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Financing for Development

Using Independent Evaluation to Turn Aspirations into Achievements

Introduction

Background

2015: A Year of Historic Decisions. The Spring Meetings of the International Monetary Fund (IMF) and the World Bank Group in April were used as a platform to present the collective position of the multilateral development banks (MDBs) on development finance with the goal of transforming development finance to deliver on the sustainable development goals (SDGs). The discussions are one input to prepare the ground for the international conference in Addis Ababa where participating heads of states, ministers, and others, are expected to agree on financing the development agenda for the next 15 years.

From Monterrey to Addis Ababa. The first such conference took place in Monterrey, Mexico, in 2002, after the Millennium Development Goals (MDGs) had been agreed two years earlier. Many things have changed since then, but, 13 years ago the Monterrey Consensus was insightful in urging countries and multilateral institutions to fund development that would reduce poverty, raise living standards for many, and do so in a sustainable manner. These objectives have become even more urgent today, as the world will commit in September 2015 to SDGs that include eradicating poverty, reducing inequality, and leaving no-one behind in environmentally sustainable ways in spite of greater threats from more volatile climate events. How then will the global community ensure that the Addis Ababa Accord will be a “Monterrey PLUS,” not just on paper, but in action, and, more importantly, in outcomes?

The Potential for a Historic Shift. The direction in which the global community is moving bears the potential for a historic shift in the understanding of development—one that envisions countries around the world taking charge of their development processes; mobilize, manage, and account for resources – from all sources: public and private, domestic, and international—that are employed to achieve greater development outcomes. This opportunity will be lost should the discourse revert to a discussion of financing for development assistance as aid programs and the machinery to deliver them.

More Players, More Interests. Compared to 2002, the group of stakeholders has become much larger: more countries have become donors bilaterally or through (new and old) MDBs. Countries – at various stages in their development – are driving their development decisions. The private sector is recognized as an essential partner in generating solutions and finance. Private foundations have become major players in the pursuit of specific goals and innovation. And civil society is part of the conversation.

Feedback and Learning. In addition, the development community is increasingly accepting the importance of evidence, feedback, and learning. Some of which is generated through research, monitoring, and self-evaluation during policy-making, program design, and implementation. Others come from feedback from people directly affected by interventions who have gained a greater voice, be it through third-party feedback mechanisms, social media, beneficiary surveys, or otherwise. And, there is independent evaluation. At the World Bank Group, the Independent Evaluation Group (IEG) has over the past years deepened the evidence that can help development finance succeed in translating the SDGs into actions and results. This paper brings together insights from a cross-section of relevant evaluations that cover various aspects of the large, multifaceted agenda of the SDGs and their financing needs.

Framing the Agenda

Talking About the Resource Gap. Much is being written about development finance. The challenges are immense, and so are the resource requirements. They call for innovation and transformation, as many recognize. And, they are needed for many different purposes; with different authors, stakeholders, papers drawing attention to priority needs, strategic approaches, and new ideas to leverage funding.

Learning as We Innovate. Great minds are working together to innovate for the future and develop transformative financing models. As evaluators, we do not compete with them. Instead, evaluation looks at the past to draw lessons from experience and adapt them to the future. What concerns evaluation are questions like: what works and how can we replicate success even under changed circumstances? What hasn't worked and how do we make sure we avoid repeating mistakes?

Evaluating Monterrey? There has not been one evaluation of the Monterrey Consensus or of how institutions like the World Bank Group engaged in it. Instead, the many different dimensions of financing development have been covered, to greater or lesser extent, in a number of completed and forthcoming independent evaluations. This paper extracts and presents findings from IEG evaluations in as much as they are relevant to financing development.

Building on Common Grounds. To make sure that lessons speak to today's agenda, this synthesis builds on three papers:

- The 2014 Sustainable Development Finance report, prepared under the auspice of the United Nations (UN) by an intergovernmental expert group, it presents a menu of policy options for public and private finance, both domestic and international, as well as pooled funding, and is used as an input to the SDG paper;
- The 2015 "From Billions to Trillions: Transforming Development Finance" (B2T), prepared by the MDBs, summarizes the challenges at hand and sets out ways in which existing structures and resources can be used to expand the funding envelope; and
- The (draft) Addis Ababa Accord (AAA) that details commitments that countries will be making in July 2015 when signing the accord, which also details some of their expectations of MDBs.

All three papers have a number of points in common:

1. The **interplay** of public, private, domestic, and international, finance and recognition of the centrality of the domestic public sector as setting the environment (enabling or otherwise) for sustainable development.
2. The importance of **domestic public finance** to sustainably fund development and ensure country ownership of public policies and programs. They converge around measures to improve public financial management, both revenues and expenditure, and emphasize the importance of curbing illicit international financial flows.
3. The essential role of the **private sector** as the engine of growth and jobs and the tax base it provides. It includes domestic micro, small, and medium enterprises; and large, often multinational companies. But, it is public policy and institutions that can help or hinder private sector investments and growth. In addition, private foundations have become a significant driver and financier of specific development issues and innovative approaches.

4. The increasing role of **jointly funded** initiatives, be they various forms of public-private partnerships (PPPs) or global and regional programs that bring together a variety of stakeholders around a common cause, many of them global public goods.
5. **International public finance** works with governments and the private sector – both domestic and international – to enhance policy frameworks, capacities and institutions, and the provision of services, and stimulates private sector investments. The B2T paper speaks of four types of instruments that will be deployed for sustainable development finance: (a) adding, pooling, enabling; (b) debt-based right-timing; (c) risk management; and (d) results-based financing. International public finance, channeled through the World Bank Group has been evaluated by IEG, generating lessons summarized in this paper.

This Paper. This paper uses existing IEG evaluations. It does not generate new evidence. It is designed to present evaluation findings in ways that speak to the current financing development agenda to make evaluation insights easily available to stakeholders. It is structured around points two through four above: domestic public finance, private sector development, and jointly funded investments, both PPP and global programs. The other two points (one and five, above) are embedded in these chapters: the interplay and tensions between public, private, domestic, and international finance (point 1) are an integral part of development work; and the effectiveness of international public finance (point 5), in this case channeled through the World Bank Group, is the main focus of IEG evaluations. The paper synthesizes available evidence, whether it speaks to mobilizing funds, using them effectively and efficiently, or the outcomes that have or have not been achieved with them.

