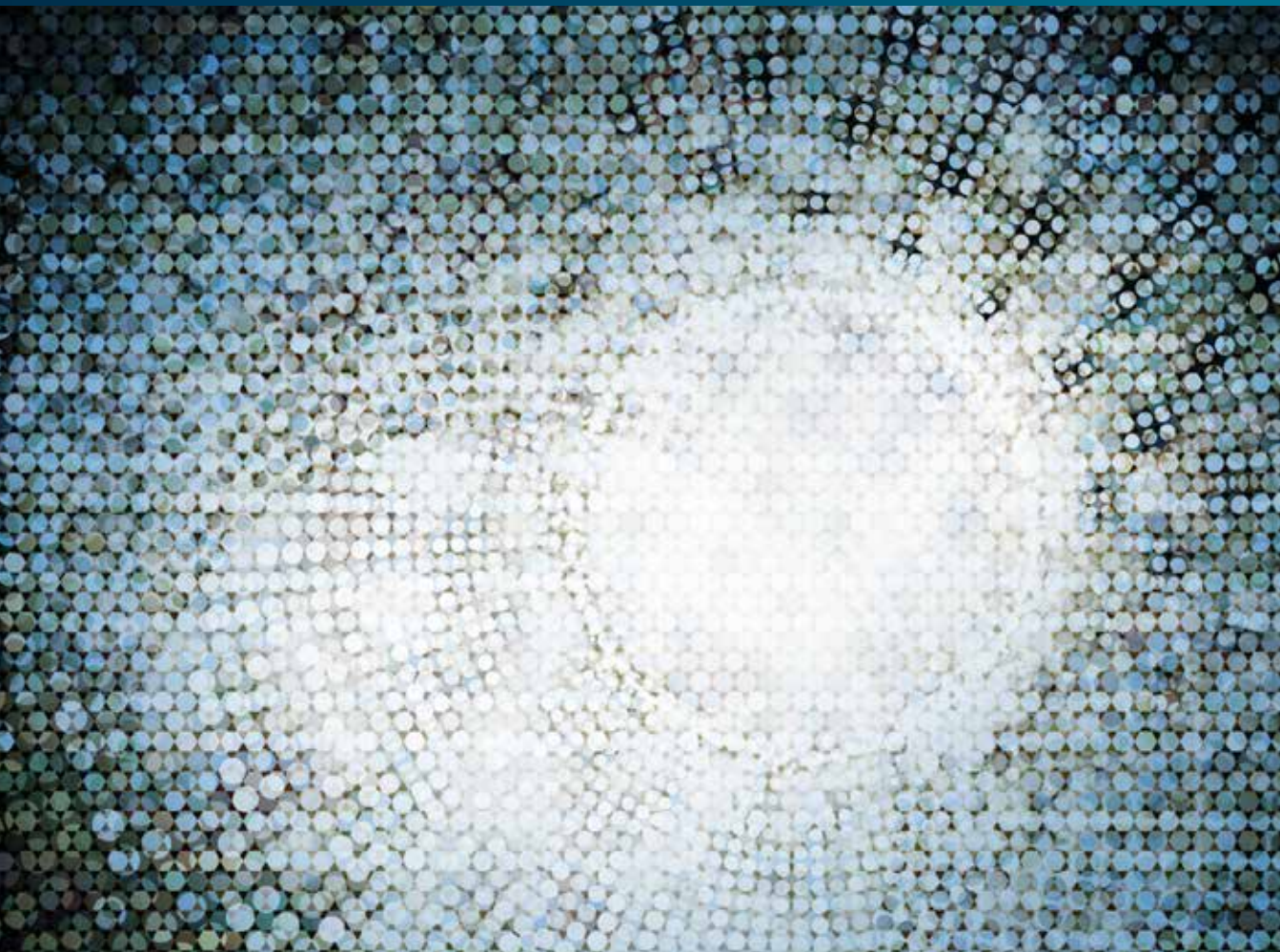


IEG

INDEPENDENT EVALUATION GROUP

WORLD BANK · IFC · MIGA



VOLUME I: MAIN REPORT

# Results and Performance

of the World Bank Group 2012

# **Results and Performance of the World Bank Group 2012**



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## **Volume I**

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# Abbreviations

CAS	Country Assistance Strategy/Country Partnership Strategy
CASCR	CAS Completion Report
DOTS	Development Outcome Tracking System (IFC)
DPO	Development policy operation
ESW	Economic and sector work
IBRD	International Bank for Reconstruction and Development
ICR	Implementation Completion and Results Report
IDA	International Development Association
IDG	IFC Development Goals
IEG	Independent Evaluation Group
IFC	International Finance Corporation
M&E	Monitoring and evaluation
MAR	Management Action Record
MAS	Manufacturing, agribusiness, and services
MDG	Millennium Development Goal
MIGA	Multilateral Investment Guarantee Agency
NLTA	Nonlending technical assistance
PCR	Project Completion Report (IFC)
PEA	Political economy analysis
RAP	Results and Performance of the World Bank Group
XPSR	Expanded Project Supervision Report (IFC)

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## Overview Highlights

- World Bank Group clients face three challenges related to the current global development context: the need to sustain and improve development results against a backdrop of lower, more uncertain economic growth; addressing gaps in development progress across and within countries; and dealing with increasingly interlinked development challenges.
- The World Bank responded to the global economic crisis with speed and volume. As a consequence, its capital headroom is more constrained compared to the pre-crisis level. The shift in IFC's product mix toward short-term finance begun during the crisis will have medium-term implications for its operations.
- Although most Bank Group country programs meet their objectives, the performance standard set in the World Bank Corporate Scorecard has yet to be attained. Evaluations often find the need to strengthen results frameworks and increase realism of the country program.
- Among Bank Group operational categories, recent IEG reports show that support for reforms to expand economic opportunities has been particularly relevant since the economic crisis; there are challenges involved in designing and delivering increasingly complex infrastructure projects; Bank engagement in human development is shifting from increasing access to improving the quality of services; and the integration of environment, social development, and gender issues into the Bank Group's strategic directions and country programs increased.
- The project outcome ratings for Bank-supported investment projects show a declining trend. Further efforts are needed to improve the quality of monitoring and evaluation and results measurement. The performance of IFC investments was stable overall, but the increasing gap between project performance in IDA and in IBRD countries and the recent decline in performance in the financial sector requires attention. The success of MIGA guarantees rests on identifying experienced and financially strong sponsors. IFC and MIGA need to recognize the opportunities and challenges in increasing the concentration of their portfolios in the financial sector.
- Opportunities for improving World Bank project outcome ratings exist in enhanced preparation and supervision. Given the current uncertainty and the reduced level of IBRD capital headroom, the question of how to calibrate overall response to crisis and its distribution merits prior thought and preparation. Sustained dialogue and knowledge work will help improve understanding of the issues in client countries. Working across boundaries, including Bank Group internal collaboration, is important.
- The Bank Group has made significant progress in managing for results; the feedback loop from measuring and assessing results to learning is key. Strengthening the Bank Group's results orientation calls for strong and consistent signals from Bank Group leadership that results are paramount to lending targets and for alignment of incentives to this effect.

# Overview

## The Global Development Context

After a sustained period of considerable achievement in poverty reduction, developing countries are now navigating an increasingly uncertain time. Developing countries overall are estimated to have achieved, ahead of schedule, the Millennium Development Goal of cutting the 1990 rate of extreme poverty in half. Strong economic growth contributed substantially to this, but the outlook now is for a slowdown in growth of the global economy.

The global development context has direct implications for the World Bank Group's clients, and ultimately for the World Bank Group itself. In particular, three sets of challenges can be distilled from the current global development context. First, in the years ahead, Bank Group clients will need to sustain and improve development results against a backdrop of lower, more uncertain economic growth. Second, Bank Group clients will need to address disparities in development progress. Third, clients will need to deal with increasingly interlinked development issues that call for joint or collective action among the growing number of sovereign and nonsovereign actors on the global development scene.

Based on recent findings and lessons from project, sector, country, and corporate evaluations, this report draws out how these contextual implications can help the Bank Group prioritize issues on which to focus to most effectively support continued global development and poverty reduction.

## World Bank Group Operations: Findings from Evaluation

This section distills key messages from Independent Evaluation Group (IEG) evaluation work concerning Bank Group operations.

### RESPONDING TO ECONOMIC CRISIS

The Bank Group delivered a large-scale response to the global financial crisis of 2008–09. There were several successful aspects to the response, including greater processing efficiency and disbursement speed in the World Bank—recognizing early on that the crisis could significantly set back the fight against poverty. Project evaluations of development policy operations approved after September 2008 indicate that many such operations achieved their development objectives to a substantial extent.

As a consequence of the crisis response, the capital headroom of the International Bank for Reconstruction and Development (IBRD) would now make it more difficult to expand lending significantly in response to another crisis. The crisis response of the International Finance Corporation (IFC) entailed rapid growth in

short-term finance products. IFC's traditional long-term finance remained below its pre-crisis level, reflecting the more difficult environment for long-term private capital flows to developing countries, as well as continued global uncertainty. The portfolio of the Multilateral Investment Guarantee Agency (MIGA) became highly concentrated in the financial sector in the Europe and Central Asia Region during the crisis, but the agency has made progress in diversifying its portfolio since FY11. New MIGA products available after the amendment of its Convention and Operational Regulations helped the diversification. However, MIGA's new product range may pose new challenges for assessing and measuring results.

## EFFECTIVENESS OF COUNTRY PROGRAMS

The country program, as defined in a Country Assistance (or Partnership) Strategy, is an important intersection point for the activities of the three Bank Group institutions. It offers a vehicle for the Bank Group to provide tailored support for country-specific challenges. Although country programs have met their objectives more often than not, the record falls short of the 70 percent performance standard set in the World Bank's Corporate Scorecard.

There is little disagreement on the need to strengthen realism and results frameworks for country programs, a finding supported by recent IEG country program evaluations and an evaluation of the Bank's matrix system. Realistic country programs typically show an understanding of the country's political economy and are characterized by selectivity and focus on areas in which the Bank can best add value. Strong results frameworks typically have well-defined objectives and sub-objectives that can be achieved under a realistic set of assumptions.

## EFFECTIVENESS OF INDIVIDUAL OPERATIONS

***Performance by Major Operational Category.*** To capture operations in the diverse areas in which the Bank Group provides support to its clients in a way that is comprehensive and avoids overlap, this review retains four major operational categories: expanding economic opportunities (macroeconomic stability and growth, poverty, public sector institutions, financial and private sector development, and agriculture and rural development), developing infrastructure, enhancing human development, and ensuring environmentally and socially sustainable development (environment, social development, and gender).

Since the 2008–09 crisis, Bank Group support for reforms to expand economic opportunities has been particularly relevant. Lessons suggest that successful interventions allow sufficient time for reforms to take effect. Regarding infrastructure, the World Bank has significantly expanded its operations since the 2003 Infrastructure Action Plan and in response to the 2008–09 crisis. Recent evaluations highlight the challenges involved in designing and delivering increasingly complex projects. They also highlight a shift in Bank human development operations towards greater engagement in systems change. The Bank

Group has taken steps to better integrate environmental, social development, and gender issues into its strategic directions and country programs.

Evaluation lessons from Bank operations tend to recur over time, while the situation from which recurring lessons are drawn evolves. A growing challenge is to ensure that individual interventions lead to higher-order results. Success becomes more elusive, calling for robust results frameworks with clearly articulated causal chains toward higher-order outcomes, and strong monitoring and evaluation (M&E) system that can facilitate course correction during implementation.

***Bank-Financed Operations.*** Despite the difficult operating environment caused by the 2008–09 economic crisis, ratings for development policy operations remained high. The share of investment projects for which the development outcome was rated moderately satisfactory or better appears to have declined. The decline occurred in areas that had performed above the Bank average in the past, including infrastructure and agriculture, as well as projects in upper-middle-income countries more generally.

The performance of infrastructure projects remains above average, but projects in urban areas have struggled. Evaluation findings highlight the difficulty involved in incorporating multiple stakeholder views in urban settings. With regard to agriculture projects, evaluations point to the importance of effective design and progress monitoring. The share of investment projects rated moderately satisfactory or better for quality at entry and quality of supervision has also declined. Across sectors, evaluations regularly stress the importance of high-quality project design and effective progress monitoring in determining project outcomes. These findings point to an opportunity to strengthen project outcomes through improvement in quality at entry and quality of supervision.

***Results Monitoring in Bank-Financed Operations.*** There is broad agreement that strong M&E is an essential part of the Bank’s efforts to function as a results-oriented organization, but translating this into practice calls for further effort. Evaluations help pinpoint weaknesses in M&E practice, which include limited availability of sound baseline data, too many unfocused indicators, and too few outcome indicators. Results frameworks and M&E in global and regional partnership programs and trust-funded programs face similar problems.

***Performance of IFC Investment and Advisory Services Projects.*** The overall performance of IFC’s investments remained relatively stable (68 percent of projects evaluated in calendar years 2009–11 had mostly successful or higher development outcome ratings), but its investments in International Development Association (IDA)-eligible countries, an area of strategic focus and growth for IFC, experienced a decline. The increasing gap between development outcome ratings in IBRD versus IDA-eligible countries is explained in part by the higher risks for

operations in IDA countries, and a decline in aspects of IFC's work quality. Fifty-eight percent of IFC Advisory Services closed in FY08–10 had high development effectiveness ratings; the quality of design was key to successful outcomes.

***Performance of MIGA Guarantees.*** Sixty-nine percent of a sample of 26 MIGA guarantee projects evaluated in FY06–11 (underwritten between FY01 and FY09) were rated satisfactory or higher on development outcome. Successful MIGA guarantee projects were associated with providing products or services unavailable in the local market, efficiency and high productivity, and experienced and financially strong sponsors.

***Challenges in Results Measurement for IFC and MIGA.*** The increasing concentration of IFC and MIGA portfolios in the financial sector gives rise to both opportunities and challenges. Chief among the former is the more efficient delivery of IFC financing through “wholesaling.” Among the latter, lack of a direct relationship with the end beneficiaries makes it more difficult to capture results.

## **Enhancing the Bank Group's Effectiveness**

Against a backdrop of lower growth prospects, it becomes particularly important for Bank Group interventions to be as effective as possible. Evaluation lessons suggest that several factors over which the Bank Group exercises substantial influence affect a project's development outcome. These include the quality of prior analytical work, partnerships with stakeholders, systematic progress monitoring, flexible adjustments in project implementation, and, in the IFC's case, work quality. The Bank Group can usefully draw on such lessons to help strengthen the development results of the client interventions that it supports.

Higher uncertainty in the global economy suggests that it is prudent to prepare for catastrophic events. Recognizing the recurrent nature of economic and financial crises, the Bank Group's Post-Crisis Directions Strategy has rightly identified managing risks and anticipating potential shocks and new crises as a key challenge for the Bank Group. Preparing for crises is particularly important, given the potentially very damaging consequences of a crisis in today's globalized environment and the reduced level of IBRD capital headroom, compared with its exceptionally comfortable position before the 2008–09 crisis.

The diversity in development progress across and within countries means that support needs to be finely tailored to specific country or regional needs. In turn, this points to the value of correctly diagnosing and addressing binding constraints to development and poverty reduction, including constraints rooted in political economy. High-quality prior analytical work can also guide the Bank Group in mobilizing support from stakeholders, as well as in setting realistic targets for country programs and individual projects and in articulating results frameworks that embody clear steps toward meeting development objectives.

The increasingly complex and interlinked nature of development solutions and the multiplicity of development actors points to the importance of working beyond traditional boundaries. With the causes and effects of such issues as climate change and economic crises cutting across national boundaries, there is a growing need for the Bank Group to support global and regional collective action. Synergies between the World Bank's traditional public sector focus and the private sector focus of IFC and MIGA are becoming more valuable, given the growing complementarity of roles for public and private sector activity in development. And partnerships with other providers of development finance, as well as with other development stakeholders, both international and recipient-country-based, are increasingly key to effective interventions.

The crucial link among these challenges is the institutional focus on results. Results measurement and learning from experience are important means for adjusting operational modalities and resource allocation for greater development effectiveness.

## **Strengthening Institutional Results Orientation**

Bank Group institutions have taken significant steps to strengthen the focus on results. The Bank's Corporate Scorecard, IFC's Development Goals, and MIGA's mainstreaming of self-evaluation are important initiatives in the drive toward a stronger results orientation. Enhancing incentives for Bank Group staff to target and measure results at different levels needs to complement these efforts.

Accountability for results spawns a need for learning. Better use of impact evaluations and of the knowledge gained from other evaluations can help the Bank Group progress in this regard. The Management Action Record, which has tracked adoption of IEG recommendations, offers a tool for Bank Group learning. The latest Management Action Record, which covers 26 evaluations completed between FY08 and FY12, shows that adoption of IEG recommendations has increased over time. IEG rated one-third of the recommendations as substantially adopted after one year and considered 73 percent substantially adopted by the fourth year. IEG and Bank Group management are working to strengthen the tracking process, with some positive early outcomes.

## **Areas for Attention**

For the Bank, closer attention to the quality of preparation and supervision of investment operations, a factor under the institutions' control, promises significant gains. Evaluation findings suggest that high quality at entry and resolution of any implementation problems early in the project execution cycle are strongly associated with good development outcomes. For IFC, enhancing work quality would likewise yield substantial gains in the effectiveness of its operations. A related area for close attention concerns the quality of the results frameworks underlying both country programs and individual operations, and the associated M&E system.



Strengthening crisis preparedness can also bring substantial gains, given the global context of heightened uncertainty and IBRD's constrained response capacity compared with that before the 2008–09 crisis. Regular analysis of stress factors and a framework for decision making on country-level responses nested within a global response strategy that takes account of IBRD's reduced headroom would help ensure scarce resources are applied where they are most needed.

It is important that IFC proactively manage the shift in its product mix toward short-term instruments. Strengthening results measurement for short-term finance operations needs to be an integral part of this effort.

For MIGA, capitalizing fully on the opportunities provided by the modernization of its product range requires strengthening business development, underwriting and risk management systems, as well as related staff skills with respect to the new products.

Sustained dialogue with clients and assuring the quality of analytical work will help the Bank Group address the diverse development challenges within and across countries. Many evaluations underscore the value of continual dialogue with counterparts and in-depth analytical work in diagnosing binding constraints to development and ensuring realism in designing interventions. A thorough understanding of political economy and associated risks facilitates more accurate assessment of ownership of and opposition to specific interventions, as well as their likelihood of success and eventual impact. More effective management of governance- and corruption-related risks calls for strengthening consistency in the Bank's approach to setting risk tolerances across clients as well as in the control framework across Bank financing instruments.

Deepening and broadening Bank Group collaboration and partnership across conventional boundaries can help confront today's development challenges more effectively. This applies particularly to collaboration across conventional sector "silos" within the Bank and across Bank Group institutions—and requires strengthened incentives to encourage the adjustments needed in attitudes and behaviors by managers and staff—as well as enhanced collaboration with other development stakeholders, such as nonconventional providers of development finance and in-country stakeholders.

Finally, measuring results and learning based on evaluation is a key part of enhanced Bank Group results orientation. The Bank's Corporate Scorecard, IFC's scorecard and Development Goals, and MIGA's self-evaluation system are promising recent initiatives in this regard. Evaluation findings suggest that there is a need to supplement these initiatives with strengthened incentives for Bank Group staff to focus on results and learning. IFC's efforts to create a direct link between corporate strategic directions and staff incentives are unique within the Bank Group, and its experience can inform similar efforts going forward.

# Management Comments

## Introduction

Management welcomes the Independent Evaluation Group (IEG) report *Results and Performance 2012 of the World Bank Group* (RAP) and its overall positive assessment of the World Bank Group's development effectiveness. Management appreciates that the report provides a balanced picture of the World Bank Group activities and recognizes that all three institutions have taken important steps to strengthen results, monitoring, and reporting.

## I. World Bank Management Comments

Management welcomes the overall positive assessment of World Bank's development effectiveness, presented in the report. IEG indicated the relevance of the World Bank Group support for reforms expanding economic opportunities in client countries in the aftermath of the global economic crisis. Despite the deteriorating operating environment, the quality of Development Policy Operations improved. IEG also finds that progress has been made in integrating thematic priorities—environment, social development, and gender issues—into the World Bank Group's strategies and country programs.

The report is especially useful to management to prioritize the challenges in the context of the ongoing efforts to strengthen focus on results. Management is concerned that the share of investment lending projects rated moderately satisfactory or better appears to be declining, after a long period of improvements observed since the mid-1990s. Management's comments are focused on providing additional insights into the findings of the RAP and actions to address this issue; on findings related to result focus, effectiveness of country programs, crisis preparedness, knowledge management and risk management; and on the Management Action Record reform.

***Effectiveness of Investment Lending Operations.*** Management is pleased to note that the share of Development Policy Operations with outcome ratings that were moderately satisfactory or better increased to 83 percent for operations completed in FY09–11, compared with 80 percent for those completed in FY06–08, despite the difficult operating environment caused by the 2008–09 economic crisis. However, management is concerned about the deterioration of outcome rating for investment lending based both on self-evaluation and data presented by IEG and commits to additional efforts to address the matter. Management welcomes that the RAP attempts to analyze a range of possible contributing factors, such as the financial and economic crisis and the introduction of additional financing, which may account for the extension of successful projects and the closure of less

successful ones. Although it does not reach conclusive answers, it does eliminate some factors, such as the outcomes in fragile and conflict-affected situations or the severity of safeguards requirements. This is partially due to the fact that the period of significant decline is not substantial, which makes it difficult to isolate systematic factors.

The task of analyzing these trends is made more difficult by limitations in availability of IEG data. A lag in completion of Implementation Completion and Results Report (ICR) Reviews means that only 60 percent of operations that closed in FY11 have been independently validated. Therefore, for example, IEG's conclusions on the quality of infrastructure projects in FY09–11 are based on an analysis of a very small number of reviewed projects, only half the number of those completed in FY06–08. The attempt to fill this gap by projecting outcome ratings raises questions about assumptions. In addition, the application of historical disconnect data requires speculating on outcomes not yet evaluated. The low coverage of ICR Reviews dilutes the reliability of the trend and, more importantly, limits the potential knowledge that could be derived from reviews to address the deteriorating outcome.

Nevertheless, management takes deteriorating outcome rating very seriously and has proceeded, over the last two years, with a number of steps to ensure that quality of operations and sound development outcomes can be maintained, including: (i) the introduction of a risk assessment tool for individual operations to help Bank staff and clients better balance expected results and the risks to those results; (ii) the modernization and consolidation of investment lending policies, which will lead to much clearer, leaner, and actionable investment lending policy, Bank procedures, and processes; (iii) the launch of the Bank Operational Core Curriculum training program, providing comprehensive and readily available training to staff on the front lines; and (iv) the introduction of the Program for Results financing instrument, that makes results the basis for disbursements, for the first time formally codifying the link between the two. Measuring results will move from being just one element of operation design to being the primary driver of Bank financing.

More recently, management has been rolling out a new Bank-wide quality assurance framework, with sharper network accountabilities for quality support, particularly at entry, and with a shift of focus for the regional quality assurance units from fiduciary and process to project design and implementation support. The objective of these reforms is to strengthen the substantive upstream knowledge input into project design and systematic downstream learning.

Management is also undertaking analytical work to assess in detail the factors behind recent performance trends in investment loans, including in-depth evaluation of the root causes of the downward trend in outcome ratings. A qualitative analysis of IEG's evaluation for FY06–11 exits has been completed in parallel with the quantitative analysis of data for all FY00–10 exits. This

preliminary analysis confirms IEG's finding that the deteriorating trend is less severe if performance is disaggregated by lending volumes, rather than by project numbers; larger projects receive better outcome ratings. The share of moderately satisfactory or better projects went from 78 percent to 70 percent in FY 06–08 and FY09–11, respectively. If the weighted average of commitments is used instead of the number of projects, this decline would be only two percentage points.

Furthermore, monitoring and evaluation (M&E) ratings were introduced by IEG in July 2006 (and FY10 was the first year for which the quality of M&E was evaluated for all projects closing in that year). Harmonized criteria for self and IEG evaluations were also introduced. More rigorous attention to M&E and ICR evidence has begun to be applied more systematically at the Bank. Furthermore, as IEG recognizes, Bank projects have begun to move into new territory to respond to the demand of increasingly sophisticated clients. For example, IEG evaluations of Bank human development operations underscore a shift toward greater engagement in systems change. Measuring results of more sophisticated Bank interventions to, for example, strengthen the links of education and labor markets or to accelerate learning poses new challenges to Bank and client teams. The conclusion is that the M&E bar was raised, and the possible silver lining behind the current deteriorating trend in outcome at exits is that today, the Bank is more rigorous with its measurement of results and it is measuring more complex outcomes.

Nevertheless, management agrees with IEG that going forward, attention needs to be dedicated to strengthen quality at entry and support the quality of implementation support, including by working to strengthen country clients' capacity. The first steps in this direction include the Bank-wide harmonization of regional operational guidelines and clarified accountability for decision making. Additionally, network reform is aimed at improving the quality and timeliness of technical support provided to project teams. Finally, Operations Policy and Country Services is organizing a framework for improved monitoring and reporting of project quality during implementation.

