

Results and Performance of the World Bank Group 2013



Results and Performance of the World Bank Group 2013

An Independent Evaluation

Volume I: Main Report

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Volume II: Appendixes is available online at: <https://ieg.worldbankgroup.org/evaluations/rap2013>

Beginning with this report, access to the database for the Management Action Record (MAR) is available online at <http://ieg.worldbankgroup.org/managementactionrecord>. The MAR is no longer appended as a separate volume.

Abbreviations

A2F	Access to Finance
AAA	analytic and advisory activities
AS	IFC Advisory Services
CAS	country assistance strategy
CASCR	Country Assistance Strategy Completion Report
CPS	country partnership strategy
CRR	Credit Risk Rating
DPL	development policy lending
DPO	development policy operations
E&S	environmental and social
ESW	economic and sector work
FCS	fragile and conflict-affected states
FY	fiscal year
GDP	gross domestic product
GRPP	Global and Regional Partnership Program
HNP	Health, Nutrition, and Population
IBRD	International Bank for Reconstruction and Development
ICR	Implementation Completion Report
ICRR	Implementation Completion Report Review
ICT	information and communications technology
IDA	International Development Association
IDG	IFC Development Goal
IEG	Independent Evaluation Group
IFC	International Finance Corporation
IICCR	Institutional Investor Country Credit Rating
IL	investment lending
ISR	Implementation Status and Results Report
M&E	monitoring and evaluation
MAR	Management Action Record
MDTF	multi-donor trust fund
MIGA	Multilateral Investment Guarantee Agency
MS+	moderately satisfactory or better
MU	moderately unsatisfactory
NHFO	non-honoring of financial obligations
PAD	project appraisal document
PPP	purchasing power parity
PPPs	public-private partnerships
P-RAMS	Procurement Risk Assessment Management System
PRI	political risk insurance
PSIA	Poverty and Social Impact Analysis

RAP	Results and Performance of the World Bank Group
SBA	Sustainable Business Advisory
SCD	systematic country diagnostic
SFDCC	Strategic Framework for Development and Climate Change
SIP	Small Investment Program
SOE	state-owned enterprise
SSN	social safety net
TA	technical assistance
TTL	Task Team Leader
XPSR	Expanded Project Supervision Report

All dollar amounts are in U.S. dollars unless otherwise indicated.

Acknowledgments

This report was prepared by a team led by Ismail Arslan. The analyses were carried out under the guidance of Nick York (Director) and Geeta Batra (Manager) and under the direction of Caroline Heider (Director-General, Evaluation). Stephan Wegner coordinated the analyses related to the International Finance Cooperation and Multilateral Investment Guarantee Agency.

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The six regional updates (appendix H) were written by Dinara Akhmetova, Konstantin Atanesyan, Florence Charlier, Nils Fostvedt, Takatoshi Kamezawa, Eduardo Fernandez Maldonado, Zhan Shi, Xiaolun Sun, Jiro Tominaga, Yoshine Uchimura, Rene Vandendries, Cameron Wilson, and Disha Zaidi.

Peer reviewers were Amitava Banerjee (former Senior Manager, IEG Private Sector Evaluation) and Johannes Linn (Brookings Institution and former Vice-President Europe and Central Asia Region).

Management and colleagues of the Independent Evaluation Group provided helpful guidance and comments, including Soniya Carvalho, Ken Chomitz, Anis Dani, Marie Gaarder, Jack Glen, Rasmus Heltberg, Stephen Hutton, Emmanuel Jimenez, Andrew Stone, Mark Sundberg, Marvin Taylor-Dormond, Stoyan Tenev, Jiro Tominaga, and Melvin Vaz.

Carla F. Chacaltana and Aimée Niane provided administrative support to the team and assisted with report production. Barbara Rice and Cheryl Toksoz provided editorial support.

Overview

Highlights

- ❖ The global extreme poverty rate has fallen by half since 1990, but inequality has increased. Robust progress on both poverty reduction and shared prosperity will require sustained growth in developing countries in the face of major financial, economic, and environmental risks and uncertainties.
- ❖ Lending by the International Bank for Reconstruction and Development (IBRD) has fallen back to pre-crisis trend levels. In FY13, for the first time ever, International Development Association (IDA) commitments exceeded IBRD commitments. Investments by the International Finance Corporation (IFC) reached historically high levels in FY13, driven by rapid growth of short-term finance. Commitments by the Multilateral Investment Guarantee Agency (MIGA) rose on the heels of a new instrument covering risks of the non-honoring of sovereign financial obligations.
- ❖ Country program outcome ratings continued their downward slide of recent years. Contributing factors included overambitious strategies relative to country capacity and ownership, declining portfolio quality, and weak results frameworks. The World Bank Group has introduced a new country partnership framework to address these issues.
- ❖ Overall portfolio performance in the Bank continued its decline, driven by lower outcome ratings of investment projects. Performance of development policy operations recovered after a dip in FY07–09 due to sharply rising borrower performance ratings as middle-income countries returned to the Bank during the crisis to borrow in large volumes.
- ❖ Responding to enhanced administrative resources and staffing, project performance in fragile and conflict-affected states (FCS) improved.
- ❖ Development outcome ratings for IFC investments have declined from historically high levels. The decline was concentrated in IDA-eligible countries, infrastructure projects, and financial market operations. MIGA guarantees have performed relatively strongly.
- ❖ The Bank Group’s risk management architecture operates effectively across a range of financial and reputational risks. But operational risks at both the entity and project levels need to be better managed. On average FCS projects had the same success rates as IBRD projects despite having entry risks that were twice as high – demonstrating the significant role that Bank performance can play in squeezing high rewards out of very high risk situations.
- ❖ The new Bank Group strategy emphasizes the need to work as One World Bank Group. But past experience with coordination between the Bank and IFC has been mixed. Despite encouraging examples of collaboration, synergies among and within the Bank Group have not been systematically exploited.
- ❖ As an input into the pursuit of the Bank Group’s new strategy, the review identifies four areas for continuing attention: client focus and country ownership, product excellence, informed risk management, and adequate financing.

The Global Development Context

The global extreme poverty rate has fallen by half since 1990, but progress within the developing world has been uneven. Extreme poverty remains widespread in most low-income countries while many middle-income countries also continue to have substantial levels with many people there who have escaped extreme poverty remaining poor and vulnerable. Nor has there been robust progress in sharing prosperity: in many developing countries rapid growth has been accompanied by rising inequality, often with a geographic and ethnic dimension as progress in isolated areas has lagged behind.

Regional- and country-level progress toward achieving the Millennium Development Goals (MDGs) is diverse, with Sub-Saharan Africa and East Asia and Pacific Regions occupying opposite ends of the spectrum. Despite significant absolute progress from a relatively weak starting position, the Africa Region remains off-target for most MDGs, whereas the East Asia and Pacific Region is mostly on-target for all MDGs. In the aggregate, three targets have been met—parity in the enrollment ratio of girls to boys at the primary level, access to safe drinking water, and improvement in the lives of slum dwellers. A fourth—progress toward improving the ratio of girls to boys at the secondary level—is about to be met. Other targets, such as those relating to infant, child, and maternal mortality, access to basic sanitation, and primary school completion rates, have proved more elusive.

These regional differences notwithstanding, the challenge of reducing extreme poverty and achieving shared prosperity—including for the bottom 40 percent in each country—remains relevant for every region, highlighting the importance of sustained economic growth and job creation.

The global economy is passing through a period of relative calm after the turbulence of recent years, but the situation remains fragile in many areas and uncertain.

Developed economies are gradually strengthening. At the same time, growth in developing economies has slowed. Many lower-income countries are experiencing sustained growth and most have recovered from the crises. Yet medium- and long-term risks to sustainable development remain significant. They include the fallout from climate change and the growing frequency of hydrological and meteorological disasters as well as risks of political instability in countries in transition. Successful implementation of World Bank Group operations in this demanding environment will require more effectiveness and efficiency with limited resources.