Domestic Public Finance

Well-managed public finance provides benefits to the economy and society: macroeconomic stability, incentives to invest that stimulate growth, measures to correct market failures, and policies that have distributional effects. From a resource angle, public finance generated billions of dollars in 2013, primarily through taxes. The efficiency of tax systems, including fair taxation, and their ability to counter tax avoidance, evasion, and illicit financial flows, plays an important role in public finance, and so does the efficiency of public expenditure. A number of evaluations show that the World Bank's approach to domestic public finance covers the revenue and expenditure sides simultaneously.

Comprehensive Approach to Public Financial Management

By 2006, the World Bank had assisted all of its client countries with analytic work on public sector reforms, including public financial management (PFM) and revenue administration. The 2006 Public Sector Reform (PSR) evaluation found that it took the combination of knowledge work with lending to be successful, and the 2011 evaluation of Governance and Anti-Corruption (GAC) suggested governance outcomes depended on the effective use of different lending instruments for each of the governance challenges. In forthcoming work, IEG finds that the Bank made "a significant and consistent effort" to help improve PFM practices. In doing so, the Bank combined a number of measures across the PFM spectrum. Otherwise, the "absence of commitment to comprehensive PFM reform means that even if there is progress under one PFM component, inefficiency and rent-seeking gravitate to other parts of the government program." However, this finding was contrasted in the 2013 evaluation of assistance to Fragile and Conflict-Affected States (FCS), which found that within the World Bank, coordination between the different parts of PFM—

from public expenditure, through procurement, to taxation and revenue management—was inadequate and reduced the effectiveness of assistance.

Taken together, the evaluations flag the importance of:

- Setting out a comprehensive approach to PFM,
- One that is not overly complex but sequenced in the right way, and
- One that uses a diverse set of instruments, including those focused on deepening knowledge and understanding, and those that use policy and investment loans to incentivize behaviors and invest in the necessary infrastructure.

Revenue

The PSR evaluation (2006) found that World Bank "projects for tax administration have generally succeeded and benefited from strong government ownership, particularly by ministries of finance, and from good diagnosis and strategy (often led by the IMF). More than three-fourths of countries with investment projects for tax administration improved their performance. In the areas of tax administration, International Development Association (IDA) countries with investment projects had higher rates of improvement than International Bank for Reconstruction and Development (IBRD) countries. For countries with a fiscal crisis, tax administration reform was an attractive entry point, particularly in former Eastern Bloc countries."

More recent evaluations reinforce findings about the importance of strong government ownership as a key success factor. They provide a more nuanced perspective on the contributions of the World Bank Group to the achievements of client countries.

IEG's FCS, evaluation found that 40 percent of World Bank operations in FCS addressed revenue mobilization as part of state-building programs. These operations were found to be effective in helping countries improve the efficiency of their revenue mobilization; in seven out of nine country cases, revenue increased during the study period. Successes were attributed to improved tax collections on extractive industries, even if not yet reaching full potential. "Overall, the World Bank has been effective in strengthening the regulatory framework in natural resource sectors, but less effective in assisting its clients in FCS to accurately value and negotiate resource contracts." Only a few countries have succeeded in setting up arrangements for managing the wealth of natural resources. Furthermore, the evaluation suggested that "the Bank needs to balance its support with a strong understanding of the political economy of revenue streams. Knowing how the politics of resource rents operates is central to finding the most effective way of equitably collecting revenues and sharing returns among citizens."

Forthcoming IEG evaluation work showed that "the Bank's program in Kazakhstan has been an important success story. In 2007-09, the government implemented most of the changes recommended by the Bank on both tax policy and administration. This was accompanied by a significant improvement in revenue performance, boosted by higher oil revenues. Kazakhstan's progress on tax administration was even more impressive. There was an important synergy in this area, where high-quality analytical work was complemented by successful investment projects in tax and custom administration." This evaluation, however, also highlighted that only one of the four countries it covered had engaged the World Bank in central policy choices about commodity taxation; the others sought advice elsewhere. This is an important message to the World Bank Group as it has implications for its comparative advantage.

But, the evaluation also contained important messages for countries themselves. It showed how countries struggled with tax policies and administration under circumstances of commodity prices with strong boom and bust cycles. Tax systems often underperformed in boom periods, while public expenditures were adversely affected in periods of low commodity prices. Tough, often uncomfortable policy choices have to be made in good times to build for a better future in difficult ones; something that has proven difficult more often than not. The evaluation of the World Bank Group's response to the 2008 economic crisis and other crisis response evaluations found a similar tendency. A couple of countries are leading the way in managing their resource rents to establish a basis for more difficult times. They can serve as examples on which other countries can build.

Rents from Extractive Industries

In both of these groups of countries – fragile and resource-rich – extractive industries were a (potentially) significant source of public domestic finance. The Extractive Industries Transparency Initiative (EITI) was launched in 2003 with a mission to improve governance and fight corruption in resource-dependent developing countries. The following year, a multi-donor trust fund was established at the World Bank with goals that included better accountability for resource revenues and their better use for common benefit, leading to economic growth and poverty reduction. In 2011, IEG published a global program review of the EITI trust fund. The review found the program had successfully supported the "production of guidelines, templates, and publications, as well as several international workshops and conferences. These activities substantially contributed towards a globally shared understanding of best practices for revenue transparency" but that it had "[b]een unable to show any progress in relation to improved revenue management and reduced corruption." At the time, the review concluded that to be successful, the program had to overcome emerging doubts in the face of missing but necessary complementary programs.