**Results Focus.** Management is committed to support a shift toward a results culture in the institution. For example, Corporate Scorecard indicators (see below) and a focus on implementation and results are already embedded in Managing Directors' performance Memoranda of Understanding and have cascaded down to the Vice President level, strengthening the framework of formal incentives for results management. Other measures to strengthen the results focus include the simplification of processes and their harmonization across regions, clearer accountability and focus on results, the package of quality assurance reforms, and the scaling up of beneficiary feedback and statistical capacity building. These measures will be accompanied by internal and external communication efforts to support the shift toward results focus.

Management agrees on the importance of sound M&E systems and that implementation of this agenda is still unfinished. IEG listed shortcomings in the use of M&Es, including “limited availability of sound baseline data, too many unfocused indicators in general, and too few outcome indicators,” referring to the 2009 *Annual Review of Development Effectiveness* of 2006–08 exits, which reflect approvals mostly from the early 2000s, and a sample analysis of more recently closed projects. However, recent Operations Policy and Country Services reviews of Project Appraisal Documents of IDA/IBRD investment lending operations approved in FY09–12 show that 85 percent of them have a clear linkage between project development objectives and outcome indicators and 92 percent have baseline data for at least one of the project development objective indicators. These reviews indicate that there has been increased attention to the quality of the results framework in recent approvals, which is crucial for better implementation support and evaluation.

The Bank has already taken important steps, some already described above, to further strengthen and improve the quality of M&E, which is now embedded into the new quality assurance system that will be rolled out later this fiscal year. The recent IEG evaluation of the Bank’s work in impact evaluations (IEG 2012) notes its increasing results orientation and focus on outcomes and impacts exemplified by the increased number and improved quality of impact evaluations. In order to further instill a results culture, the Bank has developed e-learning results modules pertaining to investment lending and development policy loans, including a general one highlighting that results need to be at the start of any discussion (lending, nonlending, policy dialog) with clients. Another learning module focusing on core sector indicators will be launched during FY13. Bank management has also been developing a Web-based tool to support teams to ensure linkages between the expected results at the individual interventions to higher-order results such as Country Program, Regional, or Sectoral Strategy Results. The tool named Results Integration and Monitoring System will be in a soft-launch in the current fiscal year. It is also worth mentioning that the Bank is leading the way in the ongoing geo-coding and mapping for results. Furthermore, the Bank has continued to complement its quantitative reporting through results stories. Over 500 results country briefs, sector, and project stories illustrate the “human face” of development efforts. The briefs and stories are presented in several languages, using the Web, multimedia, and social media tools.

The Bank continues to improve the relevance of the Corporate Scorecard and refine the results and performance indicators. Since the release of the Corporate Scorecard in September 2011, the Bank made progress in filling the gaps in the areas of institutions and governance, capacity building, gender, managing for results, and M&E. On capturing the results of the Bank’s knowledge work, in the next update of the Corporate Scorecard the Bank will introduce an indicator to measure the degree by which clients perceive that the Bank has made a significant

contribution through its knowledge and research to achieve development results in their countries. The 2012 Corporate Scorecard features a new indicator to monitor integration of beneficiary feedback in Bank operations in the design and/or implementation stages. On measurement, the 2012 Corporate Scorecard, in particular in Tier II, strengthened the outcome orientation of the indicators by measuring six more outcome level indicators as compared to the 2011 Corporate Scorecard, including in the areas of institutions and governance, climate change, and trade. In addition, the 2012 Corporate Scorecard reports data for three indicators for which data were not available at the time of preparation of the 2011 Corporate Scorecard. On the emphasis showing how Bank-financed activities have helped countries and people in Tier II, in addition to previously reported data on number of people benefitting from Bank operations through seven indicators in education, health, social protection, and water and sanitation, the 2012 Corporate Scorecard reports data on women and girls benefitting from social protection programs and other targeted schemes, and farmers adopting improved agricultural technology, as well as countries with strengthened national statistical systems, public management systems, and countries that have applied trade-related diagnostic tools among others.

***Effectiveness of Country Programs.*** Management agrees that there is significant room for improvement in the realism of Country Assistance/Partnership Strategy results frameworks, particularly in IDA countries. However, it notes that the ratings IEG states in this section of the report highlight the significant differences between the Bank's and IEG's approach to and criteria for assessing country programs. In this context, the acknowledgment in the RAP that there is an ongoing discussion between Bank management and IEG on the evaluation approach could be more detailed as regards to the substance of the existing differences. It could clarify that Bank management believes that often IEG rates programs based on overall country development outcomes that are beyond the control of the Bank's country programs and are of more medium- to longer-term nature. Conversely, the Bank assesses strategies using the "CPS outcomes" specifically stated in the results framework matrix. Management believes that the current evaluation approach of IEG may encourage risk aversion, particularly in fragile contexts. Management looks forward to continue to engage and work with IEG on this issue.

***Crisis Preparedness.*** Management agrees that climate change and global economic volatility create uncertainties that need to be analyzed and managed for the World Bank to allocate its resources effectively in case of new crises. IEG recognizes that the Bank has taken steps to enhance its response to natural disasters. Along with the Catastrophic Deferred Drawdown Option and Crises Response Window, both mentioned in the RAP, the Immediate Response Mechanism has been introduced to accelerate resource mobilization in case of a natural disaster. Furthermore, in partnership with the United Nations and the European Union, the Bank has been supporting disaster-affected countries carry out Post Disaster Needs Assessments.

These provide a strategic platform for building disaster resilience. The Bank has also a leading role in providing knowledge, expertise, and advisory services to countries on disaster risk reduction, financing, and insurance to increase their capacity and financial resilience to natural disasters.

Management is aware that the Bank's response to the global economic crisis with speed and volume has constrained its capital headroom compared to the pre-crisis level. Management is looking at how to better leverage resources. It agrees with IEG that—short of capital replenishment—sustained close dialogue with the counterparts, supported by in-depth analytical work, provides the basis for effective decision making about allocation of constrained financial resources to respond to future crisis. Taking into consideration the binding constraints to development and poverty reduction is a prerequisite to adequate tailoring of Bank Group support to country needs to support both development results and crisis management.

**Knowledge Management.** IEG notes that to continue providing tailored support to specific country and regional needs, in an increasingly volatile environment, both the ability to provide effective technical assistance and the capacity to produce original analyses need to be maintained and continuously strengthened. The revamped role of the networks under the new approach to manage knowledge products, the development of standards for each knowledge product, and the strengthened role of peer reviewers will all help close the loop between knowledge production and operations/country engagement. Management embraces the notion of the learning loop, and the need to take on board not only impact evaluations and other evaluations, but also feedback from clients. Much of the experience gained from project implementation and about effective country engagement resides in the minds of our experts and our clients. A new knowledge architecture for the Bank is being conceptualized, and among other things, this architecture is aimed at providing standard tools for documenting tacit knowledge, for accessing tacit knowledge through experts, and for searching the Bank's written knowledge repositories. There is a vast reservoir of development experience in clients' experiences, whether or not these were financed by the World Bank. The Bank has not begun to capture this experience and knowledge as a matter of routine. Management has become aware of the potential gains from approaching this experience methodologically, and "implementation science" is likely to become an important part of our work.

**Consistent and Effective Risk Management.** Bank management is committed to putting in place a more robust framework for the management of operational risks. Many of the building blocks to do this are in place or are under way. Among these initiatives are the following: recommendations of the IDA Controls review of 2009 have been implemented; a structured framework for assessing operational risks (Operational Risk Assessment Framework) has been introduced for all new investment loans approved from FY11; major reviews of procurement and

safeguards policies have been launched; the post of Chief Risk Officer has been created; and the number of fiduciary managers has been increased by 20 percent. Management accepts that more is needed and is planning significant additional measures. An overall framework for the management of risks in Bank operations will be developed in FY13; a process of addressing risk aversion has been launched that will include defining appetites and tolerances for the various kinds of risks; improved monitoring and reporting will be introduced; processes for engaging with the Bank's oversight bodies (notably the Department of Institutional Integrity, the Inspection Panel, and Internal Auditing) will be clarified and enhanced as appropriate; and management will invest in analyzing and disseminating lessons from past experience.

***Management Action Record.*** The overall adoption rate by year four is improving over time, although some disconnect remains between the ratings of management and IEG. These differences are particularly evident in the first year's ratings. IEG rated one-third of the recommendations to be substantially adopted after one year and considered 73 percent substantially adopted by the fourth year. The ongoing Management Action Record reform is making an effort to address these differences by fostering the dialogue on IEG recommendations and management actions. This reform aims at reducing subjectivity on both sides during the Management Action Record cycle, narrowing differences of views on what constitutes a management action, and its adoption to respond to an IEG recommendation. Ultimately, the reform initiative presents the opportunity to foster Bank Group learning and make IEG's recommendations more relevant for management.

## **II. International Finance Corporation Management Comments**

Management welcomes IEG's *Results and Performance of the World Bank Group 2012*. The report reviews the development results of investment services projects approved six to eight years ago in CY04–06 that were evaluated in CY09–11 and advisory services projects that closed in FY08–10. This cohort of projects went through an extraordinarily difficult operating environment marked by the unprecedented financial crisis in 2008–09, which led to a drastic decline in net private inflows to developing countries and a global economic slowdown.

We are pleased that despite this challenging environment, IEG's independent evaluation found that the International Finance Corporation's (IFC's) overall development results held up well and stayed above IFC's long-term target of 65 percent. The report further indicates that among the three work quality dimensions, supervision remained the strongest. This suggests that IFC's emphasis on its portfolio during the financial crisis had been effective and that recent initiatives have had a positive impact on supervision effectiveness. IFC has undertaken a series of operational effectiveness reforms including IFC 2013, enhancing its organization



structure, business processes, systems, and risk management function. IFC also re-positioned its staffing complement by, among others, increasing local presence, placing more experienced staff with global knowledge nearer the clients, hiring staff with local knowledge, and establishing operational hubs with enhanced delegated authority.

However, the current cohort of evaluated projects was appraised and structured prior to these initiatives. In addition, other initiatives aimed at improving work quality at entry were subsequently implemented, such as enhanced integrity due diligence, increased rigor and scope in credit training, enhanced knowledge sharing of best practices from the Investment and Credit Risk Department, and lessons learned from Special Operations Department. These initiatives should strengthen IFC's work quality at entry, and this should show in future evaluations.

The report confirms IFC's Development Outcome Tracking System data that show the projects in non-IDA countries tend to perform better than those in IDA countries. The report notes that a number of factors could have caused this, including work quality at entry and higher country risks due to, among others, weak regulatory environment and political uncertainties. It observes that IFC projects in IDA countries typically face higher market and sponsor risks. IFC's increased engagement in IDA and taking on more risks in the more challenged countries is consistent with our Board approved strategy, so the results should not be too surprising. These complexities make at entry execution more challenging and could partly explain the lag in appraisal and role work quality noted in the report. Regardless of the rationale, IFC is focused on enhancing work quality, and it is partly for that reason, in addition to better responding to client demands, that IFC undertook the above initiatives.

The report also attributes development performance of IFC projects in IDA countries to other factors, including the effects of the global financial crisis of 2008–09, especially in financial markets, which declined beyond IDA countries, specific regional and industry issues that emerged during the period, and the lack of improvements in the country's business climate. Previous IEG reports found that improving investment climate has been associated with better development outcomes for IFC projects.

Working in IDA countries is typically inherently riskier than in non-IDA countries. Despite our best efforts to screen for the right projects and apply our knowledge and experience, we are continually challenged when working in countries with weaker country infrastructure, a comparative lack of managerial talent, as well as comparative deficiencies in audit, governance, and regulatory frameworks. As we push further in IDA countries, moving into more distant geographic districts and offering additional products beyond the more standard initial product offerings, we face increased risks: there is less repeat business and new potential sponsors are typically even less experienced. We are going through a learning

curve of risk mitigation in many of these markets where our portfolio is more recent. Nevertheless, IFC is committed to take these additional risks, because the anticipated development impact can be so much higher when we get it right.

IFC takes work quality seriously. Over recent years, we have taken initiatives and implemented organizational changes to respond to these heightened risks—IFC 2013, decentralization, increased local hiring, enhanced integrity due diligence and knowledge sharing of best practices—but results from these efforts would not yet have taken effect in the overall work quality of the cohort of projects evaluated by IEG.

IFC remains committed to IDA countries and will aim to achieve greater development outcomes despite these challenges. We will continue to learn and improve as we ramp up our activities in IDA. We will use all relevant products and instruments at our disposal, including mobilization, the IFC Asset Management Company, and advisory services. For example, given that previous IEG studies found that investment services that are linked with advisory services tend to have better development outcomes, we will continue our emphasis on enhanced advisory-investment services links to help boost development results in IDA. Our increased priority on IDA for advisory services should also contribute to greater development impact in IDA. We will continue our collaboration with the World Bank and the Multilateral Investment Guarantee Agency (MIGA) in IDA countries, at the strategy level through joint Country Assistance Strategies and sector/thematic strategies, and at the program and project levels, as appropriate.

With respect to advisory services operations, management notes that the report covered projects completed during FY08–10, which coincided with a period of deliberate consolidation in the advisory services business to implement reforms, and also with the early effects of the global financial crisis. Since FY10, the advisory services program has resumed growth to around 10 percent per year, with a sharper strategic focus and stronger impact and effectiveness. IFC's internal evaluations show that development effectiveness ratings for advisory services have improved consistently over the past few years, reaching 72 percent in 2011. Management has also taken steps to strengthen risk management for the inherently more challenging public private partnership projects, which has helped support a more positive trend in development effectiveness ratings for those projects

Finally, we would like to thank IEG for engaging us on this report, and the constructive dialogue. We value IEG's independent assessment of our operations and we see them as an important partner in achieving greater development results so that people can escape poverty and improve their lives.

### **III. MIGA Management Comments**

Management welcomes the *Results and Performance of the World Bank Group 2012* and in particular is pleased to note that IEG highlights the ever-increasing value of

synergies between the public and private sector arms of the World Bank Group—focusing on projects that are closely aligned with the activities of the rest of the Group has been a hallmark of MIGA’s “value-driven volume” approach.

The recent changes in MIGA’s product mix over the past two years have already had a major impact on MIGA’s business and will continue to have important implications for the future growth of the Agency. For MIGA to fully capitalize on the opportunities offered by the expansion of our product range will indeed require internal adjustments, including in such areas as business development, technical underwriting capacity and risk management. We are pleased to note the important progress under way in all these areas. For example, considerable gains have been made in areas such as business development over the past few years, and we are especially pleased that IEG assesses MIGA’s progress in aligning business development to meet strategic goals as being “substantial”—and significant work is currently under way in terms of providing targeted training for staff, and further enhancing risk management capacities.

We are pleased to note IEG’s concurrence with the importance of MIGA’s self-evaluation program, which is playing an important role in helping MIGA strengthen its capacity and focus on results. We agree with IEG’s overarching view that a focus on results and learning from experience are key criteria for maximizing impact. IEG has recommended that MIGA needs to strengthen the performance management system to align staff toward corporate goals and priorities. In this respect, we note that the greatest share of MIGA’s business is addressing strategic priority areas (in FY12, for example, 58 percent of the projects guaranteed, accounting for 70 percent of the volume of new coverage, addressed at least one of MIGA’s four strategic priority areas) and we feel confident that the internal project selection processes—that is, project review process, business development tools, organizational structures and staff incentives—are effectively geared toward driving MIGA’s business forward in a direction that supports the Agency’s strategic priorities and business needs. Staff contributions towards corporate strategic priorities are recognized during performance review processes and are also a focus of the Annual Executive Vice Presidential Awards given each year for especially notable contributions.

As the report notes, MIGA’s portfolio has begun to shift away once more from the financial sector, having increased quite significantly in response to the financial crisis. At that time, MIGA was faced with (i) crisis-driven demand from banking clients in the Europe and Central Asia Region, along with (ii) curtailed demand for political risk insurance in other regions and sectors due to significant reductions in foreign direct investment—the net effect being a sharp shift in new exposure patterns. This response was in line with MIGA’s role of being a countercyclical provider. Over the past two years, however, MIGA has increased its diversification of new business, including especially infrastructure, and this is reflected in the new exposure figures and overall portfolio composition.

MIGA has taken steps to strengthen safeguards monitoring. In response to the 2010 IEG safeguards report (IEG 2010), MIGA developed its first Environmental and Social Monitoring Strategy. This has been successfully implemented over the past two years and continues to be in place. With respect to monitoring financial sector projects, MIGA's practice has been to ensure the project enterprise has in place a credible Social and Environmental Management System consistent with MIGA's Policy and Performance Standards. Going forward, MIGA has begun monitoring on a selective basis at the subsidiary level how Social and Environmental Management Systems are being implemented. Additionally, MIGA is in the process of updating its performance standards to harmonize with the IFC, where they were recently revised.

With regard to MIGA's operational activities, we agree with IEG's conclusion that there is a strong correlation between strong and experienced sponsors and successful projects. The underwriting process is clearly greatly facilitated for MIGA when we are working with an experienced investor. One of the challenges going forward is enhancing ways to work effectively with less experienced investors.

MIGA continues to emphasize supporting investments in fragile and conflict-affected situations. Foreign direct investment levels are typically very low in such environments and MIGA can play a crucial role in helping attract investors. In recent years, for example, MIGA has been actively involved in supporting productive investments into Sierra Leone and Côte d'Ivoire—two countries where the demonstration effect of incoming foreign direct investment is especially relevant. MIGA continues to pursue with donors the establishment of a dedicated Trust Fund to complement internal efforts, which would greatly strengthen our capacity in this regard.

In conclusion, MIGA management would like to thank IEG for this useful report. The relationship with IEG is important for MIGA, and we welcome the contributions from IEG's evaluations that help us enhance our understanding of our impact and allow us to sharpen our focus on results.

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# Board Summary

Executive Directors discussed the report entitled *Results and Performance of the World Bank Group 2012*, prepared by the Independent Evaluation Group (IEG), together with the World Bank Group Management Comments.

Directors welcomed the IEG report's effort to distill the findings of recent evaluations in the current global development context. They also welcomed management's broad agreement with IEG's overall findings and the steps the World Bank Group is undertaking to further enhance the impact of its interventions. Directors concurred that several areas warrant greater attention, including enhanced synergies within the World Bank Group; project quality-at-entry and implementation support; crisis preparedness; sustained dialogue with clients; and quality of analytical work. They emphasized the importance of learning from IEG assessments, management's self-evaluation, and impact evaluations to effectively address today's development challenges.

Directors noted that the IEG report provides a balanced picture of the World Bank Group activities and recognizes the recent achievements of each World Bank Group institution. They welcomed the assessment that the Bank had responded to the global economic crisis in 2008–09 with speed and volume. They noted management's efforts to address a weakening of outcome ratings for investment lending and emphasized the critical importance of ensuring quality and results of Bank support to countries. They proposed finding appropriate ways to report on the results of country engagements and focusing on selectivity, given the flat budget environment. Directors encouraged management to accelerate the planned shift toward a results culture in the institution, including through appropriate staff incentives, strengthening implementation and monitoring and evaluation systems with adequate resources, alignment with the Corporate Scorecard and modernization agenda, and working toward a "solutions Bank."

Directors noted that the International Finance Corporation (IFC) development outcome was stable overall despite a challenging operating environment, and the Multilateral Investment Guarantee Agency made progress in diversifying its portfolio and reducing the financial sector concentration of its guarantees. They appreciated that IFC remained committed to International Development Association countries and its continued efforts to better mitigate the higher risks associated with projects in these countries through recent initiatives. They noted that recent IFC internal evaluations show that development effectiveness ratings for advisory services have improved consistently over the past few years.

Directors welcomed the ongoing efforts of IEG and Bank Group management to prepare joint guidance for assessing country program results. They also underscored the importance of strengthening the implementation of the Management Action Record.

# Chapter 1

The Global Development Context

## Chapter Highlights

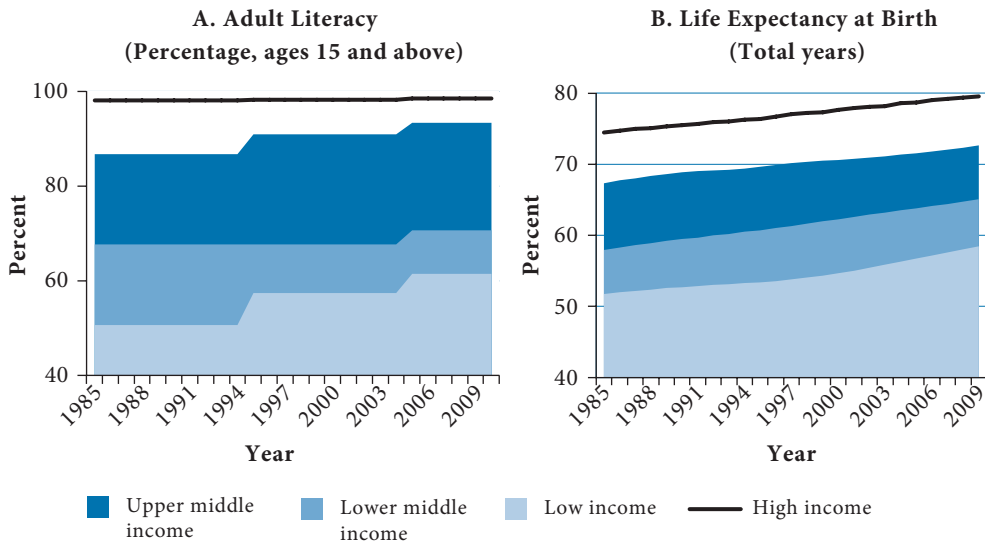
- After a period of vibrant economic growth and significant gains in poverty reduction, the global economy has entered a time of economic uncertainty, and risks to the sustainability of development results appear to be on the rise.
- The World Bank Group needs to help its clients sustain and improve development results under the more adverse environment expected ahead.
- The Bank Group also needs to help its clients address considerable variability in progress across countries.
- Bank Group clients need to deal with increasingly interlinked development issues that call for joint or collective action.

## Key Trends in Global Development

The 1990s and early 2000s saw considerable progress in poverty reduction. The World Bank estimates that the developing world as a whole achieved the Millennium Development Goal (MDG) of cutting the 1990 rate of extreme poverty in half well ahead of the 2015 deadline. Following successive decades of vigorous economic growth, East Asian countries saw the share of people living on less than \$1.25 a day fall from 56 percent in 1990 to 14 percent in 2008. Sub-Saharan Africa also saw a decline, but much smaller: the share of those living on less than \$1.25 a day declined from 57 percent in 1990 to 48 percent in 2008 (World Bank 2012c).

MDGs relating to broader indicators of well-being progressed in parallel. Both the adult literacy rate and life expectancy have advanced steadily since the mid-1980s (figure 1.1). Infant mortality fell from 89 per 1,000 births in 1990 to 60 in 2009, and the share of the population in developing regions with access to safe drinking water increased from 71 percent in 1990 to 84 percent in 2008. Access to basic education has increased: net primary enrollment in developing countries reached 89 percent in 2009, up from 82 percent in 1999. *World Bank for Results 2011* (World Bank 2011b) reports that gender parity in primary and secondary education reached 96 percent in 2008 and that the trajectory of the AIDS epidemic has turned, with fewer people newly infected and dying from AIDS-related illness.

The accelerated pace of poverty reduction and development has been associated with strong economic growth.<sup>1</sup> During much of the first decade of this millennium, developing countries experienced a higher per capita income growth rate than high-income countries (figure 1.2). And developing countries that have reached or are on track to reach the MDG targets are observed to sustain faster average per capita income growth than countries that are far from the targets (World Bank 2011a). Until the global economic crisis struck in 2008, the first years of the 2000s appeared favorable for overall development.

**Figure 1.1****Improvements in Broad-Based Social Indicators**

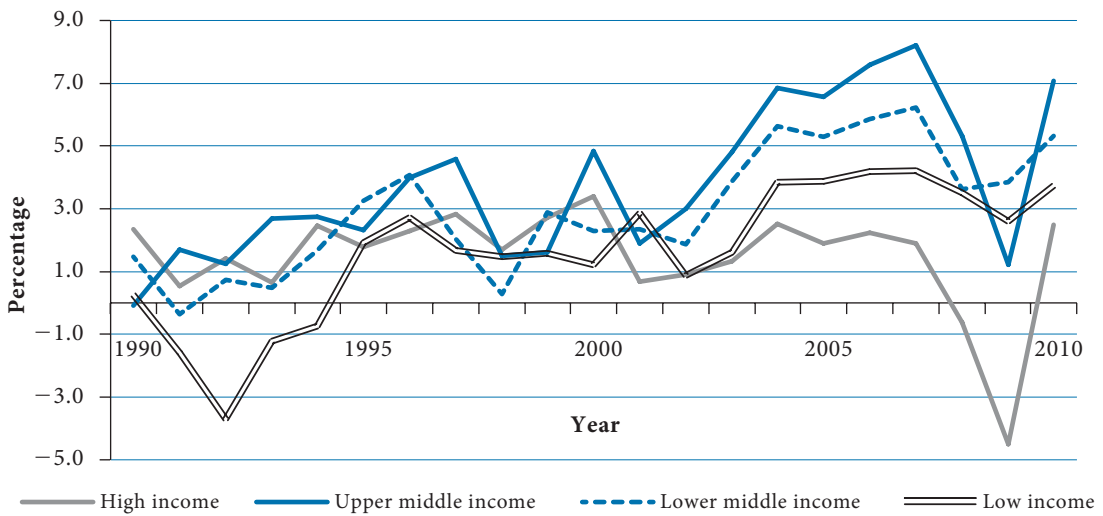
Source: World Bank data.