World Bank Group Operations

In FY13, for the first time ever, International Development Association (IDA) commitments exceeded International Bank for Reconstruction and Development (IBRD) commitments, which have dropped sharply from their FY10 peak following the Bank's scaled-up response to the global economic crisis. IBRD commitments were \$15.2 billion in FY13, which was still higher than their pre-crisis average of \$13.5 billion in FY05–08, but lower than FY12's \$20.6 billion and well below the peak of \$44.2 billion reached in FY10. IDA commitments amounted to \$16.3 billion in FY13. The largest share of IDA resources, \$8.2 billion, went to Africa. South Asia, at \$4.1 billion, and East Asia and Pacific, at \$2.6 billion, also received large shares of funding, followed by the Europe and Central Asia, Latin America and the Caribbean, and Middle East and North Africa Regions. Commitments for infrastructure and human development increased significantly.

Investments by the International Finance Corporation (IFC) reached \$18.3 billion in FY13, a new historical high driven by short-term finance, while long-term finance has leveled off. Short term finance instruments account for more than 40 percent of IFC's commitments, which are concentrated in lower-risk countries. IFC's commitments in IDA-eligible countries have risen strongly at twice the rate of overall commitments. IFC's exposure to IDA-eligible fragile and conflict-affected states (FCS) remains small. The increasing concentration of IFC's commitments in financial markets implies a shift to wholesaling of its support through intermediaries, with attendant complications for assessing IFC's impact on ultimate beneficiaries and, in turn, its broader development impact.

New commitments by the Multilateral Investment Guarantee Agency (MIGA) reached \$2.8 billion in FY13, in part driven by a new type of MIGA insurance coverage for the non-honoring of sovereign financial obligations. The new instrument shifted MIGA's portfolio mix from the financial sector, especially in the Europe and Central Asia Region, toward infrastructure projects, especially in the Africa Region. About half of MIGA's new guarantee issuance was in IDA-eligible countries.

Country Program Results

A Bank Group country program, as defined in a country assistance strategy (CAS) or a country partnership strategy (CPS), includes all the activities of the three Bank Group institutions in a country. In principle, it offers a platform and a process for the Bank Group to provide tailored—and coordinated—support in addressing country-specific challenges. However, in practice, it remains a largely Bank-driven process, with the depth of IFC and MIGA engagement in a particular CAS depending

largely on the signals from the country authorities or management.

Country program outcomes have deteriorated significantly over the past seven years (FY07–13). The deterioration is evident in both Independent Evaluation Group (IEG) and staff outcome ratings, and reflects to varying degrees in different country contexts the impact of the 2008 global financial crisis, deficient results frameworks in CASs and CPSs, overambitious strategies given country capacity, and weak country ownership. It also reflects the deterioration in the Bank portfolio. Notwithstanding the adoption of a new results-oriented CAS framework in 2006—and guidance to staff—subsequent strategies have suffered from weak links between instruments and intended outcomes, ineffective monitoring and evaluation (M&E) systems, and a continued focus on inputs rather than outcomes. On completion, these problems have dragged down CAS outcome ratings.

On average, IBRD country programs score higher than non-FCS IDA country programs, which in turn score higher than FCS country programs. Over the FY06–13 period, for example, 71 percent of IBRD country programs achieved IEG ratings of moderately satisfactory or better, versus 51 percent for non-FCS IDA country programs and 42 percent for FCS. This positive relation between performance ratings and income per capita points to administrative capacity and institutional development as important correlates of development results.

On a regional basis, the Africa Region (with a large share of IDA-eligible countries) and the Middle East and North Africa Region (with a large share of FCS) present the most significant country program challenges. Only about 50 percent of country programs in those regions reached IEG ratings of

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moderately satisfactory or better. The East Asia and Pacific, Europe and Central Asia, and Latin America and the Caribbean Regions (predominantly IBRD) as well as the South Asia Region (predominantly blend) were close to or above the corporate scorecard benchmark of 70 percent during FY06–13.

In looking at the deterioration in country program outcomes from an institutional effectiveness perspective, several factors warrant consideration. First, such outcome ratings reflect the joint impact of the country, the Bank Group, its partners, and exogenous variables. Second, the results of Bank lending materially affect country program outcomes. Indeed, in the analyzed CAS cohort, there were no cases in which country performance declined and portfolio performance improved. Third, as noted earlier, country outcome ratings appear to be positively correlated with per capita income and to be affected by the country's FCS status. This points to a more general need for special Bank Group attention to countries at the lower end of the income scale and to FCS. The Bank Group has introduced a new country partnership framework to address these issues.

Portfolio Performance

Investment Lending. By almost every measure, portfolio performance of Bank investment lending has declined during the review period. Aggregate development outcomes measured as the proportion of projects with moderately satisfactory or better outcomes fell to 69 percent in FY10–12 from 75 percent in FY08–10 and from 79 percent in FY04–06. The picture is similar when measured in terms of commitment values.

IBRD funded investment projects have consistently performed better than IDA

projects, but contrary to the general trend, IDA project performance in FCS improved. Higher-level outcomes for IBRD projects may reflect on average greater institutional capacity and supportive policy framework than in IDA countries. However, the overall declining trend as well as the improvement in FCS appear mostly related to factors within the Bank's control.

IEG's recent FCS evaluation found that increased management attention and Bank support in terms of administrative budgets and international staff deployed in fragile and conflict-affected states have contributed to improved project performance. Strong efforts were made to design implementation arrangements that compensate for the government's capacity limitation, and by all accounts they paid off in better outcomes.

On the other hand, the overall declining trend in investment project development outcome ratings is clearly associated with declining quality at entry and quality of supervision—both factors clearly within the Bank's control. Project design has been a major factor, especially in the form of overambitious projects in relation to limited and variable country capacity and deficient results frameworks. A lack of proactivity in supervision to correct problems during implementation has been a common finding in IEG reviews.

Finally, declining borrower performance reflected the adverse impact of the global food, fuel, and financial crises on domestic economic conditions and the availability of counterpart funding for projects. In addition, some projects that had been designed for one economic reality some years earlier became outdated when conditions and effects changed.

Development Policy Operations. Trends in development policy operations (DPOs) have been very different—rising across the

board instead of falling. By number of operations, 82 percent had moderately satisfactory or better outcomes in FY10–12, a recovery from a dip to 75 percent in FY07–09. By volumes, the trends are similar but even higher, with 92 percent of commitments rated moderately satisfactory or better in FY10–12 compared with a low of 82 percent in FY07–09.

The main driver of these DPO trends was borrower performance, which jumped from 77 percent to 87 percent between FY07–09 and FY10–12. In turn, much of the jump in borrower performance was due to the changing composition of IBRD borrowers during the global financial crisis, as strong-performing middle-income countries returned to the Bank to borrow in record numbers. This borrowing typically took the shape of DPOs. Bank performance did not decline as it did with investment lending. The Bank received high marks for readiness in many cases (with solid analytic work) and support (through dialogues of trust).

IFC. Outcome ratings for IFC long-term investments have declined from historically high levels. Sixty-five percent of projects evaluated in 2010–2012 were rated mostly successful or better for development outcomes, rated against both market benchmarks and project objectives, compared with 74 percent in the three years prior. This was due to weak performance of projects in IDA countries, a decline in outcome ratings for infrastructure cluster projects, and a further slide in performance in financial market operations. IFC's short-term instruments provided relevant trade finance risk mitigation, but their faster recent expansion in lower-risk markets requires close monitoring of IFC's additionality in these areas.

The results in IDA countries and infrastructure projects reflect both shortcomings in IFC's work quality and

higher risks. Weaknesses in the quality of IFC's front-end work combined with unmet expectations about sponsor capacity, market conditions, and cost led to difficulties in achieving positive results when exposed to unexpected challenges.

MIGA. MIGA's evaluated guarantees have performed relatively well. Seventy-six percent of 37 guarantees evaluated in FY08–13 had positive ratings. Guarantees in the financial sector performed strongly, whereas those in IDA-eligible countries and in the infrastructure sector on average had somewhat lower results. The Small Investment Program has been effective in extending MIGA's reach into smaller projects in higher-risk countries. But operational results have been challenging.