Likewise, the FCS evaluation established a link between monitoring and transparent reporting and the valuation of revenue and its collection. It found, however, that "FCS countries fare worse on average than non-FCS with regard to compliance with the standards set by the [EITI]" but suggested that "partly as a result [of the World Bank's multi-donor trust fund], contract and revenue transparency increased in FCS." The report went on to say "that governance standards are only one aspect of an effective management system, and greater Bank focus on the other elements of the revenue chain is required if FCS are to improve their management of extractive resources. To date, the Bank has managed to establish useful benchmarks for the sector, but has not fully internalized and addressed the political economy interests of the sector to ensure effective management of shared resources in FCS."

The focus on taxation of extractive industries may be understandable in view of greater private sector investments in the extractive sector, the often still nascent formal private sector domestically, and overall low tax rates on private income. Questions of private sector development are discussed in a later chapter of this paper.

Financing Service Delivery

In addition to taxation, domestic public finance can be raised through user fees. Health services provide one example where user fees play a significant role in raising domestic public finance. IEG's 2014 evaluation of Health Financing, shows that private revenues, mostly charged in the form of user fees, accounts for 62 percent of health finance in low-income countries, and 48 percent in middle-income countries. The findings of what works in health finance are, however, not simple.

- User fees, in spite of their prominence, had been part of World Bank advice to governments in only 14 percent of health finance projects. Impact evaluations and research, however, raised concerns about their effect on the equity of service provision to the poor and the negative effects on health service use. Evidence from impact evaluations illustrate that user fees directly affect health service usage; several studies have shown that their removal had positive effects on usage and health outcomes.
- Taxes on alcohol and tobacco were found "to have efficiency and welfare implications," in particular if they result in reducing the consumption of alcohol and tobacco and hence curb health costs associated with related diseases. The World Bank advised client countries, mostly middle-income countries, on this option.
- Another form of taxation, namely on wages to finance health services (an option the World Bank discussed with a few of its European client countries) can have inadvertent negative side-effects on the labor market by reducing formal employment.

The evaluation found that the World Bank had not prescribed one option or another, but instead invested in building in-country capacity to track information about health finance. While useful to establish the status of funding, it was insufficient to determine the best funding model in the given context. The evaluation

Governance and Anti-Corruption

The draft Addis Accord is strongly committed to governance and anti-corruption. IEG's 2011 evaluation of the World Bank's governance and anti-corruption (GAC) strategy found that "[i]n many countries, the Bank has sustained a medium-term dialogue on GAC issues and provided a program of support in areas such as public financial management, sector service delivery, and the investment climate. Sustained engagement on these issues, even in challenging settings, remains one of the Bank's strengths." The evaluation demonstrated the rapid increase of World Bank investments in governance, including relevant analytical work to understand the underlying political economy, since the adoption of its 2007 strategy. It also found that the World Bank's strategy had focused too much on itself—though it succeeded in building internal awareness and capacity to deliver for client countries—and too little on building institutions in client countries.

The GAC and the PRS evaluations suggested improvements that are relevant beyond the World Bank Group:

- Realism about what is politically feasible, focusing on the doable that is foundational for deeper reforms;
- Sequence interventions to ensure the basics are in place before more sophisticated system changes are attempted; and
- Technology is not enough: changes in behavior are essential for shifting the functioning of the public sector, including revenue collection and public financial management, but much harder to achieve.

recommended further investments in this area, together with other measures to improve the efficiency of public expenditures for health services.

Finally, PPPs can generate revenues, if the partnership is structured well and monitored. However, the 2014 PPP evaluation showed that only a few of the World Bank Group's operations have assessed the fiscal implications of PPPs and how they should be structured to ensure risk sharing between public and private partners. In such cases, the partnership might be a greater burden on domestic public resources than anticipated.

Public Expenditure Management

The efficiency of public expenditure is an essential counterpart to revenue generation. World Bank Group assistance has worked on many fronts: from civil service reforms including the public wage bill, to finding alternatives for the funding of service provision (such as performance pay and pooled funding arrangements, or PPPs), and facing the operating and maintenance cost of infrastructure developed through assistance programs.

Public Sector and Civil Service Reforms

A number of evaluations over the past years have shown the challenges of public sector and civil service reforms. The PSR evaluation of 2006 reflected that many of its observations had been made in an earlier evaluation, yet limited progress had been made towards change. Other evaluations that followed equally reported mixed results. They generated insights into the drivers of success and failure. None of them are present in all situations; context-specificity matters. Nonetheless, evaluations over time and of World Bank interventions in various contexts have frequently returned to these explanations for results. Addressing them proactively from the outset might increase chances for success.

What Helps Reforms Succeed?	What Hinders Reforms?
A good understanding of the existing political economy and how it will be affected by public sector reforms can help identify champions and allies for the reform process. When governments are not (yet) fully committed to reforms, focused technocratic analyses might create a foundation for agreement to reforms.	The political economy of civil service reform is complex. Opportunistic approaches (maybe the only option to act), however, produce modest results rather than systemic change.
Realistic expectations that are ambitious enough to incentivize change, but not so ambitious that success is out of reach.	Unrealistic expectations, overambitious objectives, and inadequate timelines undermine the credibility and chances of success for public sector reforms. They are, however, more often the norm than the exception.

What Helps Reforms Succeed?	What Hinders Reforms?
Rapid reforms work in contexts with strong support and incentives. Slower reform processes are needed and can be more successful when initial support is limited, but ensure visible early successes that then build greater commitment for reforms.	Systemic or across-the-board reforms were desirable but rarely politically feasible; selective approaches were attractive to some civil servants, but were co-opted or delayed by others; opportunistic approaches were piecemeal and easily reversed.
Transparency and citizen engagement can enhance the credibility of reforms.	
Financing parallel public services with expat and diaspora staff can help short-term functionality of the civil service.	Low civil service pay is a pervasive problem and imposes major constraints to reform. The cost of a shadow administration is unsustainable and the differential pay dis-incentivizes public servants and undermines deeper reforms.
Fiscal crises, especially when resources are needed, resulted in client countries seeking support for public sector reforms.	Crises may lend themselves to address immediate problems, but less so to develop solutions to deeper systemic problems.
Financial support, in particular budget support or development policy lending, is more effective in countries in greater need of financial support. They, however, tend to have weaker institutions and therefore greater need but lower capacity to implement public sector reforms.	Financial support from multiple sources might end up in a complicated set of requirements for reforms, which are harder to implement successfully. In addition, pressures to lend might result in compromise choices that undermine the credibility of reform proposals and processes.