However, there is a growing concern that the tailwind of economic growth has waned since the 2008–09 crisis and that sustaining development gains will be a challenge. Concerns about sovereign debt sustainability in developed countries are contributing to the uncertainty in prospects for the coming years. Gross domestic product in developing countries is projected to expand by 5.3 percent in 2012 and by around 6 percent in the following two years, somewhat slower than the 6.3 percent average rate of growth experienced during the first 7 years of this century (table 1.1). Financial market uncertainty and concerns associated with high deficits and debt levels in several high-income countries will likely provide a recurring source of volatility for several years to come (World Bank 2012b). In addition, the risk of another global crisis or severe downturn remains.

Risks to the sustainability of development results—both medium and long term—also appear to be increasing. The sharpness of the fall in world gross domestic product associated with the 2008–09 global economic crisis has since entailed higher variability in the growth of global real income. The rising frequency of extreme hydrological and meteorological events (figure 1.3), coupled with other effects of climate change, also suggests that risks rooted in nature are increasing. These can set back the course of development both through a direct impact on people as well as through disruptions in commodities markets and international trade (for instance, through crop failure and disruptions in the supply chain). Other sources of uncertainty that have recently risen to prominence, such as the fallout from the “Arab Spring” that has affected several countries in the Middle East and North Africa, also contribute to a more turbulent global development context.



**Figure 1.2** Growth Rate by Country Classification



Source: World Bank data.

## Implications for Bank Group Clients

The global development context has direct implications for clients of the World Bank Group (International Bank for Reconstruction and Development/International Development Association, the International Finance Corporation, and the Multilateral Investment Guarantee Agency), and ultimately for the Bank Group itself. In particular, three sets of challenges can be distilled for Bank Group clients, and in turn for the Bank Group to factor into its work. Subsequent chapters in this report draw out how these challenges can help the Bank Group prioritize issues on which to focus in order to most effectively support continued global development and poverty reduction.

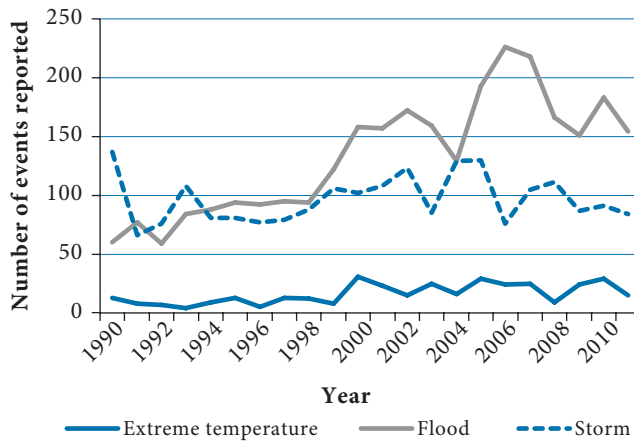
First, in the years ahead, Bank Group clients face the challenge of sustaining and improving development results against a backdrop of lower, more uncertain

**Table 1.1** Real GDP Growth Outlook (percent change)

	2010	2011	Estimate	Forecast	
			2012	2013	2014
World	4.1	2.7	2.5	3.0	3.3
High-income countries	3.0	1.6	1.4	1.9	2.3
Developing countries	7.4	6.1	5.3	5.9	6.0

Source: World Bank 2012b.

Note: GDP = gross domestic product.

**Figure 1.3****Reported Occurrence of Extreme Temperature, Floods, and Storms**

Source: EM-DAT: OFDA/CRED International Disaster Database ([www.emdat.be](http://www.emdat.be) - Université Catholique de Louvain, Brussels, Belgium), version v12.07.

economic growth. The World Bank's *Global Monitoring Report 2011* (World Bank 2011a) underscored the critical role of economic growth in achieving the MDGs. It notes that economic growth has a pervasively significant and positive impact on the odds of achieving all MDGs, apart from gender parity in primary education. In sum, slower, more uncertain growth in the global economy makes continued progress in development outcomes much harder to achieve.

Second, Bank Group clients face the challenge of addressing gaps in development progress. Improvements in aggregate development indicators conceal significant variability across and within countries. For example, in East Asia and Pacific, the share of population living on less than \$1.25 a day went from 56 percent in 1990 to 14 percent in 2008; the number of people living below \$1.25 a day declined from 926 million to 284.4 million. During the same period, the \$1.25 a day poverty rate also fell from 57 percent to 48 percent in Sub-Saharan Africa, but the number of people living below \$1.25 a day increased from 289.7 million to 386 million (World Bank 2012c).

Emerging economies in particular experienced rapid economic growth over the past decade and reduced poverty considerably in the process. But they still have higher levels of income inequality than the Organisation for Economic Co-operation and Development average, as measured by Gini indicator. In some countries, inequality levels have increased in recent years (OECD 2011b). Private capital flows to developing countries have grown significantly over the past decade, and the increasingly large role of the private sector in development has been widely acknowledged, most recently in the Busan Partnership for Effective Development Cooperation document (OECD 2011a). However, the concentration

of flows remains high. The top 10 recipients received 73 percent of foreign direct investment to developing countries in 2010, and three countries—Brazil, China, and India—received 73 percent of portfolio equity flows between 2005 and 2010 (World Bank 2012a).

Third, Bank Group clients face increasingly interlinked development challenges that call for joint or collective action. The 2008–09 global economic crisis drew attention to an alarming implication of the tightly linked global economic system: the very channels that have fostered cross-border economic activities also served to transmit distress far beyond its initial source in the U.S. financial sector. More generally, it has become increasingly difficult for countries to shield themselves from the events taking place outside their borders. In addition, the fast-growing scale and reach of potential fallout from climate change and the growing number of sovereign and nonsovereign actors on the global development scene serve to underscore the increasing significance of joint or collective action in development solutions.

## Organization of This Report

The report is organized into five chapters, with this first chapter outlining stylized features of today's global development context. Based on recent Independent Evaluation Group (IEG) project and country program evaluations and reviews of self-evaluations, chapter 2 summarizes key findings with a bearing on the effectiveness of World Bank Group operations.

Chapter 3 draws on lessons from recent IEG evaluations to discuss how, starting from the initial conditions sketched in chapter 2, the Bank Group can seek to be as effective as possible in fulfilling its mission given the challenges posed by the current global development context. Chapter 4 examines how recent institutional initiatives to enhance results orientation—such as the Bank Corporate Scorecards,<sup>2</sup> IFC Development Goals,<sup>3</sup> impact evaluations, and the IEG Management Action Record—might be strengthened further. The concluding chapter draws together key issues for attention for the Bank Group to enhance the results and performance of its operations.

Volume II contains the appendixes to the main report; Volume III contains the Management Action Record.

## Notes

1. The literature on economic growth and development suggests that economic growth is closely associated with a reduction in poverty. See, for instance, the discussion on the Country Policy and Institutional Assessment and determinants of poverty reduction (IEG 2010).
2. See <http://corporatescorecard.worldbank.org> for more information on the World Bank Corporate Scorecard.

3. See [http://www1.ifc.org/wps/wcm/connect/Topics\\_Ext\\_Content/IFC\\_External\\_Corporate\\_Site/IDG\\_Home/IFCDevelopmentGoals/](http://www1.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/IDG_Home/IFCDevelopmentGoals/) for IFC's Development Goals. The results of the IFC Development Goals are reported in IFC's annual report.

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# Chapter 2

World Bank Group Operations:  
Findings from Evaluation Work

## Chapter Highlights

- A high proportion of development policy operations during the crisis response period appear to have substantially achieved their objectives. The large-scale response resulted in the reduction of IBRD capital headroom from the pre-crisis level.
- IFC's short-term financing increased rapidly, responding initially to demand during the crisis, whereas its long-term financing remains below pre-crisis levels. Recent amendments to MIGA's Convention and Operational Regulations have helped reduce the concentration of its guarantees in the financial sector that resulted in part from its crisis response.
- Although most Bank Group country programs meet their objectives, the performance standard set in the World Bank Corporate Scorecard has yet to be attained. Evaluations often find a need to strengthen results frameworks and increase realism of the country program.
- Among Bank Group operational categories, recent IEG reports show that support for reforms to expand economic opportunities has been particularly relevant since the economic crisis; there are challenges involved in designing and delivering increasingly complex infrastructure projects; Bank engagement in human development is shifting from increasing access to improving the quality of services; and the integration of environment, social development, and gender issues into the Bank Group's strategic directions and country programs increased.
- There are recurring lessons across development areas and time, but the situation from which such lessons are drawn has evolved; robust results framework and strong M&E are called for.
- The outcome ratings for Bank investment projects show a declining trend. Further efforts to improve the quality of M&E and results frameworks in Bank-supported activities are required.
- The overall development outcome ratings for IFC's investments do not show significant change in recent years, but investment operations in IDA-eligible countries have seen a marked decline in performance because of several factors, including higher risks of projects in these countries and a significant decline in IFC's work quality. Fifty-eight percent of IFC Advisory Services that closed in FY08–10 had high development effectiveness ratings; the quality of design was key to successful project outcomes.
- Identifying experienced and financially strong sponsors is crucial for success in MIGA-supported projects.
- The changing composition of IFC and MIGA portfolios is creating opportunities for efficient delivery of financing and new challenges for results measurement.

This chapter distills the key messages that can be extracted from IEG evaluation work concerning Bank Group operations. The Bank Group supports its clients in achieving results through loans, credits, grants, investments, and guarantees, as well as through knowledge services and partnerships. These interventions, primarily those financed by the World Bank, are bundled, principally into country programs, but also into regional and global programs. They can also interact in complex ways to help achieve results. Beyond the choice and design of individual interventions and their bundling into programs, the results that clients achieve are also affected by the Bank Group's institutional effectiveness, as well as numerous factors that are beyond the Bank Group's control.

It is important to track effectiveness of Bank Group interventions at different levels. In this regard, this chapter begins by distilling messages from recent IEG evaluation work concerning the institution's response to crisis, notably its capacity to do so in the future. It then reviews what evaluation has to say about the effectiveness of country programs, which increasingly integrate all three Bank Group institutions (to the extent all three are active in a given country).

The chapter then turns to individual operations, outlining what evaluation can tell us regarding their effectiveness. An important caveat to the analysis presented here is that conclusions are based on ex post evaluation of activities that have already been completed; hence they may or may not apply to ongoing activities. Nevertheless, the recurrence of evaluation lessons over time suggests that evaluation can offer many useful insights to help improve the effectiveness of Bank Group interventions going forward. Differences in evaluation methods among Bank Group institutions, reflecting the different business models and clients served, are taken into account in the presentation of findings (see appendix A, Volume II, for a review of evaluation methods: <http://ieg/worldbankgroup/org/publications>).

## **Responding to Economic Crisis**

The Bank Group delivered a large-scale response to the global financial crisis of 2008–09. The Bank (mainly through the International Bank for Reconstruction and Development) sharply increased its lending volume to developing countries, with Bank commitments reaching an annual average of close to \$50 billion in FY09–11, compared with \$24 billion in FY06–08. Average annual disbursements in FY09–11 amounted to \$33 billion, approximately 67 percent higher than the average volume in FY06–08.<sup>1</sup> The International Finance Corporation (IFC) used existing delivery platforms and established new ones targeting trade finance, infrastructure, microfinance, bank capitalization, and distressed asset management. The Multilateral Investment Guarantee Agency (MIGA) participated in the Joint International Financial Institutions Action Plan to help improve banking sector conditions in Europe and Central Asia.

IEG conducted a two-phase evaluation and identified several successful aspects in the Bank Group's response to the crisis (IEG 2010c, 2012c). IEG noted greater processing efficiency and disbursement speed in the Bank, the positive role of well-established country dialogue and country knowledge, and the value of



IBRD's comfortable financial position at the start of the crisis. The Bank Group recognized early on that the crisis could significantly set back the fight against poverty, and attention to poverty was much greater than in previous economic and financial crises. It set up clear areas of response to protect the poorest and most vulnerable and to help stabilize the financial and private sectors in client countries. It also provided assistance in managing fiscal challenges and securing long-term development expenditures.

Support for social safety net programs was the centerpiece of the World Bank's effort to help countries cushion the impact of the economic downturn and other influences (such as food price increases) on poor and vulnerable households (IEG 2011e). Bank support for fiscal management and the financial sector as part of its crisis response was relevant, although crisis operations in many cases had limited short-term crisis-response policy content and in some cases fell short of solid medium-term engagement.

Project evaluations of development policy operations (DPOs) approved after September 2008 indicate that many such operations achieved their development objectives to a substantial extent. For example, in a highly satisfactory operation in Latvia, the Bank helped build a sound financial system intended to absorb the impact of the global crisis as well as to enhance resilience to potential future shocks. In Mexico, a Bank loan had an important "signaling" effect by supporting major reforms in trade liberalization, the financial sector, and labor markets, even though the loan amount was small compared with Mexico's fiscal or balance of payments gap. In Senegal, the International Development Association (IDA) helped the government put its fiscal stance on a sound and sustainable track by accelerating public financial management reforms, mitigating fiscal risks posed by public sector entities, and protecting critical development objectives.

In many of the crisis-related operations, success hinged on one or more of the following factors: strong government ownership of reforms, close attention to collaboration among development partners, a solid analytical foundation based on continued engagement, and flexibility to meet needs as they arise.<sup>2</sup> There were also cases where progress toward most of the objectives was less than substantial, for example, in Bulgaria and Pakistan.<sup>3</sup>

The response varied across Bank Group institutions. The Bank provided lending to the majority of countries suffering high levels of stress from the crisis and supported relevant financial sector and fiscal management policies. However, the bulk of the Bank's support focused on countries that turned out to be moderately affected by the crisis, possibly an indication of the challenge involved in distributing resources according to severity of impact while responding rapidly.

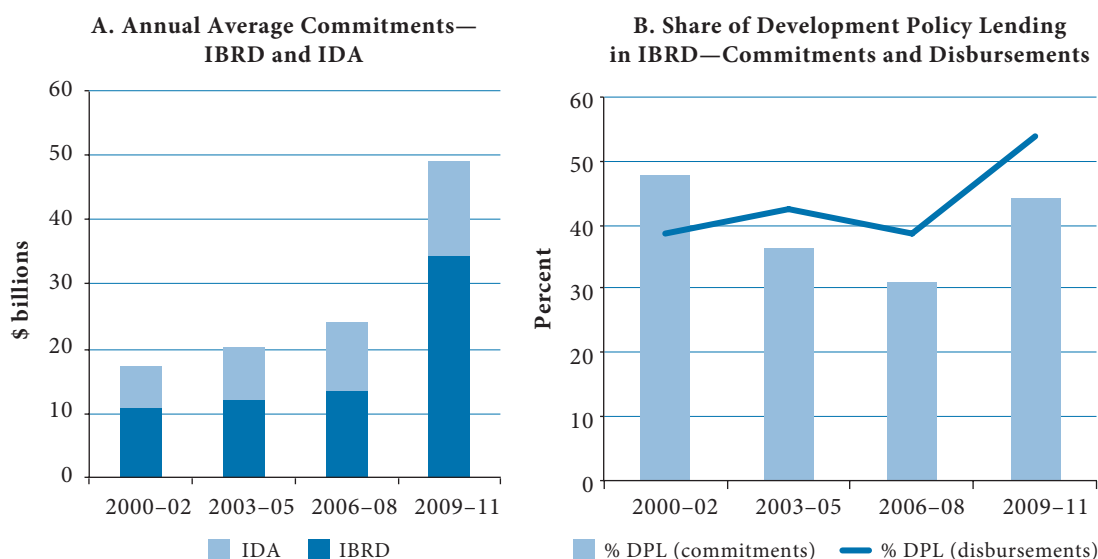
IFC's volume of investments did not change significantly, although the Global Trade Finance and Global Trade Liquidity Programs likely helped businesses whose needs may not otherwise have been met at the height of uncertainty after the outbreak of the crisis. Some of the new initiatives established in response to the 2008–09 crisis, such as the Microfinance Enhancement Fund and the Bank Recapitalization Fund, suffered from implementation delays that limited their effectiveness.

MIGA's guarantees in the financial sector in Europe and Central Asia contributed to stabilizing and restoring confidence, though they were limited in scope.

Although the full impact of the crisis on the results and performance of Bank Group operations is not yet understood, IFC's financial sector projects provide some early indications of that impact. Evaluations of IFC long-term investment operations in 2009–11 indicate that the structural and institutional problems of financial intermediaries revealed during the financial crisis have likely contributed to lowering the development outcome ratings for some of the mature financial markets projects.

One consequence of IBRD's crisis response is that its capital headroom is now more constrained, which would make it difficult to expand lending in response to another crisis. This was caused in part by the magnitude of the expansion in lending coupled with the predominant use of traditional long-term lending instruments. DPOs contributed substantially to the surge in Bank commitments and disbursements. The average proportion of DPOs in IBRD commitments during FY09–11 was 44 percent, 12 percentage points higher than the average in FY06–08.<sup>4</sup> DPOs accounted for 60 percent of total IBRD gross disbursements in FY10, the highest proportion in the past six years (figure 2.1).<sup>5</sup> The subsequent discussion among shareholders of IBRD's capital adequacy resulted in a capital increase sized to allow for response to the 2008–09 crisis projected at the time and to support pre-crisis lending levels thereafter.

**Figure 2.1** IBRD and IDA Operations Increased Sharply



Source: World Bank data.

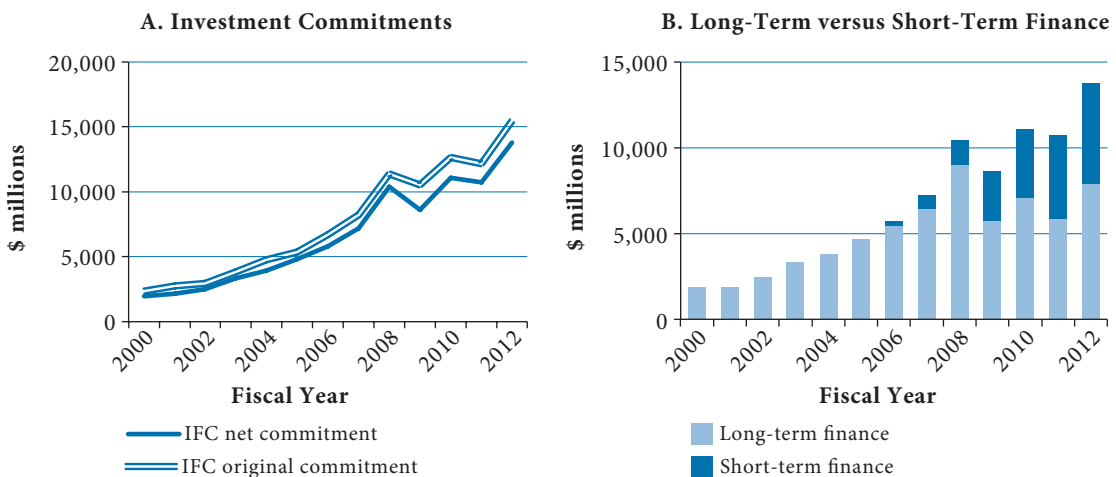
Note: DPL = development policy lending; IBRD = International Bank for Reconstruction and Development; IDA = International Development Association.

IFC's crisis response has entailed rapid growth in short-term finance products. The recovery in investment commitments from a decline early in the financial crisis was driven by an increase in short-term finance products, responding to strong demand. Short-term finance increased particularly rapidly—from nil in FY05, the year the products were established, to \$4.9 billion in FY11, when it accounted for 45 percent of total IFC investments.

By contrast, IFC's traditional long-term finance remains below its FY08 level (figure 2.2), reflecting the tougher environment for long-term private capital flows to developing countries because of the crisis and continued global uncertainty. The decline in IFC's long-term financing largely affected loans, whereas equity investments have increased in line with IFC's strategic intentions.<sup>6</sup> However, short-term finance instruments account for a small fraction of economic capital requirements even after the rapid growth in their incidence, whereas equity investments account for the largest share of economic capital. This results from the lower degree of risks assigned to short-term transactions.

It is important for IFC to manage the shift in its product mix. A continued increase in the share of short-term finance products and persistence of the uncertain environment for private capital flows to developing countries may have implications for IFC. These include challenges to the sustainable growth of its long-term portfolio and its revenues.<sup>7</sup> Moreover, the short-term finance operations have not yet undergone IEG evaluation (or systematic self-evaluation), leaving a gap in results measurement and evaluation for a large portion of current IFC operations.<sup>8</sup>

**Figure 2.2** IFC Investment Commitments—Short-Term Finance Drives Growth in Commitments



Source: IFC.

MIGA experienced a significant concentration of its guarantee issuance during the crisis, but recent amendments to its Convention and Operational Regulations have helped improve the balance. MIGA operations during the crisis were overwhelmingly concentrated in the financial sector in the Europe and Central Asia Region, reflecting strong demand for political risk insurance from financial institutions with subsidiaries in the region. At the same time, capital flows for projects in other sectors, notably infrastructure—one of MIGA’s strategic priority areas—were constrained.

More recently, MIGA has made progress in diversifying its portfolio as the share of the financial sector in MIGA’s annual guarantee volume declined from 89 percent in FY09 to 24 percent in FY11. The overall guarantees volume increased during the same period. New products enabled by the recent amendments to the Convention and Operational Regulations allow MIGA to offer new coverage types (non-honoring of sovereign financial obligations), insure certain types of existing investments, and offer freestanding debt coverage, among other things. The ability to offer these products was a factor behind the increase in business volume in FY11 and the progress achieved in diversifying guarantee issuance. In FY11, MIGA issued guarantees for \$950 million involving new or enhanced products, which amounted to approximately 45 percent of the total guarantee amount for the year.

MIGA’s new product range poses new challenges for its assessment work and for measuring results. These new products 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 that support existing investments, or portfolios of investments, or for capital market transactions.

Second, the relationship between MIGA’s guarantee holder and 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, which limits 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.

## **Effectiveness of Country Programs**

The country program, as defined in a Country Assistance (or Partnership) Strategy (CAS), is an important intersection point for the activities of all three Bank Group institutions. CASs are the primary means for the World Bank to set development priorities jointly with the country government. IFC, and to a lesser degree MIGA, are increasingly aligning with this process by participating in the preparation of joint country strategies.

The country program offers a vehicle for the Bank Group to provide tailored support for country-specific challenges. The results of country programs are monitored and

assessed based on country-specific CAS results frameworks that reflect the priorities identified. Sector and thematic results within countries are pursued as part of the CAS results framework. Past reviews of country programs show that successful country programs tend to be based on country-owned strategies with clear priorities and strong links between intended outcomes and interventions. Flexibility and responsiveness on the part of the Bank Group in the face of changing conditions are also important drivers of success.

Although country programs meet their objectives more often than not, the record falls short of the performance standard set in the World Bank Corporate Scorecard. One of the indicators in the scorecard (discussed further in chapter 4) measures the percentage of Country Assistance Strategy Completion Reports (CASCRs) that IEG rated moderately satisfactory, satisfactory, or highly satisfactory in the last four-year period. The average IEG rating for the most recent four-year period (up to February 2012), presented in the April 2012 Scorecard, is 59 percent; the performance standard is set at 70 percent (World Bank 2012b).

There is consensus on the need for enhanced realism and results frameworks in country programs. There is an ongoing discussion between Bank Group management and IEG on the approach to and criteria for assessing country programs.<sup>9</sup> IEG's evaluation of the Bank's matrix management system (IEG 2012b) reviewed 96 IEG CASCR Reviews covering the period from fiscal year 1998 through December 2010. The quality of country programs was assessed using eight variables: four reflecting *responsiveness* and four representing *effectiveness*. Each variable was assessed separately on a four-point scale using evidence from the CASCR Reviews. The assessment suggests that country program outcomes frequently suffer when assessment of country capacity and commitment is not sufficiently realistic; the program does not build on proper country ownership; and the results frameworks are weak.

For this report, IEG reviewed 83 CASCR Reviews prepared between July 2007 and the end of March 2012,<sup>10</sup> following the same methodology and rating criteria used for the matrix evaluation. The analysis revealed that although ownership appears to have improved, the challenges in realism and results frameworks remain (see appendix B, Volume II, for more detail on the findings).

Realistic programs typically show an understanding of the country's political economy and are characterized by a degree of selectivity that involves a focus on areas in which the Bank can best add value. 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.

Strong results frameworks tend to have objectives and subobjectives that are well defined and can be achieved under a realistic set of assumptions. A number of programs were found to have objectives whose ambition and scope were not supported by adequate Bank Group interventions. The CAS progress report is an effective tool to take stock of implementation and to make adjustments in the program.

However, many CASCR Reviews report that the opportunity to introduce the necessary adjustments was missed. Shortfalls in results frameworks—most often characterized by weak links between interventions and expected outcomes and poor monitoring and evaluation (M&E)—typically prevent the Bank Group from assessing progress and adjusting the strategy and approach in light of progress on the ground.