Knowledge Services

Bank Group country programs have been moving toward more intensive delivery of knowledge services relative to lending, and this trend is expected to continue. A recent IEG evaluation of knowledge-based country programs contains findings that validate previous thinking. First, knowledge services requested by the client and designed specifically to achieve client objectives are more likely to achieve outcomes than services of a more generic nature. Second, the Bank's main strength is its ability to fulfill in a timely manner client requests for a state-of-the-art service. Third, knowledge services benefit from the use of local expertise. Specifically, this helps modify global best practices to fit local conditions. Fourth, lending accompanied by knowledge services remains a powerful driver of results.

The quality of the Bank Group's knowledge services is widely acknowledged by clients and counterparts. Frequently cited strengths include the Bank Group's engagement in every region of the world, which enhances

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its ability to provide lessons from the experience of comparator countries, and its broad sectoral and cross-sectoral expertise, which enhances its ability to customize diverse technical issues to local contexts and to deliver multisector development solutions. Of critical importance to clients, country and sectoral specificity is key. At their best, Bank Group knowledge services customize specific sectoral and thematic solutions to specific country contexts.

The success rate for IFC Advisory Services has remained slightly below the target, with 59 percent of projects closed in FY08–12 achieving mostly successful or better development effectiveness ratings. Projects in IDA and IBRD countries experienced broadly similar levels of performance. Among IFC’s business lines, Access to Finance performed the best. But even so, their ratings for impact—the rationale for IFC’s involvement in such projects—were low. Only 37 percent of projects for which a rating could be assigned were rated satisfactory or higher in this dimension, reflecting the fact that many Advisory Services projects do not achieve their intended impact by the time of project closing.

IEG’s most recent evaluation of knowledge-based country programs has raised two concerns that bear watching. First, the Bank’s capacity to customize knowledge services to the local context may be diluted by a weakening of its stock of knowledge at the country level. Second, the Bank’s comparative advantage in the provision of knowledge services may be undermined by a growing tendency to deliver them through the “consultant firm model” with insufficient follow-up, integration into the broader country development agenda, and contribution to the building of the Bank’s institutional memory.

Sectoral and Thematic Lessons

IEG also completed major evaluations in recent years that shed light on Bank Group sectoral and thematic results, supporting and complementing the country and portfolio results discussed above. In summarizing the lessons from these evaluations, the review utilizes four operational categories: economic opportunities, infrastructure, human development, and environmentally and socially sustainable development.

With respect to economic opportunities, a major—and shared—finding of the fragile and conflict-affected states, procurement, and innovation and entrepreneurship evaluations was that the Bank Group had made extensive efforts to support capacity development in public institutions. However, these efforts—and their results—were uneven across countries and reform areas. Nor were the Bank Group’s investments and technical assistance governed by a strategic approach that would have (i) ensured a good understanding of country context; (ii) supported an integrated capacity-development approach to country strategies that fully reconciled (and aligned) the underlying political economy with respect to citizen expectations on the one hand with the requirements of donors on the other, including with respect to realistic pacing and sequencing of assistance—for instance, in the case of procurement, diagnostics were undertaken but not incorporated into formulating country strategies; or (iii) integrated public and private actors in mutually reinforcing systems as observed when supporting national capacity for innovation and entrepreneurship development.

In terms of poverty focus, recent IEG evaluations examined several relevant areas, including the Bank’s work on safety nets and food crisis response, and the poverty

orientation of IFC projects. Findings on safety nets included that Bank support had productively evolved from a project-centered approach focused on the delivery of social assistance benefits toward an approach focused on helping countries build systems and institutions to better respond to poverty, risk, and vulnerabilities. They also included that the Bank's prior substantive work on social safety nets had helped middle-income countries especially, while for low-income countries the Bank lacked an operational safety net model for helping them target their support, given large resource and capacity constraints. This was a major issue identified in the food crisis response evaluation, which showed that Bank support, while largely reaching the most vulnerable and vulnerable countries, often lacked an effective model for delivery on the ground. Bank-supported operations largely involved the topping up of existing in-kind transfers, public works programs, and school feeding programs.

In terms of IFC, IEG found that its strategic priorities are relevant, but the pro-poor orientation of its projects could be greatly enhanced. Where IFC projects reflected distributional aspects, targeted the poor, and monitored the results, they were more likely to achieve better poverty outcomes and perform as well as if not better than other projects on development and investment outcomes.

In infrastructure (water, sanitation, transport, energy, and information and communications technology), IEG found that Bank-supported physical infrastructure investments were generally completed on schedule. But efforts to strengthen sector capacity and promote institutional reform experienced much more difficulty, often because local realities had not been adequately factored into program design. As with operations promoting economic opportunities, implementation capacity,

political support, and country ownership were found to be essential for successful outcomes and sustainability.

In human development—education, health, and social protection—evaluation findings suggest that system-based obstacles often led to less than satisfactory outcomes. The lesson here is that as the Bank moves from a project-centered approach to country-level support and reforms of systems, results could improve, though much investment in country systems and capacity will be needed to ensure positive results.

Finally, prime requirements for successful outcomes in the environment and social sustainability area—environment, social development, and gender—include political buy-in, community involvement, adequate implementation capacity, and improved coordination among Bank Group institutions.

Risks and Results

Empirical analysis carried out for this report looked at entry risks and final outcomes in Bank projects. It produced three findings. First, and somewhat surprising, was the high overall level of entry risk in Bank projects, with 46 percent of 200 sampled investment projects having substantial or high entry risks—driven by IDA-eligible countries, especially FCS where entry risks averaged 69 percent. For IBRD-only countries, entry risks averaged only 34 percent. Second, as expected, less risky projects tended to have better outcomes—driven by IBRD-only and blend countries as having both the least entry risks and the highest outcome ratings. Third, projects in FCS had the highest frequency of high-risk projects but—very surprising—with outcome ratings as high as those for the sampled IBRD borrowers. These findings point to the importance of Bank performance in helping countries in

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difficult environments to convert high risks into high rewards. They also point to the need for enhanced quality management in IDA-eligible countries, with the goal of bringing project outcome ratings up to at least the levels achieved in IBRD and FCS countries.

Analysis carried out on IFC and MIGA focused on project-level risk factors. Here, the association between external risks, IFC's work quality, and development outcomes were found to be statistically significant and through a model demonstrated the extent to which IFC's development outcomes can be improved through greater attention to internal work quality. The analysis found that real sector projects were more sensitive than financial sector projects to improvements in IFC's work quality. The effect was stronger in higher-risk countries and regions, suggesting a higher potential payoff from improved internal work quality there.

Two recent IEG evaluations also had important implications for Bank Group risk management, whose overall architecture is broadly integrated across the three agencies in an effective way. The first concerns reputational and operational risks deriving from the Bank Group's work with partners on global programs that sometimes involves engaging in joint actions that would not necessarily be carried out if the Bank Group were acting on its own. Corporate oversight of Bank Group engagements in global programs could be strengthened. The second concerns Bank project-level fiduciary requirements (including for addressing fraud and corruption risks in Bank projects), whose zero-tolerance approach may be limiting the Bank's development effectiveness as an unintended consequence through reduced focus on the building of country procurement capacity and systems.

Institutional Effectiveness

In assessing institutional effectiveness, the review looked at internal coordination, the effectiveness of partnership programs and trust funds, and follow-up on previous IEG recommendations.

INTERNAL COORDINATION

The new Bank Group strategy emphasizes the need to work as One World Bank Group. To date country- and project-level collaboration between the Bank, IFC, and MIGA has remained low, covering only about 1 percent of Bank Group lending. Despite occasional encouraging examples, synergies among and within Bank Group institutions do not seem to be systematically exploited. Of particular relevance for implementing the new strategy, the Bank Group lacks a coherent strategic and effective framework for inclusive growth and job creation in fragile and conflict-affected states that draws on the strengths of the three agencies.

In addition, the CAS process does not ensure coordination at the country level. Instead, a lack of coordination and fragmented interventions have too often missed out on making critical linkages such as those between infrastructure, education, skills development, and private sector development, thereby undermining the Bank Group's effectiveness in promoting growth and employment. Meanwhile, Bank Group knowledge services have proven helpful in promoting coordinated and complementary interventions. Core diagnostics, such as investment climate and financial sector assessments, are paving the way for better Bank and IFC staff coordination on the needed public policy and private sector investment dimensions.