Forthcoming IEG evaluation work on World Bank Group programs in resource-rich countries underpinned the importance of a comprehensive and consistent approach to public finance management (PFM). It found "the Bank made a significant and consistent effort to help Colombia, Kazakhstan, Mongolia, and Zambia countries to improve their PFM practices. The Bank's strategies consistently emphasized the strengthening of the legal and institutional framework for PFM, improving budget accounting and reporting, introducing a medium-term expenditure framework (MTEF), advancing procurement reforms, rationalizing expenditure allocation, and modernizing debt management and internal control and audit. The Bank's core analytical work (Public Expenditure Review [PER], Public Expenditure Management and Financial Accountability Review [PEMFAR], and Public Expenditure and Financial Accountability [PEFA]) was of high quality. However, the actual follow-up on Bank policy recommendations in the PFM area was rather selective, and the reforms initiated with the Bank's assistance often remained incomplete."

Public Procurement—Effective Public Expenditure

The 2014 evaluation of the World Bank's procurement policies and practices recognized "[g]ood public procurement practices are a major determinant of the effectiveness of public expenditure. Effective procurement policies enable better use of government budgets and are therefore an essential element of the Bank's poverty reduction focus." The evaluation reviewed both the World Bank's own practices and its efforts to develop procurement capacities in client countries. The report contains many important lessons for the World Bank, which has already acted on them in its recent reforms of procurement policies. A couple of lessons stand out as particularly relevant to the larger development community and in particular to client or partner countries:

- The World Bank, and others, have developed diagnostic tools to assess existing procurement capacities. The IEG evaluation suggests that taking a comprehensive look at the system rather than a narrow one of specific elements is important to ensure a systems-approach to developing capacity. It also suggests that diagnostics need to done in ways that provide direction to an action plan for capacity development rather than as an academic exercise.
- To reap the full benefits of a functioning procurement system, it is important to establish it in the context of the budget, public expenditure management, and audit system. It also needs to set out standards for bidding, selection, contract award and management, as well as enforcement.
- Ultimate benefits from a well-functioning procurement system in the form of greater integrity of the system, procurement actions, and efficiency in the use of public resources result from longer term investments in legal and institutional frameworks. Findings about the sequencing of public sector reforms (mentioned above) would equally apply to the development or reform of public procurement capacities.
- Public procurement is not a monolith. Some sectors might be more advanced than others. Local institutions in the advanced sectors could become the vanguard to implement procurement, including for projects funded by international partners. Their capacities would be strengthened by working together with development partners in executing procurement processes.

Maintaining Assets

Ensuring efficiency in service delivery has to be contrasted with poor choices of saving in the wrong places. Short-term "savings" can have much higher costs if the economic life of investments are shortened.

The 2013 evaluation of transport services flagged major under-investments in operating and maintenance of transport infrastructure. "Ex ante economic analysis rarely takes into account the effect of underfunding of maintenance on the benefit flows. Sensitivity analysis is normally carried out at appraisal for most projects as a basis for investment decisions. However, the effect of maintenance underfunding, which leads to the reduction in expected flow of benefits, has not been systematically included in these calculations. An implicit assumption in the calculation of the economic rate of return at project completion is that condition-based maintenance will be carried out throughout the life-span of the asset, so that the benefit flow is maintained." The highest policy levels have recognized the importance of making necessary provisions for regular maintenance, these commitments have not translated systematically into reality. The evaluation shows a difference between public and privately funded projects, whereby the private sector has much stronger incentives to ensure maintenance, and between countries at different income levels; high and middle income countries are more likely to sustain their investments. In terms of public expenditure, the evaluation found "[a] broad-based approach that aligns funding sources has helped allocate maintenance budgets. Transport financing that relies on diverse funding sources has improved financial viability, especially in urban transport and intercity highways. But these funding sources need to be aligned. World Bank investments linked to countries that had PERs, especially with explicit mention of transport maintenance, were more likely to realize sustained transport outcomes. However, more than half of the PERs reviewed failed to highlight the transport maintenance funding issue." These findings are essential, given the need for and commitment to infrastructure investments, which could become more costly if financial as well as social and environmental sustainability are not built into these projects from the start. Given the heightened attention to raising funds for infrastructure investments, it is well worth considering how long-term institutional and financial viability will be achieved.

Climate change and the need for adaptation are placing a further stress on development gains, and responses to these changes will stretch public expenditure management. IEG's evaluation of adaptation to climate change suggested that increased climate variability, as it is experienced now, requires responses both in terms of safeguarding against risks and repairing damage done. In addition, the evaluation points to the need for anticipatory adaptation, something that requires modeling what the future might bring and planning long-term infrastructure investments in ways that they can withstand such challenges. "This might require bearing costs today to keep future options open or to reduce the cost of future catastrophes."

Service Delivery: Managing Expenditure

Service delivery has important implications for efficiency in using public resources. Getting it right means that financing models produce the right type and quality of services in an inclusive and sustainable manner. However, inefficiencies can result in poor service delivery in terms of quality, quantity, and reach; be a drain on public resources without generating expected outcomes; and undermine original investments as necessary maintenance is not affordable. The World Bank Group has worked with many of its client countries to improve the quality and efficiency of service delivery and by implication public expenditure. Here are some useful lessons from these experiences.