## Effectiveness of Individual Operations

### PERFORMANCE BY MAJOR OPERATIONAL CATEGORY

To capture operations in the diverse areas in which the Bank Group provides support to its clients comprehensively in a nonoverlapping way, the analysis in this section is organized under four operational categories. These categories were derived from reviews of CASs and various Bank Group corporate strategies, including the Bank Group's 2010 Post-Crisis Directions Strategy.<sup>11</sup> They are expanding economic opportunities (macroeconomic stability and growth, poverty, public sector institutions, financial and private sector development, and agriculture and rural development); developing infrastructure; enhancing human development; and ensuring environmentally and socially sustainable development (environment, social development, and gender).

For details on how Bank Group operational activities are classified under these categories, see appendix C (Volume II). For greater information on the findings in the four categories, see appendix D (Volume II).

#### *Expanding Economic Opportunities*

Since the global economic crisis, Bank Group support for reforms intended to expand economic opportunities has been particularly relevant. In most country strategies, dedicated pillars support activities intended to expand economic opportunities; they often show satisfactory achievement of stated objectives. Such pillars include activities to foster economic growth and stability, strengthen the financial sector, enhance private sector development, and improve agricultural productivity. Economic growth and private sector development are often pursued through improvement in the business environment, particularly by reducing regulatory and administrative processes and requirements. Simplifications of processes and procedures have been achieved in several cases, but higher-level impact on the business environment or competitiveness is frequently not clearly established owing to an absence of measurable indicators and difficulty in clarifying the causal links between the observed changes in high-level indicators and the intervention.

Successful interventions allow an appropriate timeframe for reforms to take effect. Lessons drawn by both operational teams and IEG at completion of activities frequently refer to the long time horizon needed for reforms to take effect. Similarly, lessons point to the importance of keeping design simple and setting realistic targets based on a solid understanding of the political context of reform, most notably in public sector and governance projects.

Factors exogenous to Bank operations, such as the prospect of European Union accession and government transition, also affect the ownership of reform. Technical and knowledge services enable continued engagements with clients. Results of such engagement often depend on the ownership and commitment of the counterpart government, as shown in IEG's review of nine investment climate assessments in five countries (IEG 2011c). In addition, dialogue with a variety of stakeholders is found to be important in gauging the demand for improvement.

IFC's financial sector projects demonstrate financial and nonfinancial additionality. Among the frequently observed examples in a purposive sample of projects evaluated in 2008–10 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.

MIGA's Financial Sector Initiative, part of a wider Joint International Financial Institution Action Plan, was important in helping improve banking sector conditions in Europe and Central Asia countries in the wake of the global crisis. The broader International Financial Institution Action Plan (and therefore MIGA, as one modest player) successfully contributed to stabilizing and restoring confidence in the financial markets, although it is difficult to attribute results solely to MIGA's contribution.

The relevance of operations to increase agricultural productivity has grown considerably in light of volatility in food prices in recent years. The Bank Group uses a wide range of channels to help enhance agricultural productivity. IEG's evaluation on agriculture and agribusiness (IEG 2011b) found that the requirements for successful agricultural ventures are multifaceted, and relevant facets must function effectively together for success. The role of the private sector in linking farmers with markets (including international markets) is critical and, as a result, there is considerable opportunity for synergies in support involving both the World Bank and IFC. Lessons learned from the evaluation of relevant Bank-supported projects tend to emphasize the need to take more time to ensure effective design of complex projects and to develop M&E systems that allow proper reporting of project outcomes.

The performance of IFC manufacturing, agribusiness, and services (MAS) investments has improved substantially over the past decade. A review of a purposive sample of MAS projects evaluated from 2009 to 2011 revealed that the companies that best weathered the turbulent environment during the crisis period share one or more common characteristics. They were 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.

### **Developing Infrastructure**

The World Bank has significantly expanded its operations in infrastructure since 2003 to respond to critical gaps in infrastructure services in developing countries.

The 2003 Infrastructure Action Plan refers to increased consensus on the part of clients, management, and the Board that the Bank Group needs to increase its engagement in infrastructure in light of growing investment needs, withdrawal of private investors, and growing recognition that the MDGs can only be met through multisectoral action (World Bank 2003). The pace of expansion accelerated during the 2008–09 crisis as many client countries maintained infrastructure spending to shore up short-term employment. New commitments under infrastructure projects almost doubled from \$30 billion in FY06–08 to \$59 billion in FY09–11. Average lending per project in FY09–11 was \$147 million, an increase of about 60 percent, compared with \$89 million in FY06–08.

The financial crisis slowed private capital flows for infrastructure projects. In FY11 IFC's infrastructure investments were below pre-crisis levels. In Africa, transactions were limited, as development finance institutions provided much of the financing to infrastructure sectors dominated by the public sector.<sup>12</sup> In information and communication technologies, Bank Group activities helped increase access and competition in difficult environments and in the poorest countries. Overall, IFC infrastructure projects show that alignment of private and public interests is critical for success, and the existence of a Bank program to support sector reforms helped mitigate regulatory and government performance-related risks for private sector investments.

Reviews of Bank infrastructure projects completed in recent years highlight the challenges involved in planning and delivering increasingly complex projects. Many transport sector projects are increasingly focused on the much more difficult institutional issues that often cannot be addressed within a single operation. Water sector projects in urban areas need to incorporate the interests of more diverse stakeholders in the planning process compared to those in non-urban settings. Urban development projects that deal with policy and institutional development face greater challenges than those engaged in the construction of basic infrastructure or basic service delivery.

Lessons associated with the evaluation of Bank infrastructure projects exhibit significant consistency. The majority of lessons emphasize the need to take time to get things right at entry and the early stages of project implementation by identifying all potential stakeholders and consulting widely; realistically assessing what is possible taking into account commitment, context, and capacity; and making project design as simple as possible. Evaluation findings also underscore the value of simple M&E systems associated with clearly defined, relevant indicators for which there are readily available supporting data sources.

Particularly in relation to large-scale, multicomponent Bank projects, evaluations emphasize the need to ensure strong commitment from government. They also caution against underestimating the risk of delays from social, environmental, and political factors, particularly in relation to setting realistic project durations. Project evaluations stress the need to fully assess the impact that vested interests may have on project delivery during implementation. Project implementation lessons also highlight the need to ensure early availability of qualified staff in the



project management team and for as much continuity among project management staff and relevant Bank personnel as possible. The need for fully thought-through sequencing of actions to allow for smooth implementation is also highlighted, as is the need to formally absorb lessons learned as the project progresses.

### **Enhancing Human Development**

IEG evaluations of Bank human development operations underscore a shift toward greater engagement in systems change. In education, the successes in improving access and equity of access have turned attention to the remaining challenges, which include improving the quality of education and accelerating learning, strengthening links between education and labor markets, and integrating information and communication technologies into education. In health, strengthening systems is at the center of the Bank's global strategy. Significant obstacles—from poor infrastructure and weak logistics to inadequate policies and lack of sustainable financing or health insurance coverage—remain in certain countries and regions that prevent lifesaving resources and other inputs from reaching those who need them most.

In social protection, although significant progress has been made in developing social safety nets, there remains a need for deeper 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 improve cooperation among relevant units within the Bank.

Recent IEG evaluations in relevant areas emphasize the value of further focusing on challenges in low-income countries and among poor people; strengthening results frameworks built on solid risk analyses and reliable baseline data; and enhancing overall project design and management. CASCR Reviews and project evaluations have found that ambitious project design has often led to shortfalls in meeting the intended objectives within the planned timeframes. Adequacy of initial risk analysis and contingency planning based on a realistic assessment of the capacity on the ground was found to be important for project success. IFC's experience echoes the need for careful risk management, sponsor selection, and attention to regulatory environment in health and education projects.

The growing role of large-scale global programs in country-level human development investments presages new issues. The challenge for the Bank Group is to effectively engage with and complement the work of these global programs. Yet IEG's review of the Bank's engagement with the Global Fund to Fight AIDS, Malaria and Tuberculosis (IEG 2012a) documents the practical challenges, such as different project cycles, to effective collaboration between the two organizations. Although both Bank and Global Fund staff are broadly positive about strengthening the relationship between the two organizations, both groups found the absence of guidelines within their own organizations for engaging with the other to be an impediment to collaboration.

Harmonization and alignment among development partners has also become increasingly important in human development sectors. The Bank has made good progress in harmonizing education and health, nutrition, and population lending and nonlending activities with other donors, often conducted through Sector-wide Approaches as well as progress in coordinating analysis and technical assistance (IEG 2011h).

### ***Ensuring Environmentally and Socially Sustainable Development***

Progress has been made in integrating environment, social development, and gender issues into the Bank Group's strategic directions and its country programs. These include commitments to new gender-related targets as part of the IDA16 replenishment, as well as to the targets endorsed by the Development Committee in September 2011 in connection with the launch of the World Development Report 2012 (World Bank 2011). The revised Good Practice Note on Poverty and Social Impact Analysis (World Bank 2008) also encourages poverty, social, and distributional impact analysis to be anchored in the CAS. On the environment, a joint effort across the Bank Group to reformulate and update the 2001 strategy has resulted in the new Environment Strategy.

These steps are consistent with recommendations of recent IEG evaluations on relevant topics. The 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. For example, the gender and development evaluation suggests clarifying steps to institutionalize gender policy consistently in the CAS within the framework envisioned in the Bank's 2001 Gender Strategy. An evaluation of Poverty and Social Impact Analysis encouraged further integration of this analytic tool into CASs (IEG 2010a). IEG's environment evaluation (IEG 2008b) recommended greater attention to environmental sustainability by ensuring that environmental issues are fully included in discussions of the Bank's overall strategic direction as well as in regional and country programs.

The cross-cutting nature of many of the issues poses complex challenges to Bank Group operations. The findings of project evaluations indicate that there is a need to improve quality at entry through a combination of quality supporting analysis, dialogue with government and partners, and risk management. For environmental projects, government ownership is of particular importance, given that the durability of successes associated with many environment projects is highly dependent on sustained government support over the medium to longer term. The quality of results frameworks and M&E systems is increasingly important in an 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.

IFC and MIGA apply environmental and social standards to all investment and guarantee projects. IFC plays an important role in setting environmental and social standards for the private sector and other development finance institutions.

Ratings of IFC projects for environmental and social effects have remained stable; findings for MIGA were limited by their low evaluability. IEG's evaluation of safeguards and sustainability policies (IEG 2010b) found that, overall, these policies have helped prevent or mitigate the adverse impacts of development projects on people and the environment. In that 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.

## RECURRENCE OF LESSONS AND CHALLENGE IN LINKING OUTPUTS TO OUTCOMES

Lessons from evaluations of Bank operations recur over time. IEG (then the Operations Evaluation Department) noted in the 1997 *Annual Review of Development Effectiveness* (IEG 1997) that policy reforms rarely succeed where borrower commitment and ownership are inadequate and advocated building greater synergy among lending, analytical, and advisory services. It also noted the need for simpler project design, greater attention to risk, and greater attention to learning through systematic M&E. The review of findings from evaluation across the four operational categories of Bank Group operations earlier in this chapter suggests that these lessons still resonate across sectors.

At the same time, the situation from which recurring lessons are drawn has evolved. Recent evaluations indicate growing attention to higher-order development results, requiring changes in underlying systems and behaviors, such as improving governance and enhancing safeguards against corruption, improving learning outcomes of schoolchildren, and reducing environmental degradation nationwide. Implementing oft-cited lessons such as ensuring government ownership or solid analytical underpinnings for operations is now a more complex undertaking involving deliberation among a multitude of trade-offs and consultation with multiple stakeholders.

In today's environment, a growing challenge is to ensure that individual interventions lead to higher-order results. Given the time needed for the realization of such outcomes, standard project duration is unlikely to be adequate. Adequately capturing such outcomes can also prove difficult. For instance, for IFC Advisory Services projects closed in FY08–10, IEG rated impact achievement in 31 percent 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, information provided for the project was not sufficient to support a rating.<sup>13</sup> Various evaluations have suggested that a multiyear programmatic approach can be effective in addressing such a challenge.

Success becomes more elusive, calling for robust results frameworks with clear paths toward higher-order outcomes and strong M&E that can facilitate course correction during implementation. The Bank's new lending instrument, the Program for Results, can help in this respect. The instrument aims to support government programs, disbursing against the achievement of monitorable and verifiable indicators. By virtue of the instrument's link between disbursements and

results, prior appraisal will have to focus on the quality of the results framework that defines and links program outputs to intermediate and higher-order outcomes and goals and on the integrity of the M&E arrangements. It will be important, of course, that the strengths and weaknesses of this instrument are thoroughly assessed during its 18-month pilot phase, as planned.

## PERFORMANCE TRENDS IN BANK-FINANCED OPERATIONS

This section reviews trends in the performance of Bank financing operations from IEG project evaluations. Following the 2011 Results and Performance report (IEG 2011d), it presents average ratings of groups of projects in non-overlapping three-year sets. Three-year moving averages are also used to complement the analysis. Greater detail concerning the performance of World Bank financing operations can be found in appendix E.

IEG's review of Bank-financed projects is conducted after the project is closed; the usefulness of findings to ongoing or future operations, which have supposedly incorporated the lessons from completed operations, is sometimes questioned. However, as noted earlier in this chapter, recurrent lessons from evaluation indicate the need to make adjustments based on learning and periodic verification of progress. Although there is a lag between evaluation findings and concurrent needs in operations, ex post evaluations have value in informing decisions to address medium-term strategic challenges.

Despite the difficult operating environment caused by the 2008–09 economic crisis, ratings for DPOs remained high. Project ratings indicate the extent to which relevant project objectives have been achieved at completion. Outcome ratings for DPOs were moderately satisfactory or better for 83 percent of operations completed in FY09–11 that were evaluated by the end of FY12, a slight increase from the 80 percent for those completed in FY06–08. Among these, 57 operations were approved after September 2008, when the crisis reached a critical stage, and 49 of this group were rated moderately satisfactory or better, indicating successful achievement of program objectives in an adverse environment.

The share of Bank-financed investment projects for which the development outcome was rated moderately satisfactory or better appears to have declined.<sup>14</sup> After continuous improvement since the mid-1990s, the share of projects rated moderately satisfactory or better went from 78 percent (for projects exiting the active portfolio in FY06–08) to 70 percent (projects exiting in FY09–11); see figure 2.3.A. This decline is statistically significant (in this report, “statistically significant” means significant at least at the 95 percent confidence level, unless otherwise specified).<sup>15</sup>

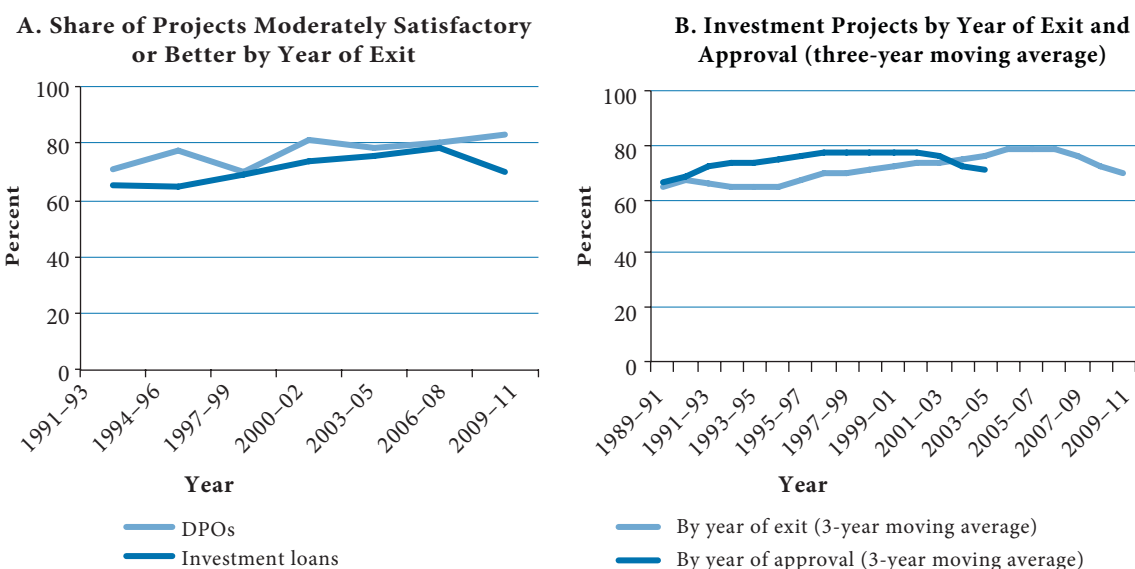
Analysis based on a three-year moving average of the share of projects rated moderately satisfactory or better by years of approval and exit shows that the peak in the outcome ratings of investment projects was for projects that entered the active portfolio in FY99–01 (78 percent) and exited the portfolio in FY04–06 (79 percent) (see figure 2.3.B).<sup>16</sup> When viewed by the weighted average based on

net commitment amounts, the decline is considerably less (2 percentage points), suggesting that larger projects tend to receive better outcome ratings (figure 2.4).<sup>17</sup>

Although the reliability of the trend is diluted by the significant number of incomplete evaluations for projects completed in FY09–11, additional information points in the same direction. The trends shown are based on IEG project evaluation data as of June 30, 2012. The data include ratings for 60 percent of investment projects completed in FY09–11; the completion rate of evaluations completed in FY11 is particularly low. However, year-by-year outcome ratings for investment projects show that the ratings of projects completed in FY10 posted the most pronounced decline (65 percent rated moderately satisfactory or better). In those projects already rated by IEG, self-evaluation project ratings from Implementation Completion and Results Reports (ICRs) show a similar trend during the same period (figure 2.5.A).

A projection for this report suggests that the trend is likely to hold after all projects have been rated. The share of projects rated moderately satisfactory or better when all projects completed in FY09–11 have been rated was estimated using the historical disconnect rate between self-ratings in ICRs and IEG ratings as well as between Implementation Status and Results Reports ratings (for those projects yet to be completed) and IEG ratings. The result indicates that 72 percent of investment projects would be rated moderately satisfactory or better when all projects have been rated. Further extending the projection, the share is projected to fall to 70 percent for projects that are completed in FY12–14 (figure 2.5.B). Details of the methodology used for this projection can be found in appendix F (Volume II).

**Figure 2.3** Percentage of Operations Rated Moderately Satisfactory or Better for Development Outcome by Number of Projects



Source: World Bank data.

Note: DPO = development policy operation.

This downward trend is of greater concern than the absolute level of performance, which shows that 7 of 10 projects are still rated moderately satisfactory or better. It should also be noted that the recent expansion of additional financing for well-performing investment projects may have contributed to this trend. In FY09–11, there was additional financing for about 260 projects,<sup>18</sup> indicating a possibility that the cohort of evaluated projects did not include projects that the Bank, by definition, considered good performers.

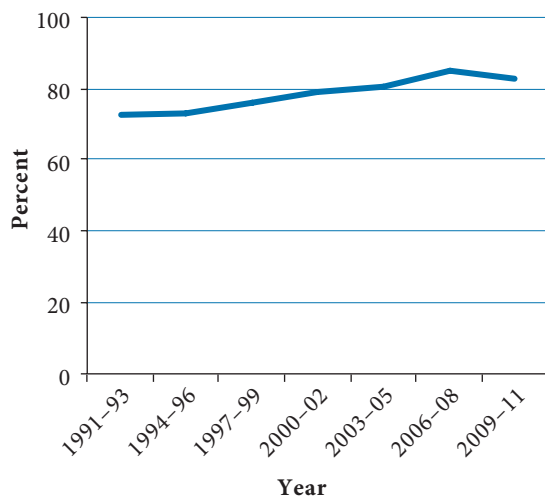
An estimate based on the historical disconnect rate suggests the declining trend would have remained, although

its scale would have been less pronounced. If these projects had closed without additional financing and if 60 percent of them had been rated by IEG, as for the rest of the projects closed in FY09–11, the share of projects rated moderately satisfactory or better would be 74 percent; the decline is not significant at the 95 percent confidence level but is significant at the 90 percent confidence level (see appendix G for assessment of five possible factors underlining the change in outcome ratings).

Analysis of the composition of projects rated less than satisfactory shows a weakening in areas that had performed above the Bank average in the past. The performance of investment projects in infrastructure has typically been substantially above the Bank-wide average. Although these continue to outperform other projects, the most recent ratings show a statistically significant decline (figure 2.6.A). Similarly, agriculture and rural development projects recorded a statistically significant fall in the share of moderately satisfactory or better projects, although they remained above the Bank average. The fall was particularly significant for projects in East Asia and Pacific as well as upper-middle-income countries—other groups that typically perform better than the Bank average—but the ratings for projects in fragile and conflict states did not change significantly.

**Figure 2.4**

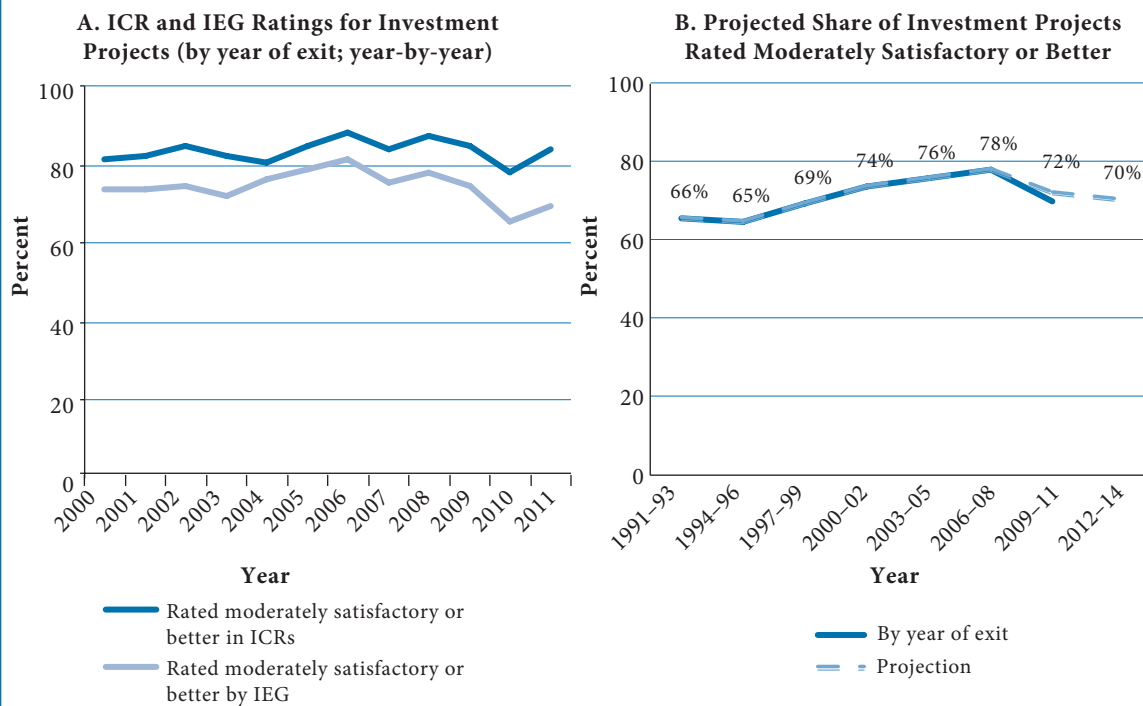
Percentage of Investment Projects Rated Moderately Satisfactory or Better for Development Outcome Weighted by Commitment



Source: IEG data.

Note: Data include IBRD- and IDA-financed operations. Operations financed by trust funds are not included.

**Figure 2.5** Additional Data Complement the Overall Trends



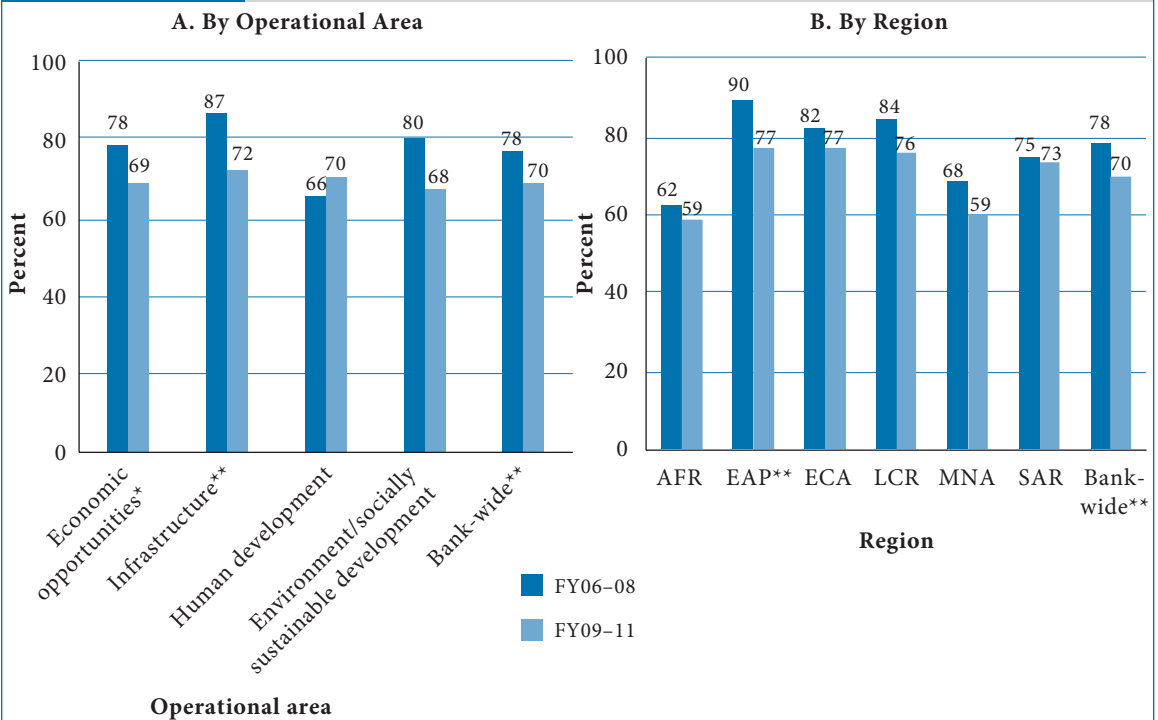
Sources: World Bank and IEG.