PARTNERSHIP PROGRAMS AND TRUST FUNDS

Trust funds are important resources for the Bank Group and its clients. Bank-executed trust funds amount to 22 percent of net administrative spending and reimbursables; recipient-executed trust funds amount to 10 percent of Bank loan and grant disbursements; and the most recent census identifies 225 active partnership programs and single-recipient-country trust funds. Drawing on IEG evaluations, Bank management has recently prepared a “Management Framework for World Bank Partnership Programs and Financial Intermediary Funds” that builds on the three-pillar approach of country-specific trust funds, global and regional programs, and umbrella facilities recommended in IEG’s 2011 evaluation of trust funds.

IEG generally agrees with many aspects of the new framework, which outlines a longer-term work program to support stronger Bank engagement in such programs. But a number of chronic partnership management issues remain to be addressed. These include: (i) design weaknesses with poorly-articulated results frameworks, weak resource mobilization strategies, and difficulties in demonstrating results at the outcome level; (ii) the lack of clear and coherent objectives and strategies, measurable indicators that meet the monitoring and reporting needs of program governance and management, and systematic and regular processes for collecting and managing data; (iii) weak linkages to country programs; and (iv) the need to put policies in place for periodic evaluations.

Of these, the most important is the weak and variable linkages that IEG consistently finds between Bank Group global programs and country programs. A recurring theme in the World Bank's strategy documents since 2001 has been the desirability of effective

linkages between partnership programs and the Bank's own country programs. But the Bank has not yet specified what kinds of linkages it expects for different kinds of partnership programs. Nor has it made much progress in establishing them. Therefore, IEG’s last four Global Program Reviews have focused on this issue, and IEG has developed a framework for assessing the effectiveness of different types of linkages — strategic, operational, financial, and institutional — between partnership programs and the Bank’s country programs.

Meanwhile, at the country level, multi-donor trust funds (MDTFs) have grown in importance as a modality of support for FCS and are essential in the funding of critical recovery activities. IEG’s recent evaluation of Bank assistance to FCS found that MDTFs work best when they (i) are central to the Bank’s country strategy and are linked to the Bank’s portfolio; (ii) have clear governance protocols and demarcated responsibilities; and (iii) avoid multiple reporting lines and unrealistic expectations about what can be delivered and on what timeframe. MDTFs have played a complementary role in the Bank’s portfolio, and successfully established links between IDA allocations and trust funds in several FCS.

FOLLOW-UP ON IEG RECOMMENDATIONS: MANAGEMENT ACTION RECORD

The Management Action Record (MAR) has been tracking Bank Group follow-up to IEG recommendations for many years. Between 2009 and 2013, IEG completed 23 evaluations with 97 recommendations tracked in the MAR. IEG judges that 62 percent of those recommendations have been substantially adopted, with the adoption rate increasing over time and reaching 90 percent for recommendations in their fourth year of being tracked. IEG and

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Bank Group management have worked together to strengthen the MAR process by clarifying expectations on what constitutes “adoption” and including actions and timelines for the implementation of each recommendation. Together they developed a user-friendly system for consistently tracking MAR follow-up across the Bank, IFC, and MIGA. The new tool was launched in April 2013 and used in this year’s MAR review.

Recent follow-up evaluations by IEG in important sector and thematic areas support and complement these findings, suggesting that IEG evaluations are being reflected in operational work. For example, in the Health, Nutrition, and Population sector, an IEG follow-up review completed in October 2013 found progress in several areas that had been raised in the 2009 evaluation, including M&E, project quality control at the regional and sector levels, multisector collaboration, and focus on health systems development. But more attention is needed on the balance between investment and technical assistance and on administrative simplification and gaps in staffing. IEG’s 2010 gender evaluation also appears to have made a difference in conjunction with the 2012 World Development Report and the Sixteenth Replenishment of IDA agreement. The 2012 CASs and Interim Strategy Notes, for example, have exceeded the Bank’s benchmarks for being gender informed. Nevertheless, much more needs to be done, and there is no room for complacency, with a key priority being the extension of the monitoring framework beyond the design stage to outcomes.

Conclusions and Areas for Attention

As an input into the pursuit of the Bank Group’s new strategy, the review identifies four areas for attention where Bank Group

performance warrants a close watch: client focus and country ownership, product excellence, informed risk management, and adequate financing.

Client Focus and Country Ownership.

Management is now moving to a new country partnership framework to replace the CAS. This includes a new systematic country diagnostic that will identify critical constraints and opportunities. The new framework would provide much needed country background and may encourage stronger emphasis on program monitoring and more useful mid-term reviews.

In this revamping, the lessons from evaluation point to the importance of ensuring country ownership, strategic selectivity and realism, and the quality of results frameworks. They also point to the importance of drawing on good-practice examples such as in Brazil and Turkey among IBRD borrowers, where the Bank Group managed to build country ownership which paid off in better performance both of the borrower and the Bank, and in Afghanistan among IDA-eligible countries. In implementing the planned refinements, there is also a clear need to deepen and broaden cooperation across and within World Bank Group institutions, including with respect to country strategies for which coordination has improved but remains low in part because of CASs’ perceived limited relevance to IFC and MIGA and their clients.

Renewed Excellence in Product and Service Delivery.

Client focus is indeed essential. But at the end of the day clients want excellence in products and services. With a view to reversing declines in investment lending quality and performance, Bank management has launched a program for strengthened portfolio oversight with measures to address this problem in three areas: (i) clarified and harmonized

management attention and accountability to strengthen regional decision making on investment lending; (ii) improved technical support to teams through both improved peer review systems and better access to relevant and up-to-date sector knowledge; and (iii) better reporting to senior management. Meanwhile, IFC and MIGA's M&E systems have substantial room for improvement with a view to generating more relevant and credible information for decision making and learning.

The acid test of these measures will be their sustained implementation, an area where the Bank Group has declined in the past—both historically and more recently. In turn this will require appropriate incentives for managers and staff to ensure the underlying quality of Bank Group products and services—incentives that will also recognize and reward practical and hands-on solutions to real-world problems. For example in the Democratic Republic of Congo, the Bank's response to weak country capacity combined accurate risk identification during design with flexibility during supervision, while preserving continuity and institutional memory despite changes and finding timely responses to repeated client requests for changes.

Attention to Informed Risk

Management. The Bank, IFC, and MIGA all need to upgrade their attention to risks, strengthening existing risk management tools and, importantly, incentives for using them. The Bank Group's risk management architecture suggests that failure risks are relatively minor and contained in theory. However, the weaknesses in operational outcomes point to larger failings in practice. The existence of many problems of quality at entry—in spite of numerous approval processing steps—suggests the need for a deep review of all of the Bank's processes for project identification and approval.

In addition, IFC needs to examine both the causes and implications of the stagnation in its long-term finance commitments and the shift in its product mix toward wholesaling through financial intermediaries. With respect to its growing short term finance products, IFC should carefully monitor its additionality in lower-risk markets where it has been growing very quickly. MIGA's recent portfolio growth also warrants careful monitoring, focused on the shift toward more complex projects and higher-risk markets.

Adequate Financial Resources. Effective donor coordination around IDA and a strengthened IBRD financial structure are essential. To be sure, the new ranking—with IDA commitments exceeding IBRD's and IFC commitments exceeding each of them—can be interpreted as heralding the shift in focus of the Bank Group's new strategy. But lower revenues from IBRD lending will have adverse consequences for the Bank's business model since the Bank's strength is based on IBRD's robust capital position and shareholder support as well as on prudent financial policies and practices. IBRD headroom—though now stabilizing with the decline in lending commitments since FY10—warrants urgent attention to ensure preparedness for future crisis responses and other requirements.