The Health Finance evaluation stipulated that "[f]inancial incentives set by the payment method may encourage providers to change the number of services, manage costs, and improve quality of care, all of which can affect efficiency (Ellis and McGuire 1996)." The evaluation also analyzed research and impact evaluations to find that evidence was not sufficient to demonstrate that a particular payment method led to better quality services and results. Instead, the evaluation suggested that the right choice of purchasing options was context specific, and required an understanding of financing options and needs and investments in developing requisite administrative capacities. Drawing on World Bank Group experience, the evaluation reported examples where diverse purchasing models were tested in the same country, but without coordination among them or without necessary broader sector reforms. These examples were contrasted with other positive ones, such as: "Where purchasing is embedded in broader public sector reforms it is more effective in establishing the relevant institutions that are needed to make it sustainable. In Rwanda the government changed the public finance law to allow for incentive payments for public sector workers; greater autonomy to facilities in regard to recruitment, deployment, and dismissal; and direct accountability for the performance of mayors. IEG found that the Bank provided substantial support through policy dialogue and general budget support, including legal changes and management reforms in health facilities."

For Electricity Access, the 2015 evaluation discussed the tension between broadening access and deepening service quality, while achieving cost-recovery that is necessary for investing in service delivery. “The need to recover operating costs and financing costs for capital expenditures to ensure financial viability of the electricity sector competes with the need to keep electricity access and consumption affordable for the poor. High costs for connection and service can discourage low-income households from gaining access to electricity even if they are within reach of the distribution network. Common practices for subsidizing connection costs include partial or complete subsidy, delayed monthly payment for a long period, treating connection costs as capital costs, or a combination of these approaches (World Bank 2010a). The World Bank usually supported such subsidy schemes where governments administered them with their own funds; direct use of Bank funds has been limited and generally involves arrangements where governments use IDA funds for grants to utilities to cover capital costs associated with distribution, metering, and connection to poor households. Recently, output-based aid (OBA) approaches aim to combine these schemes with pre-agreed targets for performance-based subsidies (World Bank 2010a), and the Bank embraced such pilot projects in several poor countries. Regarding monthly payments for consumption, these are found to be less of an obstacle because the costs of alternatives, such as kerosene or batteries, are comparable to most grid-supplied electricity tariffs for small consumers (Golumbeanu and Barnes 2013).”

Private Sector Finance

Recognizing the private sector as a development partner is not new. The Monterrey conference in 2002 anticipated that all actors in the economy needed to work closer together. This was reaffirmed at the high-level conference in Busan in 2011, when a new partnership for development effectiveness was agreed to and included the private sector as an essential partner. Likewise, the SDGs see the importance of the private sector in mobilizing resources, especially for major infrastructure investments.

But, the focus cannot and is not only on private international financial flows as a source of money for development projects. Domestic private sector development is an essential part of domestic economic growth, jobs, prosperity—which depending on the quality of growth benefits a larger or smaller part of society—and integration into a global economy. Therefore, it is essential to consider unleashing private domestic funds to invest in businesses of whatever size, in addition to attracting foreign direct investments.

Once more, the World Bank Group has played a pivotal role in many spheres to promote private sector development, many of which were evaluated by IEG. Here are some implications for the agenda going forward.

Investment Climate

Promoting a conducive investment climate has been a central part of the World Bank Group's efforts to foster private sector development. It can stimulate new investments from domestic and foreign sources and lead to regularizing the informal sector, hence broadening the tax base.

In its 2011 GAC evaluation, IEG found that in view of "the importance of transparency for market entrants, the Bank's advocacy of greater information disclosure proved important to the

Fragile States and Investment Climate

Beyond regulations and processes, businesses look for stability, not just in terms of macro-economics but also in terms of institutions and partners to work with.

IEG's evaluations of World Bank Group experience in FCS and of investment climate reforms both showed the importance of:

- Building trust between the public and private sector, which in a number of cases the Bank Group developed through facilitated dialogue between stakeholders;
- Supporting local ownership and a process to develop local consensus around a reform agenda that is broad-based and can survive periods of changes in government, which might occur frequently in post-conflict situations. To do so successfully, it essential to have a dynamic understanding of the local political economies;
- Keeping reforms simple, rather than trying to address many processes, pieces of legislation, and institutions. A diagnostic of primary needs and a sequenced, flexible approach to developing institutions and associated policies, legislation, and processes has proven more successful than projects that tried to do too much at once; and
- Accompanying investment climate reforms with longer-term assistance to develop institutions has shown better results than one-off interventions.

private sector. However, support for consultative mechanisms between the private sector and the government needed to be better calibrated to risks of capture."

A further, more in-depth evaluation of investment climate reforms (2014) demonstrated the many diverse aspects of the investment climate. "A wide range of interventions has been developed by the World Bank Group to help client countries improve their regulatory environment. They range from licensing and registration procedures, to property rights and competition policy, to bankruptcy law and dispute resolution mechanisms. They all aim to enhance the regulatory environment in which business operates in order to facilitate entry, promote competition, and ensure the efficient redeployment of assets within the economy. Many also aim to enhance fairness and expand opportunity through a level playing field. Each intervention aims at specific objectives, from reducing barriers to economic activities, to facilitating access to markets, to reducing risks." As interventions "mostly aimed at developing strategies, enacting laws, and simplifying procedures, …success was mainly represented by reduction of steps, time, and costs to complete bureaucratic requirements" as well as to improve perceptions of how well institutions or processes worked.

However, these improvements do not guarantee that investments materialize and have the desired impacts on economic growth and job creation. As the evaluation explained "[r]ecent research on FDI [foreign direct investment] has identified the size of the market and its growth prospects, distance to important markets, relative labor endowments, and openness to trade as important drivers of FDI." And, other factors like access to and cost of electricity and cost of logistics, trade relationships (like tax-free access to markets), or government's stance on social and environmental regulations and their enforcement are important factors that influence decisions of businesses in addition to overall business regulations.

Promoting Trade—Promoting Private Sector Development

In 2013, IEG published an evaluation of the International Finance Corporation's (IFC) global trade finance program (GFTP). The program aims to leverage IFC resource to increase access to trade finance by bringing together international confirming banks with local issuing banks. The program's 10 goals can be grouped into:

- Reach: country groups, critical sectors, difficult markets, and small and medium enterprises (SMEs),
- Institutions: establishing partnerships, developing capacities, and South-South trade, and
- Instrument-related aims: leveraging commercial bank funding, developing longer tenors, and enhancing liquidity especially in times of crisis.

