] MIGA gross exposure in the financial sector as of June 30, 2012.

[7] The IEG review covered 34 XPSRs prepared for MAS projects between 2009 and 2011.

[8] See, for example, Foster and Briceño-Garamendia (2010). The authors estimate an annual funding gap for infrastructure investments in Sub-Saharan Africa of $31 billion, mostly in the power and water and sanitation sectors.

[9] IEG reviewed 47 XPSRs for infrastructure projects completed in 2008–10.

[10] http://data.worldbank.org

[11] M&E systems can be less than satisfactory for a number of reasons. For example, the system may be technically deficient or it may be technically sound but overly complex in the context of project capacity.

[12] None of the financial sector projects in the sample (9) was rated for their environmental and social effects; this was in part because projects supported prior to MIGA's introduction of its Sustainability Policy and Performance Standards (October 2007) were classified as Category C projects that did not require any additional follow up beyond screening during project appraisal. The appropriate rating for this category therefore was "not rated." However, going forward, the performance standards would compel MIGA to rate and report on the E&S performance of its financial sector projects.

[13] For the purpose of this section, the PPARs for several forestry projects that were managed by the Agriculture and Rural Development Sector Board were reviewed together with environment projects given their direct relevance to environmental issues.

[14] Four policies (OP 4.10 on Involuntary Resettlement, OP 4.12 on Indigenous Peoples, BP 4.36 on Forests, and OP 2.30 on Development Cooperation and Conflict) also require consideration of issues related to women as part of vulnerable groups. These policies continue to maintain a project-level entry point.

[15] IEG estimates that, at any given time, involuntary resettlement affects more than 1 million people, two-fifths of which are likely to be physically displaced and three-fifths of which are likely to be economically affected by World Bank-supported projects (IEG 2010g).

Appendix E

[16] The 2011 Results and Performance report (IEG 2011H) states that, since 2005, 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.

Appendix G

[17] Statistical significance is based on the difference between the quality at entry ratings for two periods.

Appendix H

[18] In FY11, IFC formulated an equity strategy based on its perceived strong additionality to provide risk capital to help start up companies and support the growth of other companies for development impact, with the objective to increase the share of equity investments to 25 percent of commitments (see IFC 2011).

[19] IFC net commitment volumes for both short-term and long-term finance products grew in FY12 compared with the previous year. Short term finance products continued to increase rapidly and accounted for 47 percent of total net commitments.

[20] Includes both IDA-only and blend countries as of July 1, 2011.

[21] These are Nigeria, Pakistan, India, Vietnam, and Ghana (FY09–11). India's share has continuously declined over this period, mainly because of a decrease in infrastructure investments, and as of FY11 it no longer is among the top five IDA countries by IFC investment volume.

[22] IEG and IFC management are currently developing an evaluative framework for the trade finance product. IEG has also initiated an evaluation of IFC's short-term finance programs (2006–11), which will be completed in FY13.

[23] These findings are also supported by the moderate increases in IFC's ratio of non-accruing loans and principal in arrears. However, equity write-downs increased significantly during the crisis.

[24] Based on analysis undertaken for XPSRs completed between 2000 and 2010 (see IEG 2011g, Appendix E).

[25] This includes, for instance, initiatives undertaken as part of the IFC 2013 change process; and strengthening of IFC's integrity risk function and procedures.

[26] For more details about IEG's analysis on the contribution of risk factors and IFC work quality to project development outcomes, see IEG evaluations (IEG 2007a, 2008f, and 2011h Appendix E).

[27] The analysis covered 657 XPSRs completed during 2000–10, of which 202 were in IDA countries. The results are presented in Tables H.5 and H.6 (Appendix H).

[28] See the independent evaluation of IFC's development results 2009 (IEG 2009d). The report highlighted implications from the largely unchecked growth of IFC's advisory services and recommended, inter alia, that Management set out an overall strategy for Advisory Services, addressing the need for a clear vision and business framework that is more closely linked with IFC's global corporate strategy.

[29] These are Access to Finance, Investment Climate, Sustainable Business, and Public-Private Partnerships.

[30] IEG's method to calculate the share of project expenditures in IDA-eligible countries differs from IFC management's reporting. For example, IFC's analysis excludes World projects from the denominator and allocates shares of regional projects to IDA. By contrast, IEG includes World projects in its total but it does not consider regional projects for IDA project expenditures, given the difficulties in allocating these amounts. Using its own method, IFC management reports a project spend in IDA of 62 percent and 64 percent for FY11 and FY12.

[31] IEG validated 100 percent of PCRs prepared for IFC Advisory Services during FY08–09. Beginning in FY10, IEG moved to a sampling approach, selecting a stratified (by business line) random sample from the population of PCRs (70 percent sampling rate). The sampling rate is set at a level sufficient to make inferences about success rates in the population at the 95 percent confidence interval with a sampling error of +/–5 percent or less. Among the sampling criteria used is the indicative development effectiveness self-rating from the PCRs. IEG excludes from the population PCRs prepared for non-client facing and knowledge management Advisory Services projects.

[32] For projects closed in FY08–10, IEG rated impact achievement in 31percent of cases as "too early to judge," indicating that the impact has not yet been achieved, and another 12 percent as "cannot verify," that is, the project did not provide sufficient information to rate the project. In 18 percent of cases, impact achievement was rated as not applicable. As IFC's ultimate objective is to achieve impact—focusing its advisory service on poverty—the IFC should assess the implications of this issue in the context of its efforts in strengthen its monitoring and evaluation systems.

[33] IEG classified as "linked" those Advisory Services projects in its evaluation database that were linked to an existing investment client (a client with an active investment).

[34] Investment climate projects offer mainly advice on general business environment issues, and the PPP business line needs to carefully manage potential conflict of interests.

Appendix K

[35] Although the World Bank defines country systems broadly, "the country's legal and institutional framework, consisting of its national, subnational, or sectoral implementing institutions and applicable laws, regulations, rules, and procedures" (World Bank 2005, p. 1), in practice the Bank's focus to date has been on public financial management, procurement and social and environmental safeguards.

[36] This is the methodology used in IEG (2011l) taking into account all operations with components coded with themes 25–34, 36, 40, 57, 73 and 90. The rationale for counting the full value of the operations is that the World Bank's current policy is that GAC is being

mainstreamed, and that GAC components should improve the performance of entire operations. An alternative methodology was used in IEG (2008h), taking into account a smaller number of themes and counting only the value of the governance-related components. Although the amounts are different, the trend is the same.

[37] For example, Articles of Agreement for IBRD state: "The Bank and its officers shall not interfere in the political affairs of any member; nor shall they be influenced in their decisions by the political character of the member or members concerned. Only economic considerations shall be relevant to their decisions, and these considerations shall be weighed impartially…" (World Bank 1989, Article IV, Section 10).

[38] CPIA data based on 2010 scores for Question 13: Quality of Budget and Financial Management (IEG 2011l).