Management Comments

I. World Bank Group Management Comments

World Bank Group Management welcomes the Independent Evaluation Group (IEG) report *Results and Performance of the World Bank Group 2013* and the opportunity to respond with specific comments. This annual compendium of IEG views on Bank Group results and performance provides useful insights for Management. The RAP 2013 acknowledges that broadening and deepening collaboration across the Bank Group is an important part of the new strategy (“Working as One World Bank Group”).

To meet the most difficult development challenges, the Bank Group is catalyzing and leveraging more fully the combined resources and expertise within and across the World Bank, International Finance Corporation (IFC), and the Multilateral Investment and Guarantee Agency (MIGA). The internal reform process supporting the implementation of the strategy is already achieving integration at the corporate level (e.g., budgeting, human resources, and information technology). To promote broader collaboration across all of its activities, the World Bank Group is also working on changing its incentives, policies, and practices. The introduction of technical “Global Practices” and “Cross-Cutting Solution Areas” will promote the flow of knowledge across sectors, regions, and the whole World Bank Group allowing personnel from the three institutions, various sectors, and regions to work together on integrated development solutions.

Overall, Bank Group Management notes that the report’s four main areas for attention for Management are aligned with the objectives of the internal change agenda and the reforms launched over the last year, including the adoption of the World Bank Group strategy. In terms of the Management Action Record, Bank Group Management is pleased with the recognition of the high level of adoption of IEG recommendations (90 percent after four years) indicating that Management has satisfactorily addressed many of the issues identified by past IEG evaluations.

SUGGESTED AREAS FOR ATTENTION

IEG identified four areas as constraining the Bank Group’s capacity to contribute to the twin goals of eliminating extreme poverty and promoting shared prosperity in a sustainable way: (a) renewed effectiveness in country programs; (b) product and service delivery excellence; (c) informed risk management; and (d) adequate financing.

Renewed effectiveness in country programs—a new model for country engagement. The World Bank Group will introduce a new approach to country engagement, starting in July 2014, in place of the current Country Assistance Strategies (CASs). New “Country Partnership Frameworks” (CPF) will continue to build on a country-driven development program, like the current CASs, but will be underpinned by a “Systematic Country Diagnostic” ensuring a more consistent and rigorous identification of the key opportunities and constraints to achieving the Bank’s poverty and prosperity goals in a sustainable manner at the country level. Besides the emphasis on more systematic analytical underpinnings, the new CPFs will aim for greater selectivity, driven by the “twin goals” and a renewed focus on comparative advantage. Other features of this new model for country engagement include: a more concerted “one World Bank Group” approach; a strengthened focus on Country Partnership Objectives and results

frameworks; a continuous process of monitoring and learning, including periodic Performance and Learning Reviews; and a Completion and Learning Review before preparing a new CPF.

Products and service delivery excellence. Management agrees that operational excellence is essential to the success of the Bank Group strategy and is pleased by the improved outcome ratings of development policy operations but is concerned about the declining project ratings at exit for Bank investment lending. Management also notes that the historically high overall development outcome of IFC investment services (IS) was not sustained but remained within its long run target. Management is focusing attention on areas of quality improvement. Management appreciates the recognition in the RAP of the measures that have already been undertaken to reverse the negative trend in IEG ratings for Bank investment lending. The RAP also shows a stronger IFC IS supervision work quality, suggesting that recent steps IFC has undertaken that have implications on supervision are already taking effect. The impact of these measures will take time to fully materialize in more positive ratings at project closure and also will require overall improvement in countries' conditions. However, the RAP does conclude that a positive impact is already occurring for Bank projects in fragile and conflict-affected states (FCS), an important group of countries for the Bank Group strategy. Furthermore, the whole change initiative is geared toward a more systematic use of evaluative evidence to support quality project design and supervision, sounder peer review practices, clearer accountability for results, and better monitoring and evaluation (M&E) systems, including with the launch of a new corporate scorecard for the whole World Bank Group.

Informed risk management. Management agrees with IEG conclusions that the overall risk management architecture and the control framework are robust. The issue at hand is not with controls but with incentives and accountabilities, particularly during project implementation, to support proactive risk management. The new strategy recognizes that the World Bank Group needs to manage risk better to focus on development impact, enhance timeliness of delivery, and improve responsiveness. The goal of the ongoing reforms of risk and accountability is to establish an integrated risk framework across instruments and Bank-wide with a robust system of corporate oversight.

Adequate financial resources. To support countries in achieving the twin goals, the magnitude of the resource needs will require the World Bank Group to work closely with other partners, both public and private. The repositioned World Bank Group is supported by a realigned financial strategy based on the principle of financial sustainability and boosting the efficiency of the Bank Group balance sheet. Very simply this boils down to growing revenues and controlling costs and making sure that Bank Group financial resources, including all revenue streams, are aligned with its strategy and the twin goals. These objectives are underpinned by a collaborative One World Bank Group approach that draws on the comparative advantages of each of its institutions. A new Bank Group budget process to support the strategy's priorities is being prepared for FY15. An ongoing expenditure review is looking at efficiencies to make business more sustainable. Finally, new measures were recently approved as a first step to strengthen the overall Bank Group revenue stream and financial capacity. These include a set of measures to improve the margin for maneuver of the International Bank for Reconstruction and Development (IBRD) which will over time increase IBRD's annual lending commitment capacity from \$15 billion per annum to more than \$25 billion per annum. They include an innovative approach enhancing the use of the Bank Group balance sheet to manage exposure

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concentration that will allow both MIGA and IBRD to improve diversification of their portfolios, freeing up capacity to support additional business.

Following are specific Management comments from the World Bank, IFC, and MIGA in response to the IEG report *Results and Performance of the World Bank Group 2013*.

II. World Bank Management Comments

Outcome ratings. Management notes with satisfaction that outcome ratings for development policy operations have remained high and improved even in the context of increased lending volume and the more difficult operating environment following the recent global economic and financial crises (92 percent of Bank portfolio outcomes by commitments were rated as “moderately satisfactory” or better on a three-year moving average for FY10–12). Management also welcomes the findings relative to the improvement in outcome ratings for the FCS portfolio. On average the projects of the International Development Association (IDA) have comparable success rates in FCS and non-FCS settings. IEG associates these improvements with significantly enhanced investments in staffing and budget resources for project design and supervision in FCS countries. Despite recognizing these efforts, Management is cautious in attributing strong causal links to any single factor (particularly in the absence of solid regression analysis) since it considers that other factors could have also contributed to this improved portfolio quality. These factors include reforms of the enabling policy framework for FCS operations over time, increased reliance on country systems, increased emphasis on the simplification of project design and implementation arrangements, and greater focus on definition of achievable results recognizing the long time frames for institutional change in such contexts.

However, Management shares IEG concerns about the weakening outcome ratings for investment lending (referred to now as investment project financing). While Figure 2.9 in the RAP 2013 shows improvement in IEG ratings for investment projects closing after FY10, it is not yet possible to establish a trend since IEG’s review of ICRs closing in FY12 is still only 50 percent complete. Also, driven in part by the positive performance of development policy operations, Bank project outcomes by commitments show a less dramatic decline in outcome ratings than by number of projects (Figure 2.8 in the RAP 2013), with an actual improvement in combined ratings (development policy operations and investment project financing) and a marginal decline for investment projects over a 10-year period.

Nevertheless, Management takes seriously any weakening outcome rating and, as described in the IEG report (chapter 4, “Effectiveness in Portfolio Management”), has already undertaken substantial measures to revamp its quality assurance framework. The actions undertaken over the last couple of years are expected to gradually help improve the overall quality of operations in the coming years.

Quality assurance. In FY13, progress was made on all areas of the Bank’s revamped quality assurance framework: clarified and harmonized attention and accountability by Management, better reporting to Senior Management, and improved technical support to teams. For example, investment lending policies were consolidated and streamlined to enable Bank teams to work more effectively. In addition, the Accountability and Decision-Making Framework was

introduced to increase attention to accountability and clarity of roles and responsibilities at each step of the project cycle. A task team leader dashboard has been created to facilitate timely access to key portfolio information by each team leader. Finally, in response to the concerns of staff across the institution about the mushrooming of regional procedures, a harmonization exercise was completed with the Regions that led to the adoption of common corporate processing steps from project preparation through approval.