The evaluation showed that the program was most effective in providing liquidity during various crises when markets made it difficult for confirming banks in client countries of the World Bank Group to get credits confirmed or only at conditions that were much less favorable than those provided by the IFC program. It was also effective in reaching low-income countries, which accounted for seven percent of trade but benefitted disproportionately from the program. The program expanded considerably during the 2008 global crisis. International issuing banks that were interviewed during the evaluation or participated in its survey confirmed that the program provided trade finance that helped foster trade deals. It was less effective in some other areas. For instance, while the number of participating banks increased dramatically, actual business was concentrated with a few banks, countries, and deals. In terms of reaching critical sectors, the evaluation observed that the program had served three priority sectors (agriculture goods, oil and gas, and iron/steel), but without being able to determine the multiplier effects of these transactions.

Promoting Small and Medium Enterprise Development

Interventions targeted to promote the growth of SMEs is "big business" at the World Bank Group, as the 2014 IEG SME evaluation found. However, it showed that neither literature nor the findings of the evaluation itself could establish that a growth in SMEs leads to economic growth or job creation. It was also critical of targeted measures to promote the growth of this segment of the economy, especially when SMEs are not defined as a specific group of enterprises and market failures that affect their growth are not clearly understood and addressed with targeted measures. The evaluation found there was too little evidence that proxy indicators, like loan size, were indications that SMEs were benefiting from an intervention, or that intermediate finance institutions actually expanded their SME portfolio. Spending public resources to promote growth in this sector needs to make sure measures are clearly targeted and promise success; otherwise, public resources might not be effective in mobilizing domestic private resources and making them part of the economy.

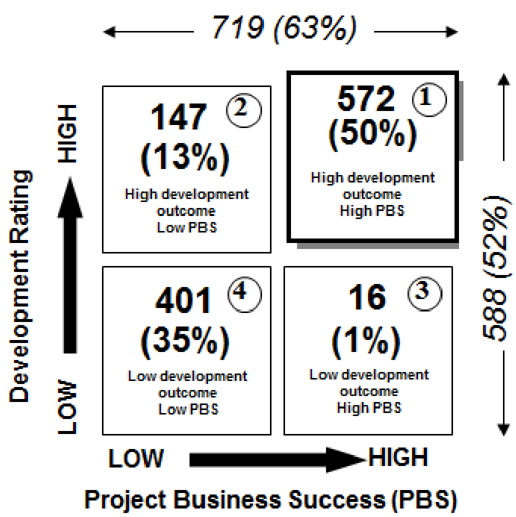
Economic Empowerment of Women

Investment climate regulations may play an important role in gender equality and economic empowerment of women, as the evaluation of investment climate reforms found. Regulations that deal with, for instance, registering property, land administration, permits, tax regulations, agriculture, licensing, access to land, property rights, and regulation more generally can have different implications for men and women. Reforms can have important positive or negative, intended or unintended effects on the economic empowerment of women. Many more interventions for investment climate reforms are not targeted towards women in particular; these projects do not collect gender-disaggregated data and therefore do not allow monitoring or measuring the actual effects and impacts they have on gender equality. There is also no assessment whether these generic reform projects were underpinned by an analysis of gender implications and if so whether reform measures were cognizant of their implications for gender equality. For the limited number of projects that have gender-targeted reform proposals, the evaluation found "an IFC advisory project in the East Asia and Pacific Region analyzed gender-based barriers across the business enabling environment, including identification of legal, policy, administrative, and institutional constraints for women to start a business, deal with licenses, access and enforce rights over registered land, and access justice including ADR [alternative dispute resolution]; the project identified 18 different solutions that could be mainstreamed into existing investment climate projects, and interviews were conducted with female entrepreneurs and documented in a report 'economic opportunities for women.' A few projects focused uniquely on 'soft' activities (such as training, workshops, awareness raising), that is, activities complementing the main goal of the project, but not representing the core interventions meant to directly affect women-owned firms and female entrepreneurs in the short term." These aspects need to be taken into account, if financing for development is to succeed in mobilizing the full potential of local entrepreneurship and investments in local private sector development.

Private Sector Investments

IEG is less focused on absolute dollar amounts that IFC mobilizes and is more concerned with the balance between profitability of investments and development outcomes. The most recent Results and Performance report discussed IFC's performance as follows: "Profitability is not identical to development. In FY11 IFC added a profitability indicator to its corporate scorecard and since then has placed increasing focus on the profitability of IFC operations. A profitability focus can bring an important change in incentives that is fully compatible with development outcomes. However, profit is not identical to development. Since IFC presented its triple bottom line in its FY07 annual report, it made it clear that profitability is only one part of its business model, though an important part. It is important to recognize that IFC's focus is on development under the constraint of client business profitability and IFC's returns. This indirect approach can be a powerful and effective way to achieve both profitability and development results.

Figure 1. Project business success and development outcome are closely aligned with important exceptions



***Example*: Poor investment, good developmental impact:**

An agribusiness project funded by IFC was not fully implemented. Investors' returns were lower than expected and below the company's weighted average cost of capital. However, more than 6,500 jobs were created in a poor rural part of the country, and an integrated pest management program reduced the use of chemical pesticides.

"Profitability for IFC and profitability of clients are closely associated. According to its business principles, IFC is expected to fully share the risks with its business partners. Results indicate that IFC's investment outcomes are closely aligned and typically exceed project business success rates (Figure 1). Evidence shows that client business profitability and development outcomes tend to move in the same direction. For example, when profitability reflects a successful response to social needs, a requirement for innovation, or increased competition, it can be viewed as a proxy for contribution to development. However, profitability derived from economic distortions or unsustainable environmental and social practices, and the like, is less compatible with development. IEG also showed that a focus on poverty and inclusion need not come at the expense of profitability (IEG 2011). And IFC's interventions can be simultaneously pro-growth and pro-poor, but this link is neither universal nor automatic. Instead, it has been IFC's focus on the developmental contribution of its investments that has assured a high coincidence of the two."