Several factors may explain the decline; the 2008–09 global crisis is one possible driver, although the evidence is still insufficient to draw a clear conclusion. It is plausible that government agencies had to prioritize immediate needs in responding to the crisis over effective implementation of ongoing projects in such sectors as infrastructure and agriculture. However, references to the global crisis as a key reason for less-than-satisfactory achievements in the evaluations of investment projects are limited. Difficulty in securing counterpart funding is seen in several cases without necessarily resulting in low development outcome ratings. More analysis is needed to clarify the full impact of the global crisis on the performance of Bank-financed projects.

The effect of challenges in addressing environmental and social issues was assessed, but there was no evidence of any significant impact. The two major areas that saw a decline in ratings—infrastructure and agriculture—often face complex challenges related to environmental and/or social consequences of projects. As a result, an analysis was undertaken to assess the relationship between high potential for environmental or social impacts and the eventual project outcome ratings. The results indicate that the decline in ratings is likely not explained by the severity of potential environmental and social impact of the project (more results are in appendix G).

A review of the evaluations of infrastructure operations reveals that challenges associated with projects in urban areas have adversely affected project performance.

**Figure 2.6** Investment Project Ratings



Source: IEG data.

Note: The difference in the share of projects rated moderately satisfactory or better between FY06-08 and FY09-11 is statistically significant at a 95 percent confidence level for the category (\*\*) and a 90 percent confidence level (\*). AFR = Africa Region; EAP = East Asia and Pacific Region; ECA = Europe and Central Asia Region; LCR = Latin America and the Caribbean Region; MNA = Middle East and North Africa Region; SAR = South Asia Region.

Seventeen of 32 infrastructure projects rated moderately unsatisfactory or worse were implemented in an urban setting. Among urban development projects, smaller projects focusing on issues such as policy development and capacity building tended to do less well. Moreover, most of the urban projects rated moderately unsatisfactory or worse are in middle-income countries. This may be because Bank programs in these countries tend to be more comprehensive, encompassing sector policy and institutional capacity issues beyond providing access to basic urban infrastructure and services.

Relevant ICR Reviews for urban-based water projects often associate the less-than-satisfactory ratings with the greater complexity involved in operating in urban areas. In particular, they highlight the need to take the views and interests of multiple stakeholders into account in the planning process so as to avoid issues that may delay or otherwise affect project results down the line.

In agriculture and rural development projects, evaluations point to the importance of effective design and progress monitoring to address complexity. Following its



review, IEG lowered the ICR development outcome ratings for 27 projects in the agriculture and rural development sector, representing a downgrading for 42 percent of the 64 projects assessed. In seven instances, the downgrade resulted in a change from moderately satisfactory or better to moderately unsatisfactory or worse. The development objectives of these projects are diverse and include capacity development, food production, and sustainable resource management. Lessons from these projects 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 provide for M&E arrangements and indicators to ensure proper reporting of project outcomes.

In infrastructure, agriculture, and beyond, evaluations regularly stress the relevance of high-quality project design and effective progress monitoring to project outcomes. They repeatedly refer to overambitious project design, inadequate consultation with stakeholders, insufficient candor during supervision, and failure to follow up on problems identified during supervision missions as reasons for less-than-satisfactory achievements. There is also a strong positive correlation between Bank performance indicators and development outcome ratings for projects completed in FY06–11. Caution is needed in interpreting this, as projects that produce satisfactory outcomes may be more likely to be seen as having been produced by satisfactory Bank performance. Also, correlation does not signify causality between the two, particularly as factors outside of the Bank's control have considerable impact on project outcomes.

These references indicate an opportunity to improve project outcomes by working with clients to strengthen quality at entry and implementation. In this regard, the decline in the share of investment projects rated moderately satisfactory or better for Bank performance (quality-at-entry and quality of supervision) requires further examination.<sup>19</sup> The decline is seen across all operational areas and Regions and is statistically significant Bank-wide (figure 2.7). The changes were particularly significant for projects managed by the agriculture and rural development and the urban development sector boards, as well as the infrastructure sectors combined.

For the lower ratings in quality at entry, given the typical implementation period for investment projects, most of the underlying problems precede the start of the global economic crisis. Quality of supervision declined for investment projects mapped to the agriculture and rural development sector but improved significantly for those managed by the health, nutrition, and population sector board (see box 2.1). A Bank-wide working group has been established to undertake a review and realignment of the quality assurance function and may come up with further insights into the observed trends.

## **RESULTS MONITORING IN BANK-FINANCED OPERATIONS**

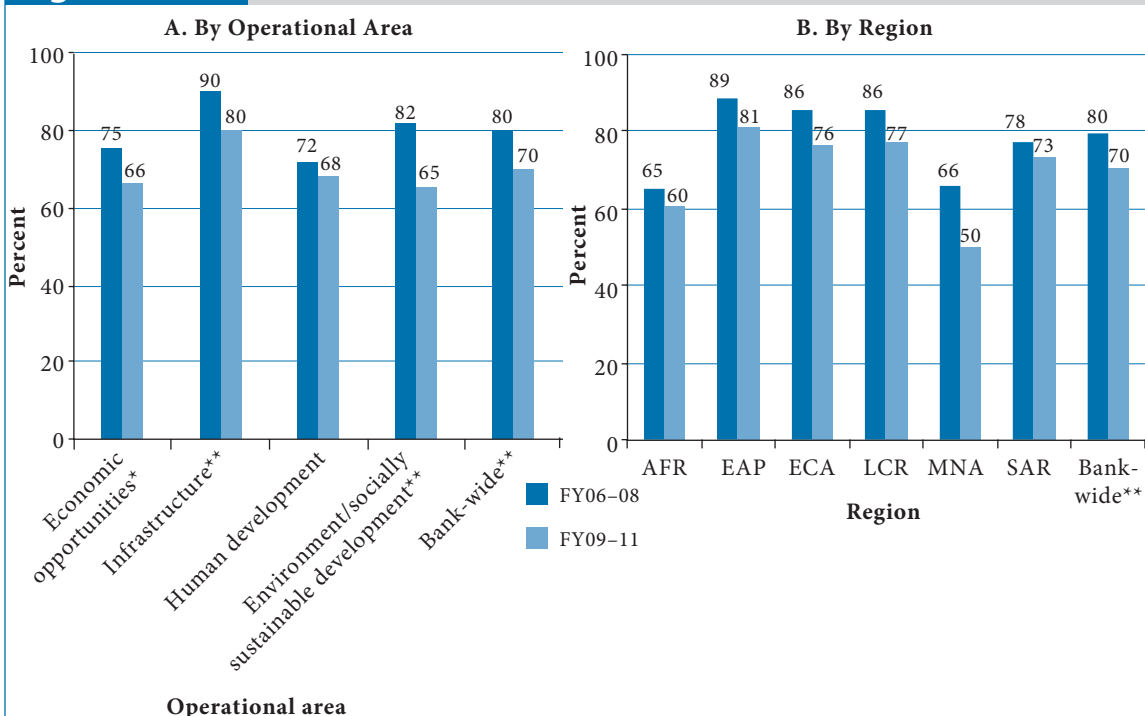
There is broad agreement that strong M&E is an essential part of the Bank's ongoing efforts to function as a results-oriented organization. For example, the Bank's Development Committee Paper, "Update on the Bank's Business Modernization: Results, Openness, and Accountability—Spring 2012" (World Bank 2012a) acknowledges the key role M&E will play in informing the Bank Group's

modernization strategy. The Bank requires all investment and development policy operations to be underpinned by results frameworks that provide the basis for M&E. A results framework is also a requirement in every country strategy. IEG reviews project M&E and country strategy results frameworks as part of its ICR and CASCR Reviews.

For IFC and MIGA, IEG does not assess individual project M&E. However, it conducts periodic reviews of the M&E systems of the two institutions. The most recent evaluation of the IFC system was in 2008,<sup>20</sup> and IEG is currently reviewing the IFC and MIGA M&E systems.

Despite the rhetoric on the value of well-functioning systems to monitor results, translating it into practice still needs work. IEG's 2008 *Annual Review of Development Effectiveness* looked at country program results frameworks and found many of them to have poorly articulated results chains, making the link between Bank products and CAS outcomes weak (IEG 2008a). As noted earlier in this chapter, these problems with CAS results frameworks persist. For projects, the 2009 *Annual Review of Development Effectiveness* (IEG 2009a) found that IEG rated just

**Figure 2.7** Bank Performance



Source: IEG data.

Note: The difference in the share of projects rated moderately satisfactory or better between FY06-08 and FY09-11 is statistically significant at 95 percent confidence level (\*\*) and 90 percent confidence level (\*). AFR = Africa Region; EAP = East Asia and Pacific Region; ECA = Europe and Central Asia Region; LCR = Latin America and the Caribbean Region; MNA = Middle East and North Africa Region; SAR = South Asia Region.

under two-fifths of project M&E quality in 2007 and 2008 as high or substantial and noted that shortcomings in M&E design and implementation could contribute to problems in project supervision and reporting.<sup>21</sup>

Shortcomings in M&E prevent the Bank from demonstrating the results of activities it supports. In some instances, poor development outcome ratings of Bank-financed operations derive, at least in part, from either deficient specification of indicators or lack of information regarding their evolution. This suggests that inadequacies in M&E systems may result in a significant understatement of the results that Bank operations help bring about.

The latest data suggest that stepped-up efforts are needed. The share of operations rated high or substantial in M&E quality dropped from 32 percent of projects closed in FY06–08 to 26 percent for those closed in FY09–11 (figure 2.8). The Middle East and North Africa Region improved its ratings from a low of 6 percent during FY06–08 to 22 percent for FY09–11. In contrast, the Latin America and the Caribbean Region experienced a significant decline, from considerably above the Bank average in FY06–08 (44 percent) to only slightly above the Bank average in FY09–11 (29 percent). Most sectors experienced the same downward trend, with particularly significant declines in ratings for M&E in the transport and environment sectors. Both of these were rated considerably higher than the Bank average in FY06–08 but are now rated below the average (see appendix E).

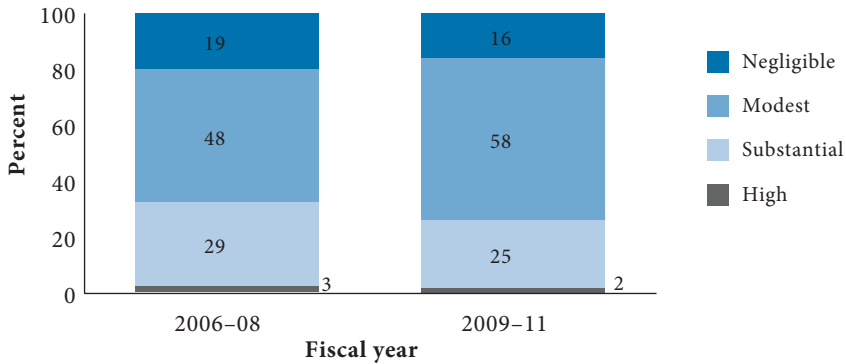
Evaluations can help pinpoint weaknesses in M&E practice. These include limited availability of sound baseline data, too many unfocused indicators in general, and too few outcome indicators (IEG 2009a). A review of a random sample of 10 percent of projects completed in FY09–11 whose M&E quality was rated modest or negligible in ICR Reviews indicates that these challenges persist. One-third did not have baseline data for performance indicators; close to one-fifth measured outputs rather than outcomes; and 15 percent did not specify target values.

The review also found that institutional factors and support infrastructure matter. High staff turnover and delays in recruiting M&E staff in country counterpart teams, lack of clarity over roles and responsibilities in data collection, problems

## **Box 2.1** Improvement in Human Development Sectors

Human development was the only area in which the share of projects rated moderately satisfactory or better in development outcome ratings improved between FY06–08 and FY09–11. Although the change is not statistically significant, it is a positive development for the sectors that can be examined further. Since the mid-2000s, ratings for human development operations have been poorer than those in other areas. The 2011 Results and Performance report (IEG 2011d) argues that achieving results in the health and education sectors has become more difficult because interventions have moved beyond enhancing basic access to addressing more complex quality objectives and systemic reforms. However, ratings of quality of supervision improved significantly for health, nutrition, and population projects. This change is statistically significant.

*Source:* IEG.

**Figure 2.8****Bank Monitoring and Evaluation FY06–08 and FY09–11**

Source: World Bank data.

with management information systems, and poor quality control of data were found to hamper M&E implementation.

Results frameworks and M&E in global and regional partnership programs and trust fund programs face similar problems. IEG’s evaluation of such programs reviewed 36 randomly selected programs and found that few of them defined the outcomes they sought to achieve. A large majority defined their objectives in input or output terms, and most of these lacked monitorable indicators (IEG 2011f). Most programs commission periodic external evaluations of their activities, but weak M&E frameworks adversely affected the quality of these evaluations, making it difficult to assess program effectiveness (IEG 2011g). The most common problems were program objectives and strategies that were not well defined (not focused, too process oriented, difficult to measure, or open to interpretation by different stakeholders); M&E systems that were not well designed (focusing only on inputs and outputs and not outcomes); and absence of systematic collection of data on the progress of activities and achievement of outcomes.

## PERFORMANCE OF IFC INVESTMENT AND ADVISORY SERVICES PROJECTS

### *Investment Services*

The development outcome ratings of IFC-supported projects have been relatively stable in recent years (figure 2.9).<sup>22</sup> 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 projects in the 2006–08 cohort, based on three-year rolling averages.<sup>23</sup> 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 (for more detail on IFC operations, see appendix H).

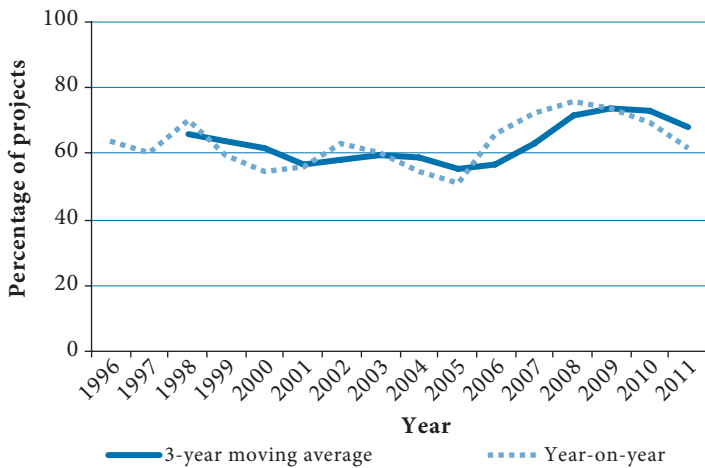
IFC investment operations in IBRD countries have performed strongly, but those in IDA-eligible countries have seen a steep decline in performance. Development

outcome ratings for projects in IBRD countries remained high, despite the more challenging global environment: 75 percent of projects evaluated in 2009–11 had mostly successful or higher development outcomes. In contrast, just over half of the 69 projects (52 percent) in IDA countries that were evaluated in 2009–11 had mostly successful or higher development outcomes, compared with 73 percent for the 2006–08 cohort of 41 projects (figure 2.10.A).<sup>24</sup>

The difference between the two periods is statistically significant. Projects in IDA-eligible countries evaluated during 2006–08 had the highest success rates for this group of countries in IFC’s portfolio to date; the average for projects in IDA countries evaluated over the 2000–11 period 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 in the context of IFC’s frontier market strategy formulated in 2000. Over time, IFC support to IDA countries has become more diversified in the number of countries covered (reaching 60 out of a maximum of 81 IDA-eligible countries during FY09–11), but commitments were concentrated in a few IDA countries (IEG 2011a): the top five countries by investment volume accounted for two-thirds (67 percent) of the total during FY09–11.<sup>25</sup>

The increasing gap between project performance in IDA and in IBRD countries over the past three years is caused by several factors, including the higher risk of operations in those countries, issues related to IFC’s work quality, effects of the global financial crisis, and specific regional and industry factors. Regarding the riskiness and complexity of the business environment, IFC projects in IDA countries typically face higher market and sponsor quality risks. Moreover,

**Figure 2.9** IFC Development Outcome Ratings (percent of mostly successful or higher)



Source: IEG.

Note: Results for 2011 include preliminary ratings.

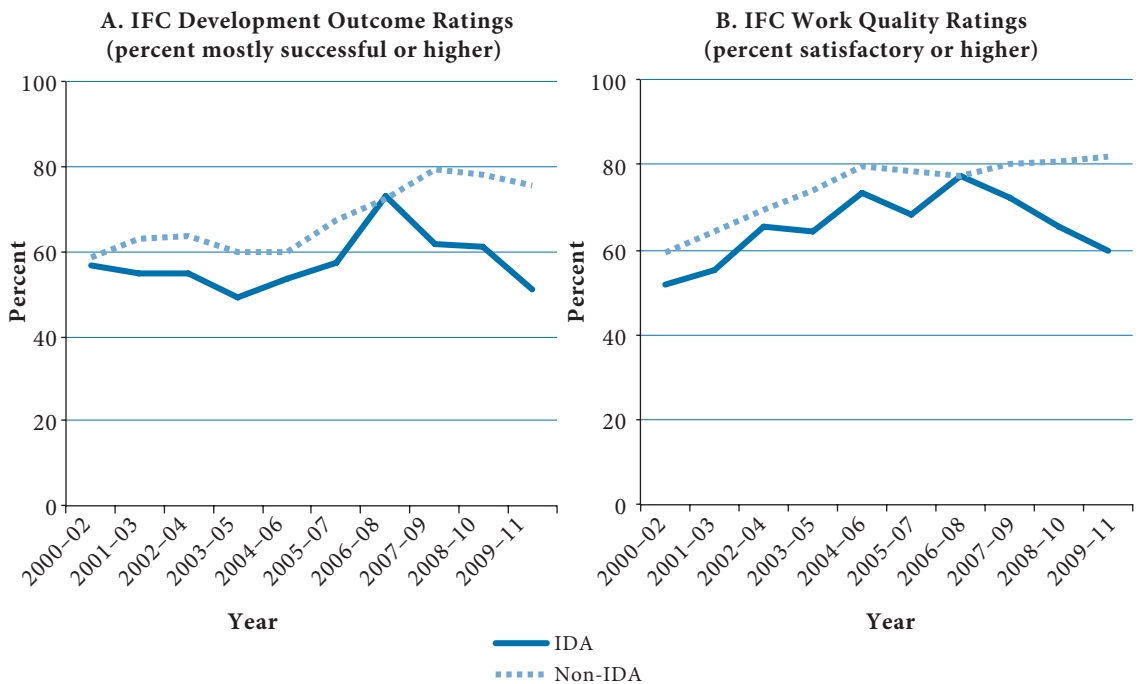
improvements in business climate from the time of project appraisal to evaluation, associated with better IFC project outcomes, have been more limited in IDA-eligible countries than in non-IDA countries.

Among industry groups in IDA countries, infrastructure (38 percent with mostly successful or higher development outcome ratings; 5 of 13 projects) and financial markets projects (53 percent mostly successful; 18 of 34) had the lowest results. Regionally, the weakest results were in the Middle East and North Africa (30 percent; 3 of 10) and Europe and Central Asia (45 percent; 5 of 11) Regions—the latter had a high share of financial markets projects affected by the crisis. Evaluated projects in IDA-eligible countries in Sub-Saharan Africa (50 percent; 8 of 16 projects) performed close to the average.

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. IEG found that IFC’s work quality, a factor within IFC’s control, is the most important variable in determining the likelihood of achieving positive development outcome ratings.<sup>26</sup> Between projects evaluated in 2006–08 and 2009–11, positive ratings for IFC’s work quality fell from 78 percent

**Figure 2.10**

**IFC Development Outcome and Work Quality Ratings in IDA-Eligible and Non-IDA-Eligible Countries**



Source: IEG data.

Note: IDA = International Development Association.

to 59 percent (figure 2.10.B). This was driven by low ratings for IFC's appraisal quality (59 percent) and IFC's role and contribution, where positive ratings fell from 83 percent to 60 percent between these two periods.

In contrast, supervision quality remained high. The declines for both overall work quality ratings and IFC's role and contribution are statistically significant. Ratings for IFC's appraisal and quality-at-entry role and contribution largely reflect practices and quality standards at the time the evaluated projects were approved (2004–06). IFC has since 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.<sup>27</sup> It is too early to assess the impact, if any, of these initiatives on IFC's work quality and, ultimately, on its development impact.

The findings for projects evaluated in 2009–11 corroborate the importance of IFC work quality in 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 development outcome success rate. Conversely, projects with low work quality ratings were far more likely to fail from a development point of view (24 percent development outcome success rate).

Some common shortcomings in IFC's work quality were related to environmental and social categorization and requirements; overestimation of management capacity, financial viability, or growth prospects of the company; support to projects with unsuitable sponsors; and lack of leverage over the client. Characteristics associated with projects that have a low rating for IFC role and contribution include weak justification for IFC financing or limited financing role (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 clients' decisions (21 percent). Twelve of the 28 projects rated low for IFC's role and contribution in IDA countries in 2009–11 were in India.

As noted, there are signs of the adverse impact of the global economic crisis on IFC investments in the financial sector—its largest industry cluster. The decline in the performance of financial markets projects (64 percent of projects evaluated in 2009–11 rated mostly successful and higher, versus 75 percent in 2006–08) was caused by the effects of the 2008–09 global financial crisis, which revealed underlying structural and institutional problems in specific operations, and IFC's work quality. Outcome ratings for operations in the Europe and Central Asia Region dropped particularly sharply because of the crisis. IEG analysis showed that results of IFC financial markets projects were sensitive to the quality of sponsors and changes in countries' business climate.

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 MAS projects achieved mostly successful or higher development outcome ratings, compared with 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 several sectors, such as agribusiness and tourism, and improvements in IFC’s work quality ratings in this cluster. The changes in the performance of IFC industry clusters, however, were not statistically significant.

### **Advisory Services**

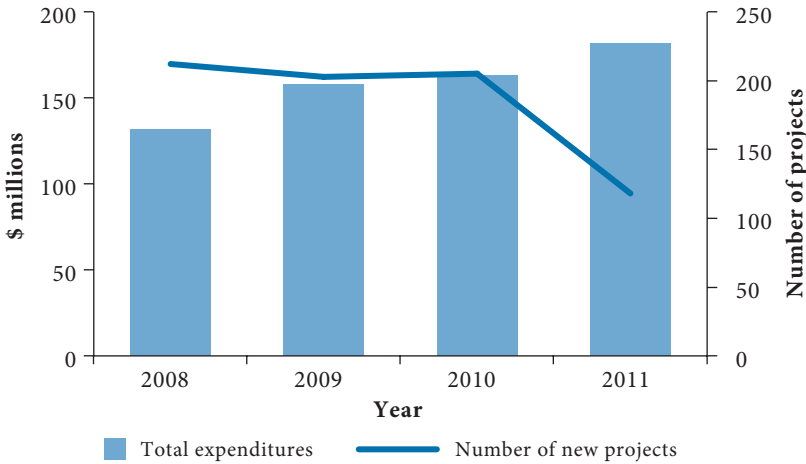
IFC is consolidating its Advisory Services operations following a rapid expansion beginning in the early 2000s. These operations grew more than tenfold in expenditures and sixfold in staffing between FY01 and FY10.<sup>28</sup> However, the number of new projects approved for external clients declined from 212 in FY08 to 118 in FY11 (figure 2.11). Project expenditures for client-facing Advisory Services projects increased from \$132 million in FY08 to \$182 million in FY11.<sup>29</sup> Access to Finance and Sustainable Business Advisory continue to be the two largest business lines in new projects. As with investment products, IFC has enhanced the focus of its Advisory Services on IDA-eligible countries.

Fifty-eight percent of evaluated Advisory Services projects that were completed in FY08–10 had mostly successful and higher ratings for development effectiveness.<sup>30</sup> For projects closed by FY10, a modest downward trend has been observed for development effectiveness ratings since systematic evaluation of Advisory Services began in FY08. The group of evaluated projects was determined by excluding non-client-facing and knowledge management Advisory Services projects. Quality of design is key to project success. Seventy-two percent of unsuccessful projects had poor design, elements of which included lack of proper indicators and baseline data, lack of a proper needs or market assessment, and lack of clear objectives with realistic associated outputs and impacts and an adequate mix of activities to achieve these.