Detailed quarterly portfolio monitoring reports now help Management focus and take early action on a number of key portfolio indicators. These indicators are also monitored during monthly, Senior Management meetings that focus on delivery, disbursement, and quality. As follow-up to these meetings, several actions have been agreed upon by all Regions and Networks, and there are early indications of positive results (for example, increase in number of new projects that provide economic justification for the operation). In addition, several Bank-conducted reviews on selected topics help with the early identification of performance problems and actions to address the problems. The impact of these measures is expected to improve performance of new projects through increased focus on quality at entry and of problem projects currently in the portfolio.

Also, the Networks and the Regions clarified their governance structure on quality assurance and joint responsibility in improving portfolio performance as part of their Memoranda of Understanding discussions with Senior Management. Networks have also made progress on finalizing plans for a stronger peer review system and provision of improved technical support to task teams. These efforts are expected to be consolidated by the introduction of the global practices, which will be accountable for technical excellence, including the strengthening of quality at entry and during supervision. This includes the provision of high-quality technical support to task teams and the implementation of strengthened quality assurance plans already started by several Networks. It is expected that the Global Practices will also accelerate the development of a stronger peer review system and will promote a more consistent and effective use of evaluative knowledge, both during project preparation and implementation, ultimately leading to improved quality of operations.

Quality at entry. Management agrees that there is further need to strengthen quality at entry but anticipates a positive impact over time on quality at entry with the FY15 reforms roll-out and actions already adopted: a new country engagement model, stronger peer review system and better technical support to task teams under the global practices, a more systematic use of evaluative evidence and learning from implementation, a sharpened focus on results and results measurement, and increased management attention and oversight. However, there remain some questions on the validity of the assessment of quality at entry. IEG's assessment of the quality at entry of an operation at completion occurs a number of years after the actual "quality at entry" takes place. While this measure could have possible value for future operations, it comes too late for introducing any corrective action for the project being examined. Management does not agree as IEG suggests (chapter 4) that to improve the quality at entry there is a "need for fresh consideration of all of the Bank processes for project identification and approvals." This fails to recognize that these processes are constantly monitored and adapted and that in recent years underwent a comprehensive review. More importantly, Management does not think that additional processing/reviewing steps are necessarily the answer to declining quality at entry.

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Results focus. Management agrees with IEG on the need to strengthen the overall results focus and quality of the M&E approach in Bank operations. Several initiatives are ongoing and will be accelerated by the roll-out of the broader change agenda. The introduction of the new country engagement model puts more emphasis on systematically identifying selected achievable objectives for the assistance the Bank Group provides to countries and on monitoring and evaluating the achievement of these goals, including with increased attention to the introduction of early corrective actions to reflect changed circumstances and learning from implementation. The Bank also plans to engage more systematically with project beneficiaries to gain insights on the results that they most value, suggestions about potential risks and ways to address them, and feedback on the effectiveness of Bank Group-supported programs.

With the goal of strengthening technical capacity for results measurement, a Bank Group-wide community of practice of results measurement and evaluation practitioners will be launched. IEG will also participate, as appropriate. With development of a professional cadre of practitioners on results management, this initiative will promote the design and use of a broad spectrum of evaluative approaches to produce evidence on what works; foster a holistic approach to results and evidence that links all stages of the results reporting cycle; promote the adoption of uniform practices across the World Bank Group; and advance the frontiers of knowledge about key technical aspects of monitoring and evaluation to help the World Bank Group adopt cutting-edge practices.

The launch of a new Bank Group corporate scorecard in 2014 and the Bank's own revamped scorecard will also enhance the corporate monitoring framework and will better link it to the Regions' monitoring systems. Ultimately, improving the M&E framework at the Bank has much to do with a shift in culture and incentives, putting achieving (and measuring) results at the center of operational decisions. This is clearly one of the goals of the reform process. The commitment toward a results culture in the institution has already been reflected in the corporate scorecard indicators embedded in Managing Directors' performance Memoranda of Understanding, cascading down to the Vice President level, strengthening the framework of formal incentives for results management. The next stage will entail embedding incentives and identifying clear accountabilities for results (and results measurement, evaluating, and reporting) all the way down to individual staff.

Country assistance strategies. Management agrees with IEG that there is scope for improvement in the design of country assistance strategies, particularly realism and the results framework, in order to achieve the desired development outcomes. The ongoing reforms, which will culminate with the launch on July 1, 2014, of a new framework for country engagement (based on the systematic country diagnostic, country partnership framework, performance and learning review, and completion and learning report), are meant to address the issues raised by IEG.

However, Management urges caution in drawing conclusions from the declining outcome ratings (Figure 2.6 in the RAP 2013) for several reasons. First, IEG did not have in place a written evaluation methodology for CAS outcome rating at any point covered by the RAP 2013. In FY14, IEG and Bank Management jointly developed a shared approach to assess country assistance/partnership. The new approach (Box 4.1 of the RAP 2013) makes explicit to staff, for the first time, the basis for IEG validation of completion reports and its harmonization with Management's approach to self-evaluation.

Second, the CASCRs from the first part of the sample largely reflect country strategies that were in place before the introduction of results-based strategies and the methodology to evaluate them. Further, the underlying regressions do not appear to be conditioned on other relevant circumstances, which makes it difficult to understand or draw definitive conclusions from the declining trend in ratings.

Among the three factors (ownership, realism, and quality of result framework) affecting outcome ratings for country programs (excluding impact of the global economic and fiscal crisis), IEG analysis indicates that realism was not statistically significant over FY06–13 (Appendix B in the RAP 2013). Of the two factors, Management is uncertain that the definition of ownership (Box B.1. in Appendix B of RAP 2013) captures well the complexity of country ownership. Besides, satisfactory ownership appears not to change much between FY06–09 and FY10–13, and IEG’s own data indicate that 97 percent of CASs are strategically aligned with the country’s priorities. Moreover, Management is not convinced that the qualitative variables used by IEG in assessing the country ownership (values of “0” for no ownership” and “1” for ownership) are sufficient in providing clear evidence given the complexity of the issue and range of variables at play.

Notwithstanding the above, IEG indicates that result frameworks are the most important drivers of outcome ratings, both in terms of magnitude and statistical significance over FY06–13. This conclusion usefully reinforces the need for Management to focus on better capturing and measuring results at the country program level, in partnership with its clients. Given that IEG indicates a significant (around 30) percent of the outcomes could not be measured due to shortcomings of the results framework, it is not possible for IEG to determine whether these programs achieved the intended outcomes.

Risk management framework. The RAP 2013 acknowledges that the Bank Group risk management architecture operates effectively across a range of financial and reputational risks, and risk failure appears to be relatively minor and contained. The issue at hand is not with controls but with incentives and accountabilities, particularly during project implementation, to support proactive risk management; or with, as the Bank Group strategy puts it, the greatest risk of all that the World Bank Group needs to tackle — not delivering results to its clients.

Thus, in the context of declining outcome indicators, the reform process is focused on developing a more robust framework for the management of operational risks, to support the right incentives and clarify the accountability underpinning a move from compliance to proactive risk management. A process of addressing risk aversion through a better definition of risk levels and related accountability is under preparation. Improved risk monitoring and reporting will be introduced. Part of the comprehensive risk management framework, engagement vis à vis the Bank’s oversight units (notably INT, Inspection Panel, and IAD) will be clarified and enhanced as appropriate. Finally, Management will also invest in analyzing and disseminating lessons from past experience.

Knowledge services. Management appreciates the IEG report’s acknowledgments of the quality of the Bank Group knowledge services. However, Management does not fully agree with IEG’s observation of an “increasing tendency” to deliver knowledge services through a “consultant firm model,” with insufficient follow-up and loose integration into the broader country development agenda. This generalization, from a relatively small set of cases, does not adequately reflect Bank’s overall practice in this area. The way the World Bank provides its

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knowledge services, including on a reimbursable basis, differs considerably from a consultant firm model. When providing Reimbursable Advisory Services (RAS), the Bank does not compete with other consultancies. Rather, the Bank is specifically asked by the clients to perform specific services based on its development mandate and long-term relations with clients. With respect to IEG's point about loose integration into the broader country development agenda, RAS are often a continuation of previous engagements, especially in former borrowing countries. Where a country partnership strategy exists, they are fully aligned with this strategy, and all RAS are subject to the same quality assurance measures as bank budget or trust funded knowledge products. Finally, Management is about to launch the programmatic approach for RAS, which will allow teams to combine multiple and longer-term RAS projects under one strategic umbrella. Management will continue to build on the Bank's reputation as a long-term and trusted development partner, especially when providing RAS.