Pooling Finance—Leveraging Private Resources

No-one source of funding will be adequate by itself to meet the resource needs to achieve the SDGs. The previous sections of this paper showed lessons from mobilizing public and private resources, and using public resources efficiently. Examples of pooling funds for, say health services delivery, or through PPPs were discussed in those contexts. Here, we review how the World Bank Group has brought public and private actors together to mobilize, leverage, and pool resources.

Public-Private Partnerships

With partnerships as the new mantra, it is important not to confuse a commercial PPP for a specific service delivery with a partnership for global public goods.

PPPs are often seen as a panacea to help with public service delivery. They can be, if sector reforms have been done, including building strong public sector capacity to engage with and manage PPPs. Without reforms and strong capacity on all sides, these partnerships are less often able to succeed in delivering services, doing so profitably, and without fiscal burden.

The 2014 PPP evaluation showed an increasing trend towards PPPs in high-income and Bank Group client countries. These partnerships can be valuable to fill public funding gaps and increase the efficiency of service delivery.

“Nonetheless, most developing countries—and the World Bank Group itself in its latest strategy *A Stronger, Connected Solutions World Bank Group*—continue to see significant potential and need for expanded use of PPPs to help overcome inadequate infrastructure, which constrains economic growth.” The evaluation found that “[d]esigning, structuring, and implementing PPPs remains a challenging and complex endeavor. Their success depends on the enabling environment they are embedded in. The World Bank Group has supported countries to create an enabling environment for PPPs along with structuring advice and finance.”

Specifically, the evaluation found many positives, but also ways to do better and increase chances of success, as summarized below. Some of them reiterate lessons that were also derived from evaluations of broader public sector reform processes, as mentioned above. An important recommendation was that the Bank Group should help client countries make strategic choices when PPPs are appropriate and review their fiscal implications.

World Bank Group PPP Experience	
What Has Worked	**What Could be Better**
The World Bank’s upstream policy reform and institution building reaches the right countries. Most of the upstream work aims at sector reform.	Almost half of the upstream work failed because of the complexity and political implications of the reform processes. Advice on how to manage fiscal implications from PPPs is rarely given.

World Bank Group PPP Experience	
What Has Worked	**What Could be Better**
The World Bank Group has made a significant contribution to capacity building for PPPs.	A lack of local skills and resources for the preparation of a PPP pipeline and bankable PPP projects poses a serious limitation across most World Bank-supported countries.
IFC Advisory Services have achieved important impacts in advising on PPP structuring.	Only about half of the projects result in the award of a contract, mostly because of volatile government commitment.
IFC added value when investing in PPPs during due diligence and implementation.	A higher share of IFC's PPP portfolio could be located in countries and markets with less developed PPP frameworks.
The Multilateral Investment Guarantee Agency (MIGA) increased investors' confidence and effectively implemented PPPs in those countries that are about to develop their PPP frameworks.	
PPPs supported by the Bank Group are largely successful in achieving their development outcomes.	Data are scarce on the effects of PPPs on the poor.
The three Bank Group institutions deploy their respective comparative advantages well.	The approach employed by the three Bank Group institutions should be more strategic and better tailored to countries.

Pooling Funds for Global Public Goods

Pooling of funds for global public goods often takes the shape of global or regional partnership programs, many of which are financed with the help of trust funds. They take various forms from programs administered and implemented by an institution like the World Bank to being programs with their own governance structures, institutional arrangements, and staff.

In 2011, the IEG evaluation of trust funds suggested that at the time "[d]evelopment assistance has undergone three major changes over the past 20 years. First, objectives have expanded under changing global conditions in order to deal with a number of challenges, such as globalization, climate change, and persistent political instabilities or conflicts. Second, in the aftermath of the Cold War, public scrutiny of aid has increased. Third, there has been a proliferation of new donors—notably new sovereign donors as well as private for-profit and not-for-profit organizations." The evaluation estimated that, at the time, around 11 percent of all official development assistance was directed through trust funds.

The evaluation's findings pointed to important improvements that can be made to harness trust funded moneys in ways that they achieve better results, more efficiently, and with greater accountability. It recognized that '[f]or individual recipient countries, trust funds can be an additional source of aid for country programs and can facilitate donor coordination and harmonization. And for the Bank as a trustee institution, trust funds add resources to its country operations and work program, and permit engagement in global and regional activities outside the country-based business model. But trust funds also raise major strategic issues for the coherence and effectiveness of the international aid system. These varied interests of donors, recipients, and the World Bank in the use of trust funds also raise challenging questions about the appropriateness—or added value—and the effectiveness of trust funds as a distinct aid vehicle**."**

Many trust funds and partnership programs were established to earmark funds for the implementation of specific MDGs. The SDGs may well see a similar trend and benefit from lessons that have been derived from evaluations of partnership programs. The following two partnerships were recently evaluated and have important messages for the financing for development agenda.

Climate Investment Funds (CIF)

"In 2008, MDBs, developed and developing countries, and other development partners reached agreement on the establishment of the Climate Investment Funds (CIF); on July 1, 2008, World Bank Executive Directors approved the establishment of the two CIF trust funds—the Clean Technology Fund (CTF) and the Strategic Climate Fund (SCF)—thereby creating the CIF." The CIF evaluation, published in 2014, posited a number of insights in ways to be helpful to the Green Climate Fund. Above all, clarity among many aspects that with hindsight and distance seem basic, was found to be essential. For instance, the CIF had the ambition to be transformational, but without defining what that means, the evaluation suggested—after observing existing practices—that transformational effects should be more clearly tied to demonstration effects, lowering the cost of technology, and removing policy and regulatory barriers.