Among IFC’s Advisory Services operations closed in FY08-10, the Public-Private Partnership (PPP) business line has the lowest development effectiveness ratings. The modest success rate for PPP projects (46 percent mostly successful or higher) calls for management attention, given that IFC expects to expand this line of business (figure 2.12). Despite the low success rate for PPP projects reviewed in this period, successful PPP projects show a potential for high development impact from new and improved services they introduced that affected a large number of people.

The main determinant of poor project performance was lack of client commitment. Challenging political environments and obstacles as well as 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 proactive approach to mitigating and managing 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 success.



**Figure 2.11****Number of New IFC Advisory Services Projects and Project Expenditure (client-facing)**

Source: IFC Portfolio Management Unit.

**PERFORMANCE OF MIGA GUARANTEES**

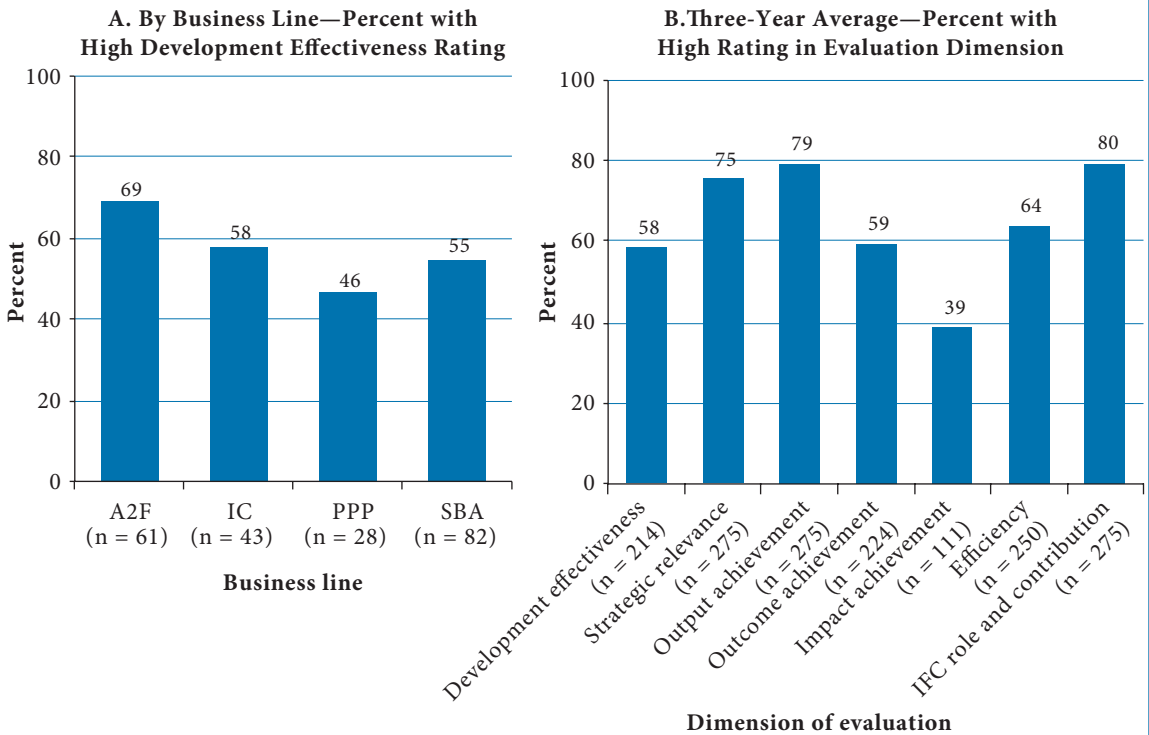
Sixty-nine percent of a sample of 26 MIGA guarantees projects evaluated in FY06–11 were rated satisfactory or higher for development outcomes.<sup>31</sup> The sample consists of projects underwritten by MIGA during FY01–09. Although these ratings are indicative of the performance of MIGA projects, they do not allow for statistical inferences on MIGA’s overall portfolio because of the limited sample size (see appendix I in Volume II).

Positive development outcomes under MIGA-supported projects have been associated with experienced and financially strong sponsors, mostly involving MIGA repeat clients. Other factors associated with positive outcomes include provision of products or services unavailable in the market and efficiency and high productivity. Financial sector projects were rated higher than projects in other sectors. MIGA-supported banks performed well in crisis conditions, benefitting a flight to quality financial institutions. Projects were strategically relevant to their host countries, especially in Europe and Central Asia, which underwent financial liberalization in the past decade but where state-owned banks remained dominant.

MIGA-supported projects in infrastructure were less successful. Most of the projects have concession agreements with the national or subnational government, and many are PPPs. Many of these projects faced regulatory and payment risks (figure 2.13). Common patterns found among successful infrastructure projects include clarity in a “fair” risk-reward allocation between project financiers and government and mitigants embedded in the concession agreement or project design to compensate for regulatory weaknesses.

**Figure 2.12**

**IFC Advisory Services Success Rates (FY2008–10)**



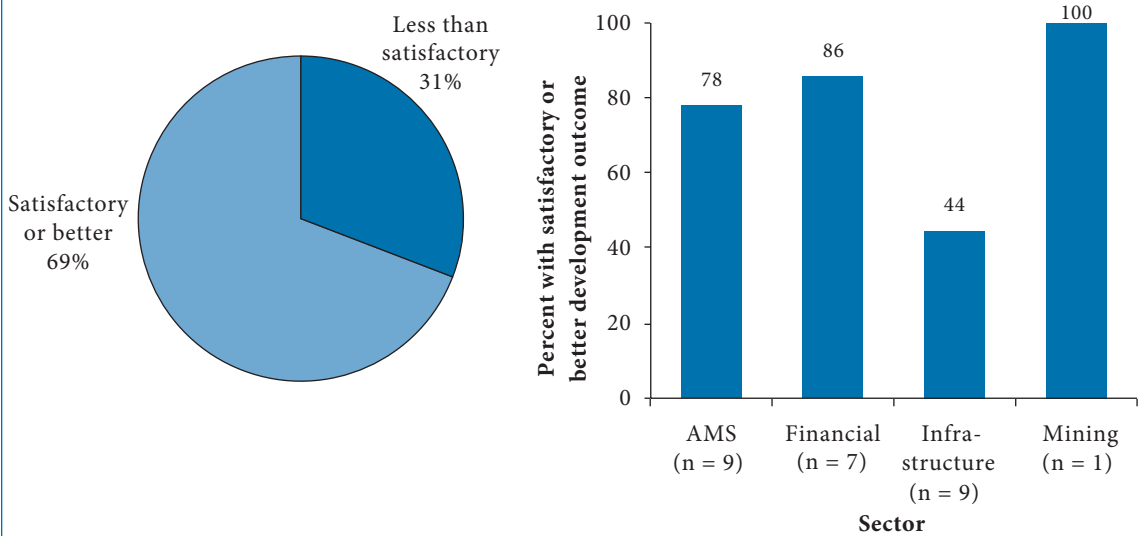
Source: IEG data.

Note: A2F = Access to Finance; IC = Investment Climate; PPP = Public-Private Partnership; SBA = Sustainable Business Advisory.

The quality of MIGA’s underwriting and monitoring has shown some improvement, but shortcomings remain. Overall, 38 percent of evaluated MIGA projects were rated satisfactory or higher for the quality of their underwriting, assessment, and monitoring. MIGA improved 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 environmental and social requirements specified in the contract of guarantee.

Conversely, common shortcomings identified in MIGA self-evaluations and IEG evaluations include inadequate analysis of development risks, including business viability and project sustainability risks; insufficient follow-up on requirements related to environmental and social documentation and monitoring reports and failure to keep abreast of relevant project-specific issues throughout the duration of the guarantee; missing files of key project documents and requirements relevant to the risks covered; lack of consideration of sustainability risks in PPPs and of

**Figure 2.13** MIGA Development Outcome Ratings



Source: IEG.

Note: AMS = Agribusiness, manufacturing, and services.

the ability of government entities to comply with obligations; and inconsistencies between project features and arrangements presented to the Board and those negotiated in the contract of guarantees.

### CHALLENGES IN RESULTS MEASUREMENT FOR IFC AND MIGA

Over the past decade, the IFC and MIGA investment and guarantee portfolios have become increasingly concentrated in the financial sector. Typical clients include financial intermediaries such as banks, microfinance companies, mortgage providers, and leasing companies. Meanwhile, both institutions have reduced support to real sector or infrastructure projects. IFC and MIGA’s focus on the financial sector is founded on the hypothesis that sound financial markets underpin development by promoting efficient resource allocation, job creation, and economic growth.

Increased “wholesaling” through intermediaries is associated with more efficient delivery of IFC financing and is consistent with IFC’s strategy. This shift is associated with development opportunities, such as greater reach of IFC financing and more cost-effective operations. Previous IEG evaluations recommended that IFC shift its support for small- and medium-sized enterprises to wholesaling, based on the finding that directly financing them was not profitable for IFC. Moreover, an IEG evaluation (IEG 2008c) showed that IFC assistance to micro, small, and medium-sized enterprises through financial intermediaries was relevant and effective in terms of development and investment outcomes, based on the performance of the intermediaries.<sup>32</sup> IFC has pursued a strategy to identify potential strong sponsors

and establish long-term relationships with them by supporting them on various projects.

MIGA guarantees in the financial sector primarily aim to strengthen host country private sector banks rather than support the activities of banks' clients. However, a large share of evaluated MIGA financial sector projects has also identified lending to small and medium-sized enterprises or for housing finance, among other things, as project objectives. This requires considerations similar to those in wholesaling projects, which seek to influence the activities of groups of beneficiaries through working with intermediaries. In this regard, the considerations in the following paragraphs are also relevant from a MIGA perspective.

However, the wholesaling approach poses several challenges. First, measuring the development results of financial sector projects, in particular those involving wholesaling of IFC funding via a financial intermediary, is inherently difficult. This is because IFC and MIGA have no relationship with, access to, or often even knowledge of the companies or microenterprises that are borrowing or leasing from the financial intermediary.

Moreover, the level of funding provided by IFC (or insured by MIGA) relative to total assets of the intermediary, and the fungibility of funds, means that the intermediary's subportfolio can, at best, be only notionally attributed to the IFC or MIGA intervention. To a large extent, the tracking and evaluation of development results continues to rely on proxy indicators, many of which relate to the profitability of the financial intermediary as a whole and the aggregate credit quality of its loan portfolio, rather than the IFC-supported investment. These indicators reveal little about the success of the intermediary in extending credit to the most productive companies and the resulting benefits for investment, production efficiency, profitability, and employment. And although IFC has begun to track reach indicators, such as the number of small and medium-sized loans made, it has not done so systematically.

Second, IFC and MIGA need to rely on financial intermediaries to adopt and implement policy mandates that are aligned with those of the Bank Group in their choice of sub-borrower and to apply rigorous safeguards. However, there is inevitably less control afforded to IFC, and therefore little assurance that an intermediary is addressing the real development needs of the country. Few IFC credit lines are designed to target specific sectors or economic groups beyond general objectives of promoting credit to small- and medium-scale enterprises or microenterprises, or for housing finance; MIGA financial sector projects rarely carry any requirement for reporting on how the MIGA-insured shareholder loan was deployed and who the end beneficiaries are.

IFC has yet to articulate the right balance between wholesaling and direct investment, leaving the rapid growth of the financial sector portfolio largely unchecked. Limits exist by virtue of portfolio exposure and credit controls, but this is not the same as a strategically defined balance for financial and nonfinancial sector investments. Growth in the financial sector portfolio could also reflect an incentive structure that is not wholly aligned with IFC's overarching development priorities. Business

volume continues to be a key performance metric within corporate and departmental scorecards, although more recently IFC has introduced the Development Outcome Tracking System (DOTS) and IFC Development Goals (IDGs), which are more defined in terms of results (see chapter 5 for more on these development goals).

Repeat business is significantly higher in the financial sector than in other sectors. On one hand, existing clients with a proven record of delivery can help repeat IFC investments attain better development results. On the other hand, they can serve as a relatively easy source of investment volume with ever more marginal IFC additionality from successive interventions, and they may create concentration issues. In the same vein, a large proportion of MIGA's recent volume of guarantees is derived from two financial sector clients, so the same associated opportunities and risks exist for MIGA.

Ultimately, the success of IFC's strategic focus on the financial sector will be determined by its ability to continue delivering both financial and nonfinancial additionality. Additionality at the transactional level needs to be combined with careful project selection and structuring to maximize development opportunities and mitigate the risks involved in the wholesaling approach. This may mean that IFC needs to seek greater influence over the lending policies of financial intermediaries, as well as greater coordination of investment and Advisory Services to address weaknesses in institutions or the enabling environment. Above all, it is essential that both IFC and MIGA seek a deeper understanding of the development impact of financial sector projects and use such knowledge to calibrate their intervention strategies. This, in turn, will call for indicators that can measure effects beyond the financial intermediary itself and gauge development progress among its clientele.

## Notes

1. In FY12, IBRD and IDA commitments totaled \$35 billion; total IBRD/IDA disbursements reached \$27 billion.
2. These operations are reviewed shortly after the policy changes that they support are made. It remains to see whether intended longer-term outcomes materialize. It should be noted that since May 2010, DPOs are rated by series rather than by individual operation. The activities assessed in IEG reviews for recent DPOs may include those achieved prior to the 2008–09 economic crisis.
3. In the case of Bulgaria, there was a disconnect between the outcome ratings in the ICR and ICR Review.
4. The share of DPOs in FY12 IBRD commitments was 51 percent.
5. Development policy lending was introduced in 2005. Policy lending instruments in figure 2.1.B prior to 2005 include Debt and Debt Service Reduction Loans, Poverty Reduction Support Credits, Programmatic Structural Adjustment Loans, Rehabilitation Loans, Sector Adjustment Loans, Structural Adjustment Loans, and Special Structural Adjustment Loans.

6. In FY11, IFC formulated an equity strategy based on its 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 going forward (see IFC 2011).
7. IFC net commitment volumes grew significantly for both short-term and long-term products in FY12, compared with the previous year. Short-term finance products continued to increase rapidly and accounted for 47 percent of total net commitments.
8. IEG and IFC management are developing an evaluative framework for the trade finance product. Additionally, IEG has initiated an evaluation of IFC's short-term finance programs (2005–11), to be completed in FY13.
9. As part of the effort, IEG is undertaking a self-evaluation of past reviews to assess whether they comply with IEG's methodological guidelines and if there are ways to improve the methodology.
10. The number includes a CASCR for the Organization of Eastern Caribbean States.
11. In 2010, the Bank Group elucidated several priorities under its Post-Crisis Directions Strategy: targeting the poor and vulnerable; creating opportunities for growth; providing cooperative models; strengthening governance; and managing risks and preparing for crises. These priorities build on and integrate the six broad strategic directions established by Bank Group management in 2007. Underlying these strategic priorities are the four development goals that aim to help member countries reduce poverty and improve living standards. The core development goals have been consistent over the past decade and encompass the priorities outlined in the Post-Crisis Directions Strategy: generating inclusive growth, enhancing human development, reducing socioeconomic and environmental risks, and ensuring good governance and public sector management.
12. 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 power and water and sanitation.
13. Additionally, in 18 percent of cases, impact achievement was rated not applicable. Overall, 79 percent of IFC Advisory Services operations were rated satisfactory or higher in achieving their immediate outputs, 59 percent were rated satisfactory or higher in achieving their outcomes. The share is lower still at 39 percent in the achievement of longer-term impacts (such as greater volume of financial intermediation among a target group or the successful implementation of a PPP project). As IFC's ultimate objective is to achieve impact—focusing its Advisory Services on poverty—the Corporation should assess the implications of this issue in the context of its efforts to strengthen M&E systems.
14. This report presents the ratings for DPOs and investment projects separately because of the differences in the rating methodology for these instruments. For investment projects, the development outcome ratings are assigned based on an assessment of relevance, efficacy, and efficiency. However, because of the policy lending nature of DPOs, efficiency is not assessed.

15. There was also a large decline in the share of projects rated satisfactory or better. IEG rated 41 percent of the investment projects completed in FY06–08 either satisfactory or highly satisfactory; 37 percent of the projects were rated moderately satisfactory. Among the projects that exited the active portfolio in FY09–11, 26 percent were rated either satisfactory or highly satisfactory, and 44 percent were rated moderately satisfactory.
16. The share of investment projects rated moderately satisfactory or better for projects approved in FY06 on is not shown because of a substantially smaller number of projects already rated by IEG (fewer than 50). Many projects that entered the portfolio in these years have not been completed. The data in figure 2.4B are presented in three-year moving averages to reflect year-to-year changes more clearly than the average of nonoverlapping three-year sets used in figure 2.4.A, while smoothing out large fluctuations.
17. The data include IBRD and IDA operations. They do not include the operations funded by trust funds.
18. This exceeds the average number of investment projects completed and rated by IEG in a year during FY00–09.
19. Bank performance is based on the quality at entry and quality of supervision ratings in the ICR Review and Project Performance Assessment Reports.
20. See the *Biennial Report on Operations Evaluation in IFC 2008* (IEG 2009b). The review identified the following issues in IFC's system: IFC would need to continue to improve the quality of DOTS data, especially for advisory services; improve the coverage of its reach (beneficiary) indicators; and systematically monitor the additionality of its operations.
21. IEG uses a four-point scale: high, substantial, modest, and negligible.
22. IEG evaluates a random, representative sample of IFC projects reaching early operating maturity (typically five years after approval), stratified by industry department. The sample is representative of the population based on various characteristics. The sampling rate is set at a level sufficient to make statistical inferences about success rates in the population at the 95 percent confidence interval with a sampling error of +/-5 percent or less based on a three-year rolling sample.
23. Performance ratings for 2011 are based partly on preliminary results from Expanded Project Supervision Reports.
24. Includes both IDA-only and blend countries, as of July 1, 2011.
25. These are Ghana, India, Nigeria, Pakistan, and Vietnam (FY09–11). India's share has continuously declined over the period, mainly because of the decrease in infrastructure investments; as of FY11, it no longer is among the top five IDA countries by IFC investment volume.

26. IEG conducted a regression analysis including variables that are likely to affect development outcomes for Expanded Project Supervision Reports (XPSRs) completed in 2000–10 (see IEG 2007; 2008d; 2011c appendix E for details of IEG’s analysis of the contribution of risk factors and IFC work quality to project development outcomes). For this cohort of projects, aspects of IFC work quality were the main determinant of outcomes, especially IFC’s role and contribution and supervision quality. Excluding IFC internal work quality factors from the analysis that sponsor risk is the main factor influencing development outcomes. The analysis covered 657 XPSRs completed during 2000–10, of which 202 were in IDA countries (see tables H.5 and H.6 in Volume II).
27. This includes, for instance, initiatives undertaken as part of the IFC 2013 change process and strengthening of IFC’s integrity risk function and procedures.
28. See the evaluation of IFC’s development results (IEG 2009c). The report highlighted implications from the largely unchecked growth of IFC’s advisory services and recommended that management set 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. Based on IFC’s Advisory Services database, excluding non-client-facing projects.
30. IEG validated 100 percent of Project Completion Reports (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.
31. IEG evaluates random samples selected from the population of MIGA guarantees issued three years before, covering about 50 percent of the eligible population.
32. An evaluation of an IFC investment program concluded that IFC’s direct investment in small and medium-size enterprises was not cost-effective and recommended that IFC rely mostly on wholesaling through financial intermediaries to support the enterprises. The IEG study *Financing Micro, Small, and Medium Enterprises* (2008c) found that intermediaries were effective channels for wholesaling IFC support because they provided micro, small, and medium enterprises with a reliable source of loans by strengthening the capacity of intermediaries, leveraged IFC’s budget resources with those of the intermediary (efficiency), achieved high outreach among these enterprises that IFC could not have achieved directly, and helped improve local banking systems. Evaluated financial intermediary projects for micro, small, and medium enterprises performed on a par with overall IFC development outcome ratings, and intermediaries supporting microfinance outperformed the IFC average.



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# Chapter 3

Enhancing the Bank Group's  
Effectiveness

## Chapter Highlights

- Delivering results in an increasingly challenging environment will require World Bank Group interventions to be as effective as possible. Evaluations suggest that quality at entry and proactive measures to monitor progress as well as to address problems can help improve project outcomes.
- Given the current uncertainty and the reduced level of IBRD capital headroom, the question of how to calibrate an overall response to a crisis and its distribution merits prior thought and preparation.
- To continue providing tailored support to specific country and regional needs, both its ability to provide effective technical assistance and its capacity to produce original analyses need to be continuously strengthened. Sustained engagement and dialogue is critical to effectively address countries' diverse needs. Recognition of the political dimension of reforms supported by the Bank Group is an essential part of understanding these needs.
- Working across boundaries is important. The tension between transnational issues and the Bank's country-based model, as well as limited incentives for cross-boundary collaboration, need to be addressed.

In the years to come, the quality of the World Bank Group's support to its clients—and ultimately its contribution to development and poverty reduction—will be determined in large measure by its ability to adapt to the challenging global development context. Key features of the context, sketched out in chapter 1, include an outlook characterized by lower growth and higher uncertainty than in the first several years of the previous decade; growing disparities in development progress among and within countries; and the increasingly complex, interlinked nature of development problems and solutions and multiplicity of actors on the global development scene. This chapter reviews some of the areas for focus in the Bank Group's efforts to adapt to the tougher context.

Against a backdrop of lower growth prospects, it becomes particularly important for Bank Group interventions to be as effective as possible. Many evaluation lessons point to the significant impact of factors outside of the Bank Group's control in determining a project's development outcome. These factors include, among other things, country ownership, counterpart institutional capacity, and the regional and global economic environment. However, evaluation lessons also suggest that there are factors over which the Bank Group can exercise substantial influence. For example, the quality of prior analytical work, partnerships with stakeholders, systematic progress monitoring, flexible adjustments in project implementation, and IFC work quality are factors that can influence project results. The Bank Group can usefully draw on such lessons from evaluation to strengthen the development results of the client activities that it supports.

Higher uncertainty in the global economy means that it is prudent to prepare for catastrophic events. Recognizing the recurrent nature of economic and financial crises, the Bank Group's Post-Crisis Directions Strategy has rightly identified managing risks and anticipating potential shocks and new crises as a key challenge for the Bank Group. Preparing for crises is particularly important, given the potentially extremely damaging consequences of a crisis in today's globalized environment and the reduced IBRD capital headroom.

The variation in development challenges across and within countries means that support needs to be finely tailored to specific country or regional needs. In turn, this points to the value of correctly diagnosing and addressing the binding constraints to development and poverty reduction, including those rooted in the political economy of the country or region in question. High-quality prior analytical work can also guide the Bank Group in mobilizing support from stakeholders, as well as in setting realistic targets for country programs and individual projects and in articulating results frameworks that embody clear steps toward meeting development objectives.

The increasingly complex, interlinked nature of development solutions and the multiplicity of development actors points to the importance of looking beyond traditional boundaries. As the causes and effects of such issues as climate change and economic crises cut across national boundaries, there is a growing need for the Bank Group to support global and regional collective action. Synergies between the World Bank's traditional public sector focus and the private sector focus of IFC and MIGA are becoming more valuable, given the growing complementarity of roles for public and private sector activity in development. And partnerships with other providers of development finance, as well as with other development actors, both international and recipient country based, are increasingly key to effective interventions.

Among these challenges, the crucial link is the institutional focus on results. The common driver across these efforts is the orientation toward delivering development results. Addressing these diverse challenges requires the Bank Group to adapt flexibly to evolving needs among its clients. Results measurement and learning from experience are important means to help identify the ways to adjust the operational modalities and resource allocation to improve operational results.

## **Strengthening Quality at Entry, Progress Monitoring, and Work Quality**

Weak relevance of design, often in the form of overly ambitious objectives, frequently underlies less-than-satisfactory development outcome ratings for Bank projects. Improving realism and honing selectivity of project objectives is central to effective design. This is consistent with findings regarding country program effectiveness and the typical timeframe needed to achieve project objectives associated with recent operations that involve behavioral change.

It is important to get quality at entry right, because it is difficult to make adjustments during implementation. Analysis of investment projects that closed in FY06–11 shows that 90 percent of projects never identified as problem projects<sup>1</sup> by the task team at any point during implementation have development outcome ratings of moderately satisfactory or better. In contrast, just 57 percent of projects rated as problem projects at some point in the project cycle were rated moderately satisfactory or better (table 3.1).

If a problem is identified early in the project cycle, the chances of a better rating increase. Sixty-five percent of projects in which problems were detected before or during the midterm review had development outcome ratings of moderately satisfactory or better. But when problems were identified after the midterm review, the likelihood of a moderately satisfactory or better rating decreased to 38 percent.

Corrective actions in response to problems can make a difference. When task teams took action to restructure, partially cancel, suspend, or close a problem project, three of five such projects received a moderately satisfactory or better rating, compared with one of five problem projects (19 percent) for which teams did not take such action. More results from the analysis are in appendix J.