Partnerships. The RAP 2013 report rightly emphasizes the various design weaknesses in the Bank Group's ability to leverage its role in the global development architecture through sustained partnerships programs. Management appreciates IEG recognition of many new aspects of the management framework, presented to the Board in June 2013, including combining the partnership programs and Financial Intermediary Funds management frameworks, and adopting a principles-based approach to selectivity. As noted by IEG, Management has identified further work needed to strengthen selective and strategic alignment with the new Bank Group strategy, a more structured and disciplined approach to the mobilization and deployment of trust funds, combined with an increased focus on results.

III. IFC Management Comments

Overall development results. Management is pleased that the RAP report finds that overall development results of IFC investment service projects were on target, suggesting that nearly two-thirds of IFC investments continued to have positive development outcomes during a challenging period. Management notes that the most recent projects included in the evaluation representing 2007 approvals, particularly IFC's infrastructure cluster, achieved a higher development success rate than the year before. This appears to be an early indication of an upward trend in development outcome. Results on a portfolio basis are also encouraging. IFC achieved a 75 percent development outcome success rate on a weighted average based on commitment volume of \$6.8 billion of evaluated projects according to IEG data.

Results in IDA countries. These relatively stable success rates come from a mix of particularly strong outcomes in non-IDA countries and less strong outcomes in IDA countries. This mix is consistent with IFC expectations as Management enhances its strategic focus on IDA countries. As Management has previously reported in recent IFC Annual Portfolio Reviews and in IFC Management Comments in last year's IEG RAP report, development results in investment services in IDA countries reflect the complexities in working in such environments. Projects in such countries often have high project and macro risks, including less sophisticated local sponsors, an uneven playing field, severe infrastructure bottlenecks, a weak regulatory environment, and political uncertainties. As the report acknowledges, the development outcome benchmarks for projects in difficult environments or more risky countries are effectively higher than in less risky countries. Projects in riskier countries have to meet a higher weighted average

cost of capital benchmark for development outcome due to higher macro risks relative to less-riskier countries.

Despite such challenges, IFC continues to innovate in FY14 in order to achieve greater development impact where it matters most, especially in riskier countries. For example, IFC has identified transformational engagements for increased focus and tracking, the vast majority of which are in IDA countries. Management expects these projects to address binding constraints leading to fundamental positive impact on people's lives beyond what IFC currently measures at the project level. Management also rolled out a new program designed to adapt an IFC business model in FCS to be more effective in these markets. Part of this program is the establishment of a dedicated support within legal and credit teams to guide and facilitate these investments, and aligning advisory services with investee companies to increase the development impact of these projects. Management is also working for all countries on a greater integration of investment and advisory services. Past IEG evaluations have shown that IFC tends to have better development results when investment service and advisory service go hand in hand. In this regard, Management has established the Financial Institutions Group to leverage and mobilize specialists and client-facing staff across investment and advisory services in financial markets.

Work quality. Management appreciates IEG's attention to investment service work quality. The benefits of IFC initiatives to improve screening, appraisal, and structuring work quality take time to show fully in IEG's evaluation data given that projects are evaluated five years after approval. Many of the recent initiatives such as establishing an operational hub in Istanbul with enhanced delegated authority, increasing local presence, placing more experienced staff with global knowledge nearer clients, and hiring staff with local knowledge were undertaken after the projects in this year's RAP were appraised and approved. However, some of the benefits of these initiatives are already evident on supervision work quality given that the evaluation covers more recent supervision (i.e., up to 2012). Based on IEG's latest data, IFC's aggregate supervision work quality rated satisfactory or better increased from an already high of 82 percent to 87 percent. The new enhanced engagement model for private sector clients, as well as the initiative for a greater functional specialization within IFC operations, should further strengthen work quality.

Management agrees with the RAP report on the importance of work quality. However, the report appears to overemphasize its impact on outcome for two reasons (a) work quality ratings can be underestimated in difficult environments; and (b) the current framework of evaluating work quality ex post has potential flaws. On the first reason, as IFC expands in IDA, FCS, and low-income countries, it faces several situations where it has to make assumptions and extrapolations in the absence of solid market and business intelligence data that are readily available in middle-income countries. For example, with hindsight and in failed projects, it may appear obvious that assumptions about markets, sponsors, or management were optimistic. However, IFC may have gone ahead with such projects with a full understanding of the risks. This does not necessarily imply a weakness in work quality. It instead reflects IFC's risk appetite to do business in difficult countries where development outcome would have a larger impact on people's lives.

On the second reason, the Expanded Project Supervision Report (XPSR) framework calls for an evaluation of work quality at entry after the results of the projects are known. For failed projects, evaluators may look more closely for shortcomings at entry to help explain the failure.

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Assumptions that were acceptable at entry, given the available information, may no longer look acceptable due to new information (e.g., subsequent developments after project approval). Good appraisal of work quality is more difficult to identify in failed projects.

For advisory services, Management is committed to continue working with IEG on appropriate measures of work quality and as required where to improve it.

Recent investment commitments. The RAP report confirms IFC's continued strong focus on IDA countries where IFC investment commitments grew at twice the rate of IFC's overall commitment growth. It also notes that FY13 short-term finance (STF) instruments account for more than 40 percent of IFC commitments according to the commitment based methodology.¹ However, the report's view that short-term finances are concentrated in less risky environments does not fully take into account that projects in IDA countries are generally implemented in riskier environments. From FY11 to FY13, at least 50 percent of IFC's STF commitments were in IDA countries. The report also suggests that IFC's growth in wholesale support through intermediaries creates complications in assessing ultimate beneficiary impact. This view fails to recognize the importance of financial institutions and markets to a country's infrastructure and the impact IFC has by partnering with these institutions to support their expansion in critical sectors. It also does not appreciate that financial institutions are in a better position to efficiently monitor and manage day-to-day risk associated with their clients.

Working through and with financial institutions will continue to be part of IFC's value proposition along with long-term finance and other product lines. The IFC's wholesale investments through financial institutions are enabling its partner banks to become part of the "access to finance" solution, expanding their reach in IFC priority and historically challenging areas such as micro, small, and medium enterprises (MSMEs), small holder farmers, and women entrepreneurs, where financing remains extremely difficult to access. The IEG evaluation of IFC's MSME support through financial institutions confirmed that IFC's wholesale approach is strategic, relevant, and effective.

Global Trade Finance Program (GTFP). Management appreciates IEG evaluation of the IFC's Global Trade Finance Program (GTFP), which was presented to the Committee on Development Effectiveness (CODE) on March 11, 2013. IEG acknowledges the broad success of GTFP, noting, "The GTFP significantly improved IFC's engagement in trade finance from its past efforts by introducing an open, global network of banks and a quick and flexible response platform to support the supply of trade finance." Management particularly appreciates IEG's recognition of the importance of the GTFP with respect to the Bank Group strategy for trade; its global leadership in emerging market trade finance; the recognition of its relevance in multiple scenarios; its client responsiveness; its efficient use of IFC staff and capital; and its capacity to support the enabling of trade transactions, South-South trade, the growth of correspondent networks of Issuing Banks in emerging markets, and trade finance volume.

IFC agrees that it should continue to ensure that GTFP focuses on areas where its additionality is significant. IEG's GTFP evaluation also found particularly strong IFC additionality in higher-risk, low-income countries. Given that GTFP was founded as a global program, Management also engages in medium- and lower-risk countries where Management's focused support is on lower-tier banks, frontier or lower-income regions, critical sector and underserved clients, and less-available trade finance products. The fundamental shift in risk assessment and capital

availability among financial institutions as well as a continued need for trade finance support across emerging markets, regardless of country income level, are evident.