Important insights around setting up new financing mechanisms included: (a) the CIF had been created with a "sunset clause" to close down once the international architecture for climate finance was operational. The clause was not well defined, which affects how it is implemented; (b) the governance structure gained legitimacy by being inclusive, but in return lost in terms of effectiveness and efficiency. It needed the right balance and understanding of what needs to be decided by consensus and what should be delegated; and (c) operational and quality assurance procedures were ambiguous and did not provide adequate guidance. Like many other evaluations, this review also pointed to the lack of monitoring and evaluation mechanisms that provide timely information for decision-making. These points sound like simple lessons but evaluations repeatedly point to similar issues.

Global Alliance for Vaccination and Immunization (GAVI)

The review of GAVI is of particular interest to the financing for development conversation in that it covered an innovative financing mechanism.

"The World Bank helped develop, implement, and manage two major innovative financial mechanisms—the International Finance Facility for Immunisation (IFFIm) and the Advanced Market Commitment (AMC)—on behalf of GAVI. IFFIm and AMC provide additional resource flows to GAVI in support of childhood immunization. IFFIm raises funds on international capital markets by issuing bonds known as 'vaccine bonds' against long-term, legally binding grant agreements from sovereign donors. IFFIm uses these grant payments to pay the principal and interest on its bonds. IFFIm bonds have raised US$4.55 billion which IFFIm has used to fund GAVI programs and refinance its debt."

IEG's review found the model was not replicable in its current format. "IEG concurs with the external IFFIm evaluation and finds that in its present format and with the current governance structure, as a UK [United Kingdom] charity, IFFIm is unlikely to be replicable for other health-sector initiatives. IFFIm was set up in 2004 with the principal donors requesting that commitments could be accounted for 'off budget' requiring a favorable ruling by the regulators (Eurostat). It is unlikely that after the dramatic changes in the financial landscape in 2008 such a ruling could be obtained again today. The mechanism is transaction intensive and not inexpensive."

An IEG synthesis of lessons about Opportunities and Challenges from Partnerships suggests that "[m]ost donors allocate funds from a fixed envelope for total official aid; trust funds have not increased the size of that envelope. As earmarked pots of money with separate approval and allocation processes, trust funds tend to increase transaction costs for client countries and for the Bank and to impose parallel budgeting and approval processes …. The Bank is uniquely placed to help client countries benefit from global programs. However, there are often missed opportunities at the intersection of the Bank's participation in global programs and its country engagements. There are no explicit agreements on division of labor between the Bank and some major global health programs." The report goes on to observe "[e]valuations have found weaknesses in governance and transparency in many partnership programs" and that "many partnerships the IEG has reviewed lacked clear goals and indicators. It is often hard to attribute results to specific partnerships let alone assess results across the portfolio" which is particularly important when funding the SDGs with the aim to see them succeed.

Learning from the Past for a New Future?

As the global community engages this year in three milestone events—Financing for Development in Addis Ababa, SDGs in New York, and COP21 in Paris—to agree on an ambitious new development agenda and the funding to support it, can we actually look back and learn from the past?

This paper has brought together insights from many evaluations; many more are out there that would deepen the same insights and add others. As the world gathers to raise billions or trillions for new sustainable and equitable development goals, it seems timely to take into account lessons that increase the effectiveness of monies generated and ensure they are spent wisely. Otherwise, even trillions might not be sufficient to succeed in creating a sustainable and equitable world for generations to come.

Raising domestic funds is largely dependent on the tax base, including the domestic private sector and foreign investments. Insights from evaluation imply that the global community will need to raise the bar on its efforts to ensure extractive industries contribute fairly to the revenue streams of countries where they are located, and that governments administer these revenues transparently and invest in them to promote broad-based economic growth. EITI has set out helpful standards, but success will depend on complementary actions. While programs to help countries improve their tax administration have shown success, evidence is weak to identify what makes the domestic private sector grow. Investment climate reforms are one part of the answer, but have not sufficiently focused on ensuring policies are enabling businesses as much as they make them contributors to broader-based economic growth. Targeted efforts to promote the growth of SMEs will have to be clearer about the market failures they address to demonstrate success. Likewise, economic empowerment of women requires a deeper understanding of factors that lead to inclusive growth where greater equality between the genders leads to greater results.

Raising funds for the MDGs resulted in a number of targeted vertical funds and new partnership programs. While these were able to channel resources to specific causes, evaluations found they did not provide resources additional to those already earmarked for development assistance. Instead, they complicated the aid architecture and required setting up institutions—taking time, negotiations, and resources—before they could start investing in the causes they were meant to support. Many of these partnerships had not clearly defined expected outcomes and had limited or no system to track whether they were succeeding. These evaluation insights caution further fragmentation of development finance and flag ways in which partnerships can be more successful from the start.

A corollary to raising funds is managing (public) expenditure—whether through procurement processes, service delivery, or maintenance of infrastructure—in effective and efficient ways to get greater results for the monies spent. Increasingly, effective PFM needs to understand and make deliberate choices about how it incentivizes behaviors of consumers, suppliers, regulators, and enforcers of regulation, to ensure consumption is “right sized” and efficient. It calls for greater experimentation and understanding of the effectiveness of service delivery models that achieve the difficult balance of sustainability, equity, and efficiency.

Invariably, ownership is a key driver of success in many of the evaluations, whether public sector reforms, revenue generation and administration, expenditure management, or private sector development. Success often hinged on the understanding of the underlying political economy, the ability to forge alliances that secured broad-based support for difficult reforms over time, and were adaptable to changing contexts. This sensitivity to a dynamic country-context is even more needed in FCS, where institutions are rebuilding, alliances are building and rebuilding, and change is a constant factor.

In pursuing reforms, programs needed to find a complicated balance between taking a systemic approach, one that understood policies and process as part of a much larger system, while at the same time not trying to do it all at once. Priorities, sequencing, and constant adaptation seemed to produce greater success than blue-printed, over-ambitious plans for change. The new development agenda with its ambitious and complex goals will require even more of this kind of adaptable way of working and challenges development institutions to overcome institutional constraints—in particular culture and incentives—to continuous learning and course-correction when needed.

Look for more insights from IEG's evaluations by visiting a new website focused exclusively on the Financing for Development Agenda**: http://ieg.worldbankgroup.org/f4d**.

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