In IFC investments, IFC’s work quality is one determinant of positive development outcome ratings. An analysis of 652 Expanded Project Supervision Reports (XPSRs) for 2000–10 shows that dominant influences on the outcome rating are associated with IFC work quality: quality of screening, appraisal, and structuring; quality of supervision and administration quality; and IFC additionality (see IEG 2011b, appendix E). All these factors are under IFC’s direct control. The results of the most recent XPSR cohort (2009–11) confirm the importance of work quality for achieving positive development outcomes. Seventy-three percent of projects in IDA-eligible countries with high work quality ratings had high development outcome ratings, whereas projects with low work quality had a 24 percent development outcome success rate. Similarly, for IFC Advisory Services operations, quality of design is the key determinant of project success.

Adequate resources are needed to ensure high-quality preparation and supervision work, but increased budget alone is not sufficient. An assessment undertaken for

**Table 3.1** Identification of Problems and Development Outcome Ratings (FY06–11 exits)—World Bank Investment Projects

	Yes (% moderately satisfactory or better)	No (% moderately satisfactory or better)
Was the project identified as “problem project” any time during its life?	57	90
Was the project identified as “problem project” before or at midterm review?	65	38
Did the task team act to correct a “problem project” during its life?	60	19

Sources: World Bank and IEG.

IEG's matrix evaluation (IEG 2012a) notes that an increased supervision budget does not suffice to address issues related to quality of supervision (see IEG 2012c, appendix I). An assessment conducted for this report shows that average preparation costs and quality-at-entry ratings for infrastructure projects shifted in the same direction with statistically significant changes in quality-at-entry ratings on several occasions.

For example, between infrastructure projects closed in FY94–96 and in FY97–99, average preparation costs increased from \$263,000 to \$341,000,<sup>2</sup> while quality-at-entry ratings also improved from 59 percent to 73 percent. In contrast, average preparation cost for projects closed in FY09–11 decreased compared to those completed in FY06–08, and quality-at-entry ratings declined from 85 percent to 77 percent. However, this relationship is not consistently significant<sup>3</sup> throughout the period (see appendix G).

Good project M&E facilitates effective supervision. Many issues identified in the past are still relevant to improving M&E quality. Some of these issues, such as measuring outcomes rather than outputs, collecting baseline data, and avoiding fragmentation of M&E efforts in projects can be addressed by such technical means as enhanced capacity building and allocating additional resources to work with clients to build an effective M&E system.

Evidence from evaluations suggests a need to focus on the incentives to monitor progress and capture results. IEG's matrix evaluation (IEG 2012a) indicates that institutional incentives, beyond technical deficiencies, may also be contributing to the challenge in M&E quality. Staff receive more encouragement to meet lending targets than to focus on results. In a survey, more than a third of anchor and sector staff indicated that they received substantial encouragement from sector management to use M&E to improve quality, compared with three-fifths who indicated that they were encouraged to prioritize lending targets. Initiatives have been taken to strengthen results orientation at the corporate level, chief among them the Bank Corporate Scorecard and the IDGs. Opportunities and challenges afforded by these initiatives are discussed in chapter 4.

Also important is the ability to identify and manage risks. All projects have an element of risk, so risk avoidance is not realistic. Failure to anticipate and manage risks can lead to project delays, underutilization of available resources, and, ultimately, failure to achieve outcomes even when outputs are delivered. Based on an internal review conducted for this report, the need for better risk management resonates in IFC's experience in health and education, where strong project screening to identify sponsors with sound financial and operational management practices has been found to be critical to performance. Insufficient analysis or mitigation of environmental risks is also brought up in many project- and country-level evaluations. The ongoing implementation of the Operational Risk Assessment Framework<sup>4</sup> is expected to help improve risk management in the coming years.

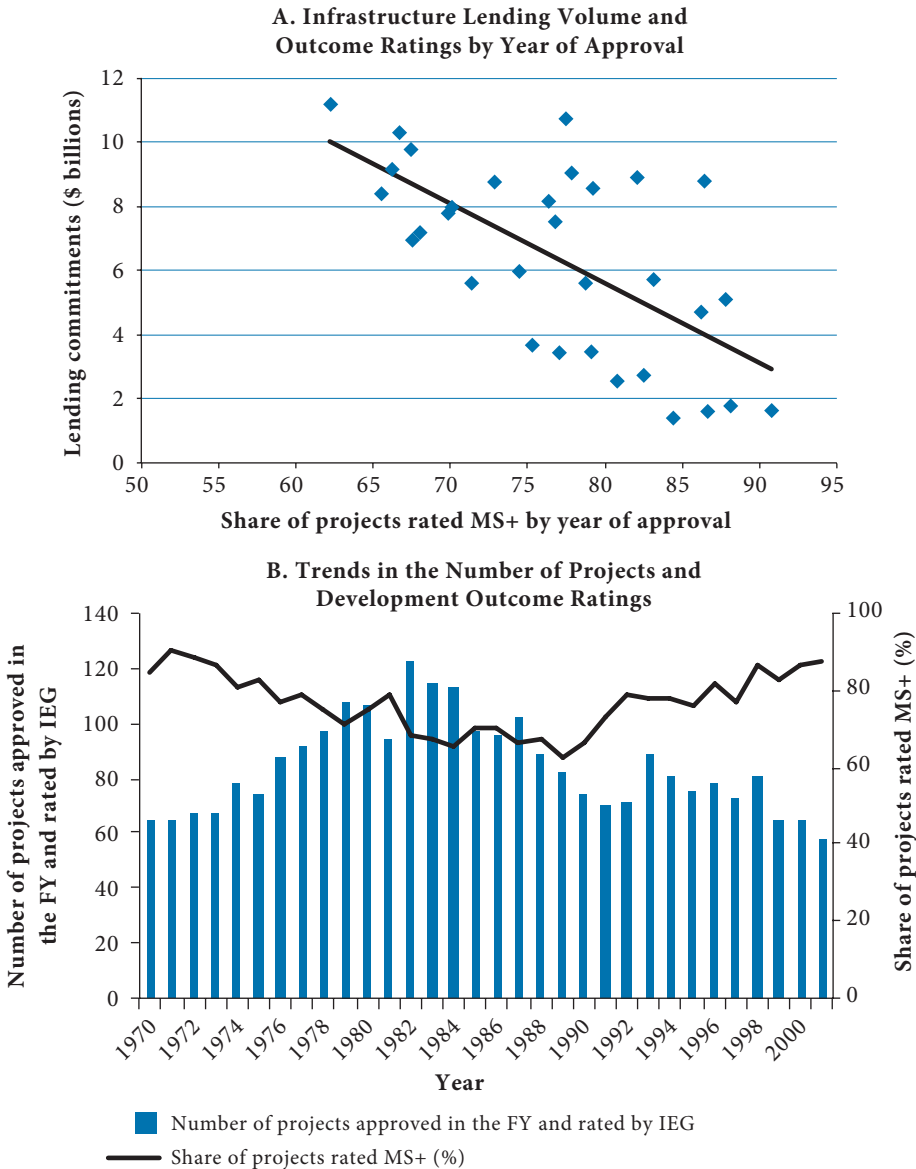
Finally, caution is needed when initiating a rapid expansion in volume. The deterioration in the outcome ratings of Bank infrastructure projects and IFC investments in IDA countries coincided with an increase in commitment volumes. For Bank infrastructure projects, there is a strong negative correlation between



lending volume and outcome ratings for projects approved during FY1970–2008 (figure 3.1.A). The negative correlation also holds between the number of projects and outcome ratings (figure 3.1.B).

Pressure on time and resources during rapid expansion may have strained the Bank Group’s capacity to conduct due diligence during project preparation and supervision of ongoing projects. The factors underlying the trade-off need to be better understood,

**Figure 3.1** Infrastructure Lending Volume and Outcome Ratings



Source: World Bank and IEG data.

Note: FY = fiscal year; MS = moderately satisfactory. The lending commitments in figure 3.1A are nominal.

particularly as a similar negative correlation between volume and outcome ratings was not found for non-infrastructure Bank-financed projects (more detail on the analysis is in appendix D). Nevertheless, attention can usefully be concentrated on ensuring such due diligence during large volume expansions.

## Enhancing Preparedness for Future Crises

Uncertainty about the ultimate depth and breadth of a crisis makes it challenging for the Bank to allocate funds across clients according to the relative severity of impact. Bank lending in response to the 2008–09 crisis reflected pre-crisis lending patterns, and, partly as a result, the allocation of funds had a low correlation with the severity of the impact of the crisis among recipient countries.<sup>5</sup> Given the decline in IBRD's equity-to-loan ratio as a result of the institution's response to the 2008–09 crisis, the headroom for a further lending expansion in response to a possible future crisis is now significantly less. The most recent capital increase was designed to support a return to pre-crisis lending levels, although there was also a clear recognition that in the event of a further capital shortfall, additional measures to shore up the Bank's capacity would be considered when needed (see IEG 2012c, pp. xxii–xxx). The agreement among shareholders notwithstanding, amid the current uncertainty in the global economy, the question of how to calibrate an overall response to crisis and its distribution is one that merits thought and preparation.

Evaluation offers lessons that can help make crisis response more effective. Past crisis support was much more successful when it was nested in a results framework (explicit or implicit) that incorporated post-crisis recovery, had selective coverage, and focused on the Bank's comparative strengths (IEG 2008d). It is important to attend to poverty dimensions from the outset of a crisis, not only in the later stages. And customizing policy advice to the country context is as important as assuring its technical quality. IFC's crisis response effectiveness may be greater if it can rely on established arrangements rather than having to establish new delivery mechanisms during a crisis.

The Bank has taken steps to enhance its response to natural disasters. The Catastrophe Risk-Deferred Draw-Down Option operations, which started in March 2008, have helped countries access liquidity immediately after a disaster. A growing number of CASs deal with preparing for natural disasters. For example, the CASs for Honduras, Jordan, Peru, Uzbekistan, and Vietnam featured a pillar dedicated to natural disaster risk management, which covered such activities as reducing costs associated with floods, improving preparedness for disasters, and strengthened biodiversity and improved veterinary services.

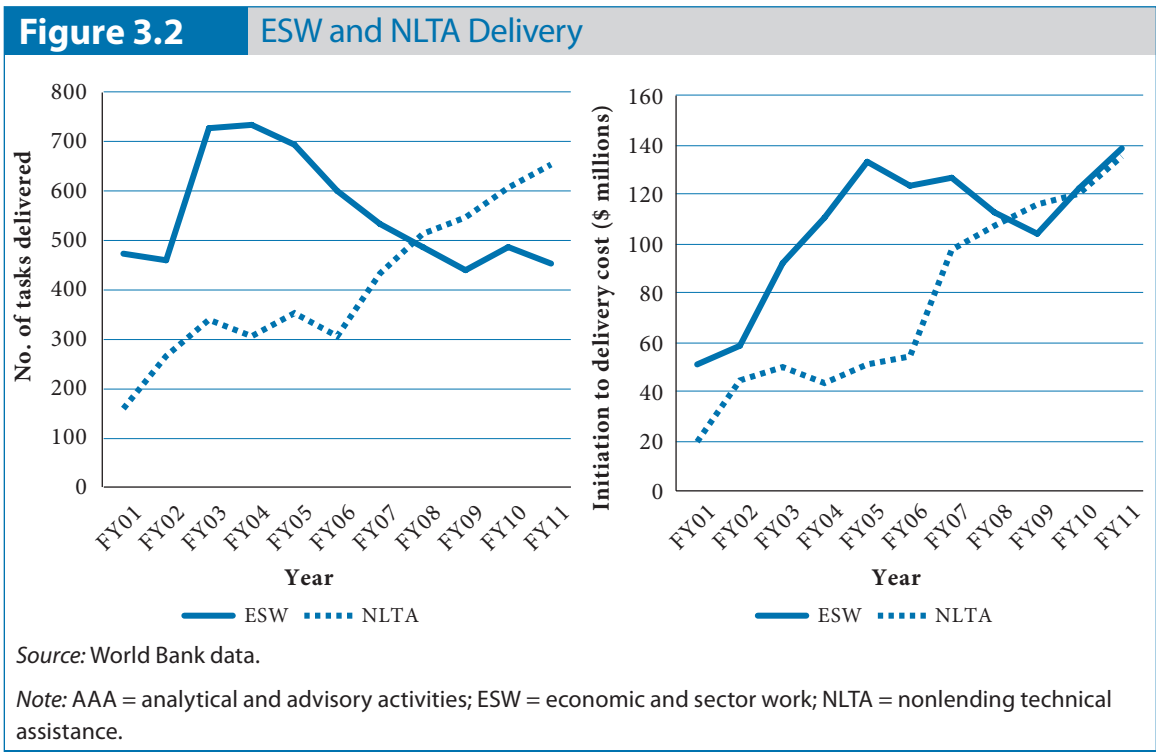
These steps are consistent with the findings and recommendations of the IEG evaluation of World Bank assistance for natural disasters (IEG 2006), which called for greater focus on precautionary investments and enhancing preparedness for natural disasters. To support IDA countries responding to the impact of severe economic crises or natural disasters, IDA has created a Crisis Response Window. IFC has scaled up its support to climate-related business and aims to mainstream climate in its operations, supported by innovative analytics.

Dissenting views can have value in anticipating crisis. An evaluation of International Monetary Fund performance in the run-up to the 2008–09 economic crisis (IEO 2011) notes that the Fund provided few clear warnings about the risks and vulnerabilities before its outbreak. The evaluation attributes this failure to a high degree of groupthink, intellectual capture, and a general mindset that a major financial crisis was unlikely. Encouraging active discussion and dissent can help avoid similar traps in future.

## Tailoring Bank Group Support to Country Needs

Country programs are the main vehicle for addressing country-specific needs. Knowledge of the binding constraints to development and poverty reduction is a pre-requisite to adequate tailoring of Bank Group support to country needs. The Bank’s analytical and advisory activities are made up of economic and sector work (ESW) and nonlending technical assistance (NLTA), and ESW is the typical instrument through which the Bank acquires knowledge on country conditions and specificities. The number of NLTA deliveries as of FY11 was about 20 percent higher than in FY06 and about 70 percent higher than in FY01 (figure 3.2). The share of ESW declined considerably, from 75 percent in FY01 to 41 percent in FY11. Among ESW deliveries, the share of core diagnostic reports<sup>6</sup> declined from 17 percent in FY06 to 11 percent in FY11.

It is important that the growing focus on NLTA be supported by a strong analytical base. In the current guidance to staff, a key distinction between ESW and NLTA is



the extent of original analytic content. ESW contains original analytic content and is intended to inform or influence client policy; NLTA is intended to help the client implement policy reforms and typically does not include original analytic content.

Evaluation suggests that NLTA is preferred to ESW by client countries, based on the country reviews conducted for IEG's evaluation of ESW and technical assistance (IEG 2008e). The medium-term implications of the shift in the shares of NLTA and ESW for the Bank's effectiveness in supporting client countries are unclear. Nevertheless, for the Bank to continue providing high-quality NLTA support, it is important to update the Bank's knowledge base constantly through original analytical work, particularly given the dynamic nature of the development issues that Bank operations address.

Sustained engagement and dialogue are also important in identifying specific country needs. In the response to the 2008–09 crisis, the extent and currency of engagement and the associated knowledge regarding country-specific challenges were key determinants of the quality of the crisis response. Prior engagement helped the Bank's crisis-related financial sector operations combine speed with attention to medium-term issues. Such operations typically built incrementally on existing dialogue. The joint Financial Sector Assessment Program exercises with the International Monetary Fund, conducted before the crisis, also helped the Bank assess the level of country stress and design follow-up operations.

Recognition that many reforms supported by the Bank are inherently political is an important starting point for successful engagement with clients. The Bank must maintain a delicate balance between respecting sovereign countries' rights to make their own choices and promoting governance conditions that are favorable to achieving development outcomes. This is particularly challenging when dealing with corruption, where it can be difficult to judge whether the right conditions are present for successful reform, both in specific sectors and in the country's broader governance setting (see appendix K for more evaluation findings on governance and anticorruption).

The use of governance and political economy analysis (PEA) in Bank project design has increased since 2007, but it can still be enhanced. The use of PEA has particularly increased in fragile states and middle-income countries. The intensity of PEA work is positively associated with the "goodness of fit" of project designs to country context, across all Bank regions (IEG 2011d). Benefits tend to be greater where PEA work does not take on an overly academic orientation and treats key topics evenly, such as political incentives to implement governance reforms and stakeholder preferences, access to rents, and ability to veto reforms. Even when good-quality analysis leads to sensible recommendations, those may lack the support of the project team or senior management (Beuran, Raballand, and Kapoor 2011; Desai 2011).

PEA work has also been more likely to identify stakeholders than to assess the incentives for stakeholders to commit credibly to reforms. And recommendations have tended to focus on standard solutions, such as increasing pro-poor spending and decentralization, without sufficient recognition of the political constraints to adopting them.

More effective management of risks calls for a consistent approach to setting risk appetites across countries and a harmonized control framework across Bank instruments. The Bank currently has a target of 70 percent moderately satisfactory or better IEG outcome ratings for operations in fragile states, 75 percent for operations in other IDA countries, and 80 percent in IBRD countries. This recognizes that operations in the first group carry higher risks, but also significant rewards (IEG 2011d, pp. xxxii–xxxiii).

In the absence of a consistent approach for setting risk appetites across regions, World Bank operations in Latin America and the Caribbean were less likely to use country systems because of perceived risks than operations in Sub-Saharan Africa, despite a higher quality of public financial management in the former, as measured by the Bank's Country Policy and Institutional Assessment (average score 3.7 versus 3.2). For example, a given level of performance as measured by key public expenditure and financial accountability indicators could serve as a trigger for channeling Bank funds through country systems (coupled, perhaps, with capacity-building support).

A challenge remains in clarifying the appropriate mode of engagement when risks are found to be very high. Governance and anticorruption risks in Bank Group client countries are well known. The Bank Group's approach is to manage those risks rather than avoid them; yet it is unclear what measures should be taken when the risks are very high. Actions by the Bank's Integrity Vice Presidency may result in soured relations with clients. Although using an implementation unit to insulate a Bank project from corrupt influence can reduce improper use of funds, it can also hinder efforts to build the capacity to manage much larger volumes of government funds and thus achieve development outcomes.

Additional work to better understand drivers of change is needed to increase effectiveness of support for institutional capacity building in developing countries. There is broad agreement that institutions matter to development, but the evidence on how and why institutions improve in different settings is inconclusive. There has also been research that 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); a better grasp of these forces in different types of country contexts is needed.

## **Strengthening Collaboration across Traditional Boundaries**

The Bank Group has a solid record of working with other development partners. There are several examples of strong collaboration with others in natural disaster relief and recovery initiatives.<sup>7</sup> Collaboration between the Bank and the International Monetary Fund, which was problematic during the East Asian crisis in 1997–98, was satisfactory during the 2008–09 economic crisis (IEG 2010b). IEG's evaluation on harmonization and alignment in low-income countries (IEG 2011e)<sup>8</sup> found that the objectives of reducing transaction costs, improving

the quality of policy dialogue, and building government capacity in multidonor country contexts had generally been achieved.

Nevertheless, there are untapped opportunities for the Bank to leverage the capabilities of a diverse set of partners. IEG evaluations have consistently identified opportunities for the Bank to be more effective in its strategic planning in relation to partnerships for collective action. IEG's trust fund evaluation (IEG 2011c) suggested that it was not possible to determine how trust funds affect the Bank's work overall, raising questions about how the Bank determines the issues on which to focus and who drives its agenda.<sup>9</sup> In addition, challenges in working with partners deploying "vertical" funds have been identified at the country level. In general, more can also be done to tap into civil society capabilities to hold government and business accountable for delivering quality services (Wescott and Desai 2011).

There can be tensions between collective action in relation to global public goods and country-specific priorities. A review of selected country environmental programs undertaken for this report—an area where collective action across countries is often called for—found a degree of success where the solutions offered by the Bank complemented those already present in countries' own agendas. In less successful cases, environmental pillars appear as add-ons to country programs, with little local buy-in. There are also examples where Bank support was able to capitalize on strong local environmental agendas. Ultimately, the Bank Group's impact is likely to be greater in situations where relevant knowledge products support a fluid policy dialogue than where the focus is predominantly on the amount of financing provided.

Tension between transnational issues and the Bank's country-based model underlies limitations in the Bank Group's effectiveness. IEG's environment evaluation (IEG 2008c) notes that, given that the Bank's country strategies typically take account of national environmental priorities, insufficient attention has often been given to longer-term sustainability concerns and to transregional and transnational environmental issues. Aligning the objectives of global and regional partnership programs with the Bank's country-based business model has been a challenge, and locating a program in the Bank is no guarantee of effective linkages between the two. The 2008 *Annual Review of Development Effectiveness* (IEG 2008a) notes that conflict between country-driven engagements and the transnational agenda becomes apparent when benefits are not easily or fully appropriated at the national level (for example, clean air provided as a result of more energy-efficient production technologies) or where the costs fall disproportionately on an individual country (for example, income forgone by not exploiting forest resources). This puts the Bank's country-based model under strain.

Cross-sectoral collaboration is critical, but further incentives for Bank staff to engage in such collaboration would be useful. The environment evaluation found a need for greater use of cross-sectoral and spatially oriented approaches to environmental support. IEG's climate change evaluation (Phase I) promotes

### Box 3.1.

### Collaboration across World Bank Group Institutions

Evidence from evaluations shows that cooperation across the Bank, IFC, and MIGA has not been the Bank Group's standard way of doing business. The staff incentive framework was not conducive to collaboration. It has rewarded Bank staff for successful Bank outcomes, IFC staff for successful IFC outcomes, and MIGA staff for successful MIGA outcomes—and no one for successful Bank Group outcomes. In some cases, the Bank and IFC (and/or MIGA) engage in parallel or sequential activities toward a shared goal, such as when IFC provides Advisory Services and the Bank provides investment support (Azerbaijan and Kazakhstan). The main problem is that such examples do not happen often enough.

*Source:* IEG 2010a.

a systems approach underpinned by incentives to address climate change issues through cross-sectoral approaches (IEG 2008b). Considerable opportunity for synergies from leveraging the agriculture and agribusiness expertise in the Bank and IFC has also been highlighted (IEG 2011a). However, the matrix evaluation found that cross-sectoral collaboration and teamwork are not promoted very effectively (IEG 2012a).

Stronger collaboration among the Bank, IFC, and MIGA in formulating strategies and implementing programs can yield substantial benefit. For example, a review of 10 IFC extractive industries projects with XPSRs completed in 2008–10 notes that strong and timely links to relevant Bank support for policy and institutional reforms are associated with better development outcome ratings.<sup>10</sup> Such links help mitigate the considerable risks associated with extractive industries projects and risks of governance problems leading to unsatisfactory project outcomes.

Similarly, evaluations of IFC- or MIGA-supported infrastructure projects underlined the importance of alignment between public and private sector interests, including a fair risk allocation in public-private partnerships, and of the quality of the regulatory environment for project success. However, several evaluations have pointed to the weakness of incentives for staff to engage in cross-institutional collaboration (box 3.1).

## Notes

1. Problem projects are projects for which implementation progress is rated moderately unsatisfactory or worse and/or development objectives are rated as moderately unsatisfactory or worse.
2. The budget figures are nominal.
3. Statistical significance is based on the difference between the quality at entry ratings for two periods.
4. The Operational Risk Assessment Framework was introduced in October 2009. It was piloted in all regions during the first half of 2010 with a view to fine-tuning it and its procedures and was mainstreamed to all investment and lending operations during

2010. The reform envisaged involves a culture shift that involves a form of grading risk based on initial assessment and a move to stronger levels of implementation support rather than simply supervision; this will involve Bank teams spending a greater proportion of available resources helping clients support implementation and build capacity.

5. The low correlation between lending allocation and crisis impacts remained robust if the IBRD is considered separately from IDA, whose flexibility in allocating resources based on crisis impacts was more limited (IEG 2012b).
6. Core diagnostic reports focus on analyzing fundamental areas of the economy and typically provide the basis for the Bank's lending programs. These reports include Public Expenditure Reviews, Country Financial Accountability Assessments, Country Procurement Assessment Reviews, Poverty Assessments, Country Economic Memoranda/Development Policy Reviews, and Integrative Fiduciary Assessments. These ESW products reflect the critical analysis necessary for the CAS and the Bank's overall development policy dialogue.
7. IEG notes particularly strong coordination among donors during the relief efforts for Hurricane Mitch in Honduras and Nicaragua (IEG 2006) (1999); for the Marmara earthquake in Turkey (2000); for drought in Sudan (1989); and for flooding in Bangladesh (1999), Mozambique (2000), and Gujarat (2002).
8. The evaluation centers on three sectors that are considered particularly important for the attainment of the MDGs (education and health, nutrition, and population) and critical for growth and the ability to deliver public and private services that advance the MDGs (transport) and because the three sectors are the principal ones for which Sector-wide Approaches have been adopted.
9. In that regard, it is notable that IEG's evaluation of World Bank progress in harmonization and alignment finds limited progress in selectivity in part because of the heavy demand for the Bank's involvement on the part of donors and recipients alike.
10. Unpublished IEG evaluation on IFC extractive industries, February 2012.

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# Chapter 4

## Strengthening Institutional Results Orientation

## Chapter Highlights

- The World Bank's Corporate Scorecard is a significant step in the direction of better capturing the Bank's overall performance, but it can be bettered by improving measurement of some critical areas of Bank business such as knowledge services, by increasing emphasis on showing how Bank-financed activities have helped countries and people, and by making the information easier to interpret.
- IFC's scorecard is used as a performance management tool, and IFC has been taking steps to introduce a feasible and practical way to measure its impact through its development goals.
- MIGA is mainstreaming a self-evaluation system for its guarantee projects.
- Making proactive use of knowledge captured in results measurement through learning can help improve the institution's results orientation.
- There are opportunities for more systematic use of impact evaluations in Bank Group operations.
- The Management Action Record has been seen as a tool to track adoption of IEG recommendations, but it is also a tool for Bank Group learning. The MAR reform initiative presents an opportunity to take stock of the extent to which evaluation contributes to learning.

This chapter reviews recent initiatives to strengthen results orientation at the level of the institution. It discusses recent Bank, IFC, and MIGA initiatives to measure corporate results. It also looks at two sets of efforts to improve learning about “what is working”: impact evaluations and follow-up to selected IEG evaluations through the Management Action Record (MAR).

### Measuring Corporate Results

Bank Group institutions have taken significant steps to strengthen the focus on results. The Bank has expanded the IDA Results Measurement System under IDA16 and is rolling out core sector indicators (initiated under IDA and expanded to cover IBRD) to better capture results across the institution. In 2011, the Bank issued a Corporate Scorecard and the *World Bank for Results 2011* report (World Bank 2011b). Its ongoing business modernization program encompasses a wide range of reform initiatives aimed at strengthening the focus on results, openness, and accountability (World Bank 2012). Steps that IFC has taken to better manage for results include launching DOTS in 2005 and piloting the IDGs in 2009 to capture the outcomes of its operations. More recently, MIGA began self-evaluating guarantee projects in FY10 and introduced the Development Effectiveness Indicator System (a set of development indicators to track its effectiveness) in FY11.

## THE WORLD BANK'S CORPORATE SCORECARD

The 2011 Corporate Scorecard is a significant step in the direction of better capturing corporate results, but its relevance can be further improved. The Scorecard builds on the IDA Results Measurement System, expanding it to include IBRD countries, and presents a high-level view through four tiers (figure 4.1). Given the breadth of operations that the Bank covers, capturing the totality of its results is not possible. Yet there is room to expand the Scorecard to capture additional critical elements of the Bank's business, while still keeping it simple. In particular, Tier II, which captures country results using data from Bank operational systems, can be strengthened in three areas.

First, priority should be given to filling the gap in capturing the results of the Bank's knowledge work. The Bank's knowledge work—including analysis, policy advice, and knowledge sharing—is at the core of its operations. As indicated in the preceding chapter, ESW, NLTA, and other core knowledge work grew from

**Figure 4.1** Summary of the Corporate Scorecard

### **Tier I: Development context**

What is the development progress in Bank client countries as a group?

- Growth, jobs, and poverty
- Institutions and governance
- Human development and gender
- Sustainable development
- Finance, private sector development, and trade

### **Tier II: Country results supported by the Bank**

How is the Bank supporting countries in achieving results?

- Institutions and governance
- Human development and gender
- Sustainable development
- Finance, private sector development, and trade

### **Tier III: Development outcomes and operational effectiveness**

Is the Bank managing the performance of its activities effectively to achieve results?

- Development outcomes
- Lending operations
- Knowledge activities
- Use of country systems

### **Tier IV: Organizational effectiveness and modernization**

Is the Bank managing skills, capacity, resources, and processes efficiently; is business modernization on track?

- Resources and alignment
- Capacity and skills
- Business modernization
- Section actions related to post-crisis directions

Source: World Bank.

24 percent of the Bank's budget in 2002 to 31 percent in 2011 (World Bank 2011a). Countries are increasingly looking to the Bank for knowledge rather than finance. But there is still no system to measure and assess the results of knowledge services. Bank management is aware of this gap and is taking steps to strengthen the results orientation of its knowledge work. More specifically, starting in FY12, task leaders of NLTA and ESW are required to clearly articulate, at the concept stage, the change objective and related indicators, including how they will be measured, to demonstrate their contributions to results (World Bank 2011a). This effort merits close attention.

Second, measurement can be improved, especially in Tier II. To the extent possible, it would be desirable to put more emphasis on showing how Bank-financed activities have helped countries and people in Tier II.<sup>1</sup> The current scorecard includes the level of Bank involvement for some indicators,<sup>2</sup> but these can be seen more as inputs than outputs or outcomes (that is, the extent to which assistance has been provided, not what it produced or what it has achieved from a development perspective).

Third, steps can be taken to make the information in Tier II easier to interpret. Tier II indicators provide highly aggregated numbers. Providing links to data on each measure by region, country, and country type (such as fragile and conflict-affected states, low-income countries, and middle-income countries) would greatly enhance the information. It also would be useful to note the number of countries included under each indicator and to clarify whether a few large country programs are driving the results. Finally, many of the data presented show “the last three-year aggregate” of Bank staff estimates over different periods (FY00–10 for most, FY01–10 for some others). What this means is unclear. If multiyear values (rather than annual data) are presented to even out expected fluctuations, the annual values are still likely to provide important information.<sup>3</sup>

### **IFC'S CORPORATE SCORECARD AND DEVELOPMENT GOALS**

IFC's corporate scorecard, unlike that of the Bank, is used as a performance management tool to influence incentives directly.<sup>4</sup> IFC's strategic goals cascade down from the Corporate Scorecard through regional and departmental scorecards. Although the incentive system is currently limited to departments dealing with IFC investments (not including advisory and support departments), those departments that achieve the strongest overall results on scorecard indicators receive annual performance awards. Similarly, IFC has linked staff performance awards to development results (as measured by XPSR ratings, DOTS scores—see box 4.1—or appropriate proxies) and to the financial results of operations in which individual investment staff members have been involved.<sup>5</sup>

In introducing IDGs, IFC is adding more outcome-based indicators. The IDGs are targets for reach, access, and other tangible development outcomes designed to measure clients' increased contributions in priority areas as a result of IFC support.<sup>6</sup> The IDGs thereby address a shortcoming of the corporate scorecard, which lacks outcome indicators, apart from development outcome (DOTS) ratings. IFC sets

**Box 4.1.****IFC's Development Outcome Tracking System**

IFC monitors progress toward development results with its DOTS. The system covers both Investment Operations and Advisory Services. Project staff identify specific, standardized, and measurable indicators, including baseline values and targets for outcome indicators, at the outset of a project. Some indicators are mandatory to allow for IFC-wide tracking. Performance is periodically tracked against achievement of targets to provide feedback for operational work.

The development outcomes currently included in IFC's scorecard are based on a synthesis of these indicators. IFC staff rate performance pertaining to each indicator and then use the indicators to develop ratings by performance category. These differ by type of activity. Investment Operations have four categories: project business performance, economic performance, environmental and social performance, and private sector development impact. Advisory Services have five performance categories: strategic relevance, output achievement, outcome achievement, impact achievement, and efficiency. These performance category ratings are then synthesized to come up with separate development outcome ratings for investments and advisory services.

IFC has issued guidelines to ensure consistency of ratings, and IFC's Development Impact Department analyzes and reviews the ratings of indicators, performance categories, and overall development outcomes for quality and consistency.

*Source:* IEG.

targets for the project results and tracks them, using existing monitoring systems, to validate the results.

In developing the IDGs, IFC is tackling numerous inherent measurement issues, such as the long gestation periods associated with investment projects, their diversity, and the difficulties of estimating the number of people who might be affected and the different types of impact. The IDG targets will be incorporated into IFC's scorecard, supplementing the current output-based indicators for development impact. The IDGs ultimately will be linked to staff accountabilities and incentives and will be incorporated into IFC's Long-Term Performance Awards Program. Lessons from this initiative will help inform efforts to strengthen results orientation in development organizations more broadly.

IFC's scorecard and IDGs can be made more informative. The ability to break down corporate-level outcome data would make it easier to put the information in context. For example, providing easy-to-use links to key indicators by region or by project risk category, by size of client company, or by size of investment would make it possible to account for the difficulty of achieving the outcomes in question. In addition, more explanation of the data could be provided. For some of the key outcome indicators, it would be possible to assess the extent of coverage if information were provided on the number of countries with projects, from which data have been collected.

When the IDGs are incorporated into the Scorecard, it would be useful to supply full definitions, the years covered by the data, source of the data, and any caveats about the quality and coverage of the data. Explanations could be provided where unexpectedly poor or good outcomes occurred.



## MIGA'S EVALUATION SYSTEM

MIGA's evaluation system has evolved over the past decade, and the Agency is mainstreaming self-evaluation. MIGA introduced self-evaluation in FY10<sup>7</sup> and has since begun producing self-evaluations more systematically. IEG continues to evaluate a share of guarantee projects directly. In parallel, IEG and MIGA have jointly developed a validation methodology and process similar to IFC's for IEG to conduct independent validation of MIGA's self-evaluations.

MIGA is strengthening components of its project monitoring, although it does not systematically monitor all aspects of performance of its portfolio of guarantee projects. In January 2011, MIGA launched its Environmental and Social Monitoring Strategy, which included a monitoring framework and associated budget covering the majority of MIGA environmental and social projects. This initiative systematized prior efforts to monitor such projects. Starting in FY11, MIGA also began collecting baseline data for a new Development Effectiveness Indicator System.<sup>8</sup> The performance of each new project is expected to be tracked three years after the guarantee is issued, and MIGA intends to use six core indicators (supplemented by sector-specific indicators) from the new system to report on development results.

## Operational Learning

The Bank, IFC, and MIGA have taken important steps toward better capturing results, although challenges remain. Both the Bank and IFC are developing their corporate scorecards to sharpen the focus on outcomes, capturing information from their existing systems. With DOTS, IFC is more advanced in putting in place a corporate-wide system. However, the system has yet to cover the rapidly growing short-term finance products in a systematic way. The growing share of wholesaling through financial intermediaries also poses a challenge in terms of capturing results at the level of ultimate beneficiaries. The Bank has begun developing comparable institution-wide data by mainstreaming core sector indicators, but a gap remains in measuring the results of its knowledge products.

In both IFC and the Bank, there are ongoing efforts to broaden the coverage to fill existing gaps. In country programs, the Bank Group is taking a more integrated approach, incorporating Bank, IFC, and MIGA support (where applicable) into joint CASs. Each CAS has its own results framework, and the associated monitoring attempts to assess the combined effect of Bank Group support on CAS outcomes. A remaining challenge is to reflect the results of Bank Group-wide collaboration in the corporate scorecards.

Tracking results serves an accountability purpose, although making proactive use of knowledge thereby generated can also help strengthen the institution's results orientation. The process involves learning, making greater use of impact evaluations and of the knowledge gained from other evaluations can help the Bank Group progress in this area.

The Bank Group has seen an increase in the use of impact evaluations to enhance understanding of the causal effects of development interventions and complement

other evaluation approaches. Regarding the use of evaluation findings more broadly, Bank Group management and IEG have been collaborating in an effort to strengthen the MAR, which inventories the implementation status of IEG recommendations, including process aspects such as tracking. The MAR reform initiative presents an opportunity to take stock of the extent to which evaluation results in learning.

## **IMPACT EVALUATIONS**

A recent IEG evaluation of impact evaluations in the Bank and IFC found them to be largely aligned with project objectives and sector strategies (IEG 2012). Impact evaluation at the Bank, led by the Development Impact Evaluation Initiative with support from the Spanish Impact Evaluation Trust Fund, has developed progressively stronger strategic underpinnings. Across the Bank Group, issues related to the relatively high cost of impact evaluations, funding, technical capacity of staff, and incentives nonetheless limit the scope and coverage of impact evaluations.

Most World Bank impact evaluations meet either medium or high technical quality standards, as do about half of IFC impact evaluations. In particular, Bank impact evaluations initiated more recently are better integrated with operations and cover a broader range of sector and knowledge priorities than earlier ones. However, with some exceptions, notably those applying to Spanish Impact Evaluation Trust Fund-financed evaluations, the Bank does not have a formal mechanism for uniform quality assurance. A more formal mechanism would ensure that every impact evaluation receives the scrutiny and feedback necessary for high quality. The lower technical quality of IFC impact evaluations reflects in part their fledgling status, limited staff technical capacity, and the absence of a mechanism to oversee and review impact evaluation quality.

There are opportunities for more systematic use of impact evaluations. At the Bank, the feedback loop between impact evaluations and operations is not yet well developed, and learning remains modest. There are, however, notable examples where impact evaluation has influenced whether to continue with or scale up a particular type of intervention; project design and appraisal; policy dialogue; Bank Group strategy; and development of local monitoring and evaluation capacity. Nevertheless, in several instances, even where impact evaluations have been relevant and of good quality, they appear to have had limited use and influence because of inappropriate timing, underdeveloped operational linkages, failure to engage project teams and decision makers, or lack of dissemination more generally.

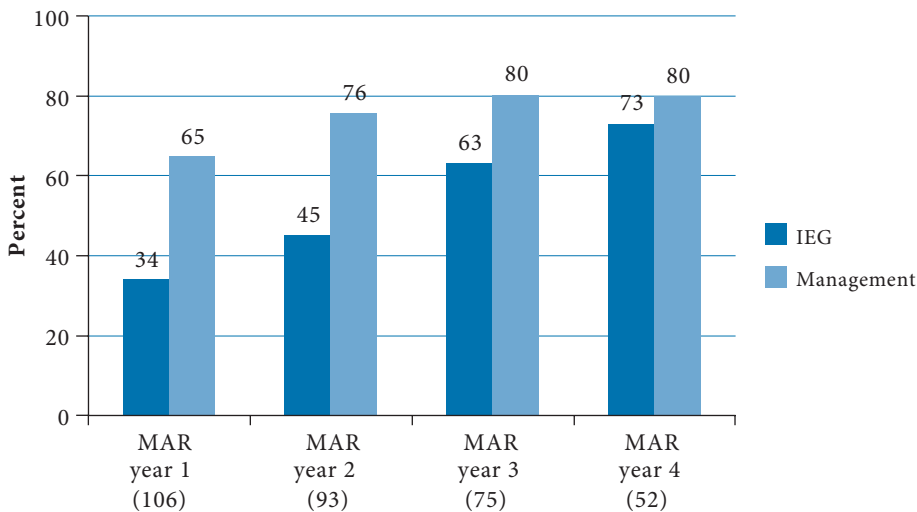
There are, however, signs that issues are being addressed, including dedicated Spanish Impact Evaluation Trust Fund support for results dissemination, concerted capacity-building efforts, and closer collaboration with operations and clients in the design and implementation of impact evaluations. At IFC, impact evaluations have primarily been used by project teams to assess project impacts. There are examples of use beyond the project, such as informing dialogue with clients, but these are not common.

## EVALUATION FINDINGS AND LEARNING: THE MANAGEMENT ACTION RECORD

Adoption of IEG recommendations has increased over time (figure 4.2). Through the MAR, IEG and management monitor the degree to which its recommendations are implemented. Between 2008 and 2012, IEG completed 26 evaluations and made 152 associated recommendations that were subsequently tracked in the MAR. IEG rated one-third of the recommendations as substantially adopted after one year and considered 73 percent substantially adopted by the fourth year. Differences in ratings between Bank Group management and IEG sometimes arose from differences of view about what constituted adoption (specifically regarding the Bank and MIGA), an issue that the ongoing MAR reform is making an effort to address. There are also differences of opinion about what Bank, IFC, and MIGA managements committed themselves to doing. The overall adoption rate by year four is high, although there is substantial variation across the three Bank Group institutions because of historic differences in the way the MAR was implemented in each institution.<sup>9</sup> The full MAR is presented in Volume III (see <http://ieg.worldbankgroup.org/content/ieg/en/home/reports/rap2012.html>).

The MAR can serve as a tool for Bank Group learning. Many IEG recommendations to the Bank focused on performance measurement and the Bank’s strategic directions. Of the 17 Bank evaluations in the current MAR, 15 raised issues regarding performance management and 14 found issues with Bank strategy. Other issues raised included the design and preparation of Bank activities, client engagement, and internal coordination. A review of evaluations in their fourth

**Figure 4.2** Average Level of Adoption over Time—2008–12  
(percent rated high or substantial for adoption)



Source: IEG data.

Note: MAR = Management Action Record.

and final year of follow-up in the MAR found that recommendations related to performance management and internal coordination had low rates of uptake; recommendations that were specific to the sector, theme, or topic covered in the evaluation were more likely to be adopted.

IFC has made good progress in addressing recommendations in several areas. It has increased coverage of reporting through the DOTS, although some gaps remain, particularly in trade finance. It has also made progress in supporting PPPs in health, although IFC has been facing challenges in supporting investments in health insurance; in environmental supervision of its projects and tracking of environment and social indicators in DOTS; and in cost accounting of advisory services projects. Challenges to addressing recommendations remain in the following areas:

- Supporting development of local currency markets, as in Indonesia
- Achieving greater portfolio diversification in Nigeria, particularly in non-financial sectors
- Reporting accurately on implementation of the pricing policy for Advisory Services
- Implementation of post-completion monitoring and strengthening internal knowledge management in advisory services.

MIGA has made notable progress in implementing several IEG recommendations. These are related to institutional learning (in particular through the introduction of self-evaluation), business development, and client relationship management. Areas requiring further attention include measuring financial results and identifying revenue and cost dynamics to inform strategy development; reviewing the revised IFC social and environmental performance standards toward considering their adoption by MIGA; and addressing internal weaknesses that affect efficiency and responsiveness to clients.

IEG and Bank Group management are working to strengthen the MAR process, with some positive early outcomes. To help build greater commonality of purpose on IEG recommendations, the MAR reform process aims to strengthen the quality—notably the actionability—of IEG recommendations as well as of their ownership and implementation by Bank Group management (more detail on MAR reform is provided in appendix L in Volume II). Evaluations designated as MAR pilots have seen greater engagement and discussion between IEG and management, without thereby compromising IEG's independence, as well as efforts by IEG to demonstrate links between key evaluation findings and recommendations more clearly.

## Notes

1. For example, the World Bank Corporate Scorecard uses an output—kilometers of roads constructed or rehabilitated—to assess transport results. The Asian Development Bank uses “number of beneficiaries from road projects,” which is more outcome oriented.

2. Specifically, “Countries with Bank-supported learning assessments,” “Countries supported on natural disaster management,” and “Countries with Bank-supported trade integration programs.”
3. The Scorecard should include an explanation of the data beyond the definition and data sources. An annual spike in the data could have a significant meaning, in which case it should be explained.
4. The most recent IFC Scorecard is attached to the IFC Road Map FY13–15 (IFC 2012).
5. IFC’s Long-term Performance Awards Program rewards staff for actual development results. It recognizes development and financial results of projects that staff brought into the portfolio five to eight years earlier. The development impact of a staff member’s projects are measured using IEG-validated project evaluation (XPSR) ratings, DOTS, or proxy rating derived from credit risk rating data. Staff whose projects meet or exceed the IFC development performance average are considered for Long-term Performance Awards Program rewards.
6. These targets cover six areas: agribusiness, health and education, financial services, infrastructure, economic growth, and climate change. The original IDG, micro, small, and medium enterprise revenues, was replaced with economic growth to increase the value added by IFC clients to their respective country’s economy.
7. MIGA has prepared eight self-evaluations from FY10 to date.
8. The Development Effectiveness Indicator System consists of generic indicators applicable to all projects and sector-specific indicators. Generic indicators include investment mobilized, taxes and fees paid, locally procured goods and services, training expenditures, direct employment, and community development outlays.
9. IEG has been tracking management’s actions in response to its recommendations since the late 1990s for the World Bank, since 2003 for MIGA, and since 2004 for IFC. IEG and Bank management have tracked recommendations annually, and IFC followed up every other year. IEG and Bank Group management are moving to have consistency in the way IEG recommendations are being tracked. Now recommendations are tracked annually for all Bank Group institutions. In 2012, IEG made a significant effort to streamline recommendations to MIGA in the MAR, retiring redundant or overlapping recommendations to ensure that only relevant and actionable recommendations remained.

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# Chapter 5

Conclusion: Areas for Attention



Today's challenging global development context calls for more effective Bank Group support to clients. Strengthening preparedness and understanding country-specific development needs are key aspects of more effective support. As the value of working across boundaries has been increasing, there is scope to strengthen the institutional setting and incentives. Increasing the focus on results is the essential underpinning for these efforts. Further enhancement of the results orientation requires continued strengthening of learning from results.

Paying close attention to the quality of preparation and supervision in both the Bank and IFC will reap significant gains. Lessons from evaluations suggest a strong association between a project's development outcomes and the quality of project preparation and implementation support, factors that are under the direct control of the Bank and IFC. Particularly for the Bank, there may be a high payoff to intensifying efforts to strengthen quality at entry and implementation support early in the life of a project (up to the midterm review, which is typically the final opportunity to make a substantial impact on the project's development outcome). In parallel, there is a need to strengthen project M&E.

Strengthening Bank Group crisis preparedness is also likely to pay off. Regular analysis of stress factors and a framework for decision making on country-level responses nested within a global response strategy that takes account of IBRD's reduced headroom would help ensure that scarce resources are applied where they are most needed. Strengthening preparedness would also encompass arrangements for the Bank to provide early warning regarding systemic risks to clients and the development community, as well as to coordinate crisis-related planning and response with other international financial institutions and development partners.

For IFC, it is important to manage the implications of the shift in its product mix toward short-term instruments. A more difficult outlook for foreign direct investments and lower IFC capital headroom can accentuate this shift. IFC needs to better understand the implications for sustainable growth of its long-term finance portfolio, its future income stream, and its overall development impact. Strengthening results measurement in short-term finance operations is an integral part of this effort. For MIGA, seizing the opportunities provided by the modernization of its product range requires strengthening business development, underwriting and risk management systems, and related staff skills with respect to the new products.

Sustained dialogue with clients and high-quality analytical work will help the Bank Group address the diversity of development challenges within and across countries. A wide array of country, project, sector, and thematic evaluations points to the value of sustained dialogue with counterparts and strong analytical work in diagnosing binding constraints to development results and ensuring realism in designing interventions. Dialogue with a range of stakeholders is important in driving the demand for change. An in-depth understanding of political economy and associated risks is key to assessing ownership of and opposition to a particular intervention, as well as the likelihood that it will succeed and its eventual impact. More effective management of governance and anticorruption risks calls for greater

consistency in the Bank’s approach to setting risk tolerances across client countries as well as a harmonized control framework across Bank financing instruments.

Deepening and broadening increased Bank Group collaboration and partnership across conventional boundaries can help confront today’s development challenges more effectively. This applies particularly to collaboration across conventional sector “silos” within the Bank and across Bank Group institutions—and requires strengthened incentives to encourage the adjustments needed in attitudes and behaviors by managers and staff—as well as enhanced collaboration with other development stakeholders, such as nonconventional providers of development finance and in-country stakeholders.

Finally, capturing results and learning from them is an essential part of enhanced results orientation. The Bank’s Corporate Scorecard, IFC’s scorecard and the IDGs, and MIGA’s self-evaluation system are promising recent initiatives in this regard. Nevertheless, evaluation findings to the effect that incentives for results measurement and learning are weak suggest a need for clear and consistent signals on this issue from senior management of the Bank, IFC, and MIGA. IFC’s attempt to create a direct link between corporate strategic directions and staff incentives is unique within the Bank Group, and its results can usefully be studied and shared as more experience from implementation becomes available.



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The World Bank Group has made important contributions to poverty reduction in developing countries. But to stay relevant under the uncertain conditions that characterize today's global development context, the Bank Group needs to enhance its capacity to help clients cope with weak economic growth, address persistent disparities in development progress, and manage the increasingly global and cross-cutting nature of development solutions.

The messages in this report from the Independent Evaluation Group (IEG) seek to help the Bank Group improve its programs and development outcomes. Thus the primary audience is Bank Group management. Additional audiences include other development organizations, nongovernmental organizations, and civil society organizations that are involved in development issues, as they also seek better development outcomes.

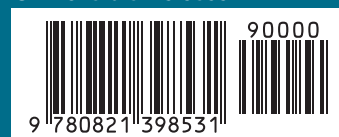
This report addresses IEG's work over the last year, summarizing findings from its evaluations and discussing the trends that are revealed. In particular, as a consequence of the Bank Group's rapid, large-scale response to the 2008–09 crisis, the Bank's remaining capital headroom precludes a comparable expansion should another crisis occur. In addition, the extent to which country programs meet their objectives has yet to reach the performance target set in the Bank's Corporate Scorecard. Development outcome ratings of Bank-funded investment projects, as well as the outcome ratings for International Finance Corporation (IFC) investments, have recently declined.

IEG's findings suggest that enhancing the quality of projects at their outset as well as their supervision would help reverse the decline in Bank project ratings; along the same line, improving IFC's work quality would strengthen the results of its investments. Evaluation evidence also underscores the importance of sustained dialogue with stakeholders and of high-quality analytical work to sharpen the understanding of client circumstances, which is essential for successful outcomes. Effective development solutions require intensified efforts by the Bank Group to work across conventional boundaries.



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