From its inception in 2005 through June 30, 2013, GTFP has covered over 28,000 trade transactions and has supported over \$31 billion in emerging market trade. The GTFP commitments topped \$13 billion in IDA countries, \$6.2 billion in Sub-Saharan Africa, and \$6.6 billion was in agriculture. The GTFP has added over 180 financial institutions to IFC's client base, over 50 of which have benefitted from additional IFC interventions. The GTFP has supported trade in 28 of the 35 current fragile and conflict-affected situations. Going forward, IFC is considering an alternative way of tracking GTFP volume consistent with IEG's recommendation in its GTFP evaluation.

Advisory Services. Management notes that the cohort of projects examined by IEG in this RAP report coincided with a period of consolidation and implementation of many revisions and improvements to project design, governance, and results measurement as well as a sharpening of IFC strategic focus. IFC's Development Outcome Tracking System (DOTS) for advisory services shows that development effectiveness ratings improved consistently over FY10–13. As IEG notes in the report, Management is working with IEG to review the guidelines for the Advisory Services' project completion reports to strengthen the self-assessment tool. Advisory Services continually review and revise its results measurement tools to strengthen their alignment with the business and IFC evolving strategy and to incorporate lessons of experience. Among the many improvements to results measurement for Advisory Services' activities in recent years, Management has been reviewing the array of tools it has to ensure rigorous and cost-effective evaluation of longer-term results and impacts. This includes the new IFC evaluation strategy and recent launch of an Advisory Services' post-implementation monitoring system. In addition to these results measurement initiatives, the Bank Group Global Practices (GPs) and Cross-Cutting Solution Areas (CCSAs) model also presents opportunities for IFC to strengthen the client focus and impact of advisory services. The Trade and Competitiveness GP will be fully joint, incorporating IFC's Investment Climate business line, and the Finance and Markets GP will be partially joint, incorporating part of IFC's Access to Finance business line.

Results management framework. Management agrees with the report's view that IFC's M&E system can still be further strengthened. In light of the Bank Group change process, IFC is working to improve its approach to results measurement with a much greater focus on impact. IFC plans to streamline the monitoring system (DOTS) to meet evolving business needs so that clients and operational teams can track data that is mutually valuable. In addition, Management will complement the streamlined monitoring system with more evaluative approaches geared toward better understanding of impact.

Management will approach the changes in IFC's M&E framework gradually with an aim to present an integrated plan at the end of FY14 and to begin the first phase of implementation in FY15. Broadly, the scope of changes includes (a) streamlining and simplifying the metrics (DOTS indicators) for investment operations, (b) identifying improvements to enhance the focus on results while being flexible in monitoring, and (c) radically streamlining the content of XPSRs and enhancing their usefulness to operations.

IV. MIGA Management Comments

Report design. Overall, MIGA finds that RAP 2013 provides a balanced and fair view of MIGA operations during the review period, based on a representative sample. Unlike other recent IEG thematic evaluations (FCS, SME), RAP 2013 is fully based on completed Project Evaluation Reports. MIGA-supported projects have performed well with a development outcome success rate of 76 percent (28 out of 37).

MIGA's risk management approach. The report states correctly that MIGA's dual mandate as a development institution and a financially self-sustaining guarantee agency is at the core of its risk management approach. MIGA also finds useful the RAP 2013 discussion regarding the challenging environments faced by MIGA-supported projects, including FCS, and underscores the need to consider this context while assessing their performance and results.

MIGA self-evaluations and learning. The RAP states that the coverage of the MIGA self-evaluation program is not sufficient to accurately assess MIGA's overall performance. The IEG has recommended for MIGA to scale up the coverage of its evaluated projects. MIGA notes that the sampling approach used in the past for MIGA evaluations contributed to this situation. However, starting in FY12, MIGA and IEG agreed to cover all MIGA projects through self and IEG evaluations. Therefore, systematic tracking of MIGA development results may not be an issue going forward. MIGA also notes that IEG's ongoing expansion of the E-LRN system to cover MIGA evaluations has the potential to enhance learning from self-evaluations.

¹ Starting in FY15, IFC will shift from its current practice of reporting the cumulative commitment volume of its short-term finance (STF) business over the course of that fiscal year and then aggregating that with its long-term finance (LTF) commitment volumes. Instead, it will report the average annual outstanding portfolio balance of its STF business in a given fiscal year and reflect that separately from its LTF business. If this methodology was applied on FY13 business volumes, STF volume would have been reported as \$2.7 billion instead of \$7.3 billion. The LTF volume in FY13 was \$11.0 billion.

1. The Global Development Context

Highlights

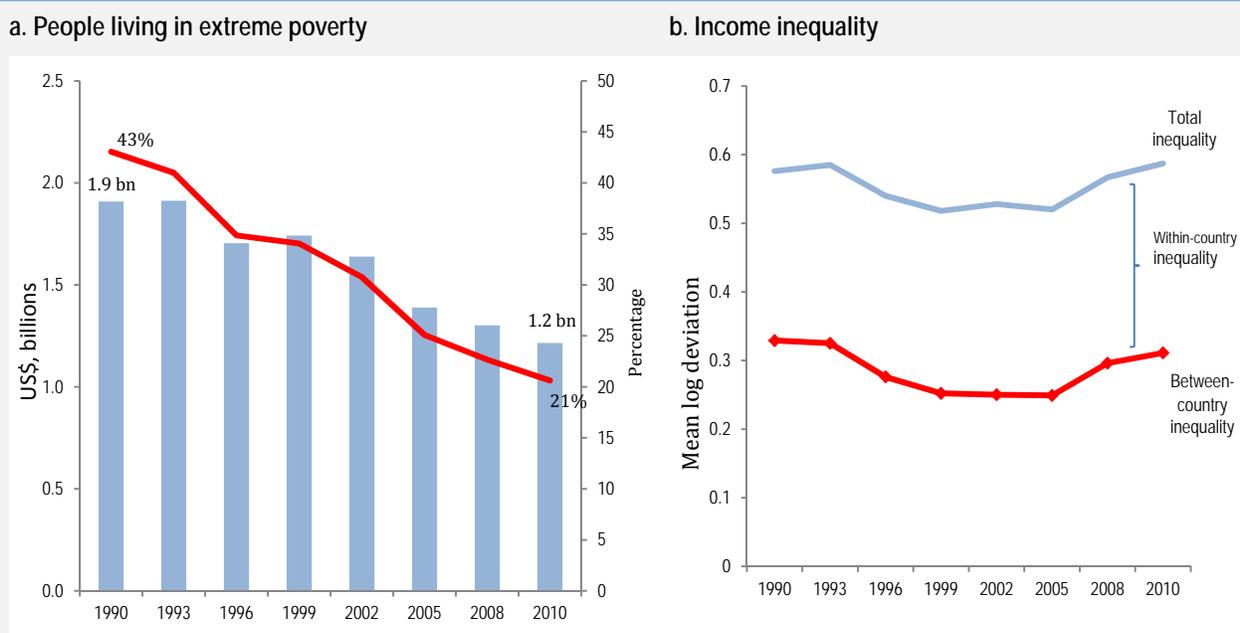
- ❖ The global extreme poverty rate has fallen by half since 1990, but progress within the developing world has been highly uneven. In many developing countries, growth has been accompanied by rising inequality and disparities, often with a geographic dimension in the form of lagging areas.
- ❖ Four of the Millennium Development Goal targets have already been met, but this aggregate achievement masks disparate performance across the regions, which is even more acute in relation to yet-to-be-attained targets such as reducing infant, child, and maternal mortality.
- ❖ In the wake of the food, fuel, and financial crises, many lower-income countries are experiencing sustained growth. But ongoing challenges and risks remain associated with a complex of factors that include unevenness in development results, physical risks associated with climate change and natural disasters, and significant levels of political unrest in some countries and regions.
- ❖ The World Bank Group has committed to an ambitious effort to end extreme poverty within a generation and to boost shared prosperity. A major change is underway to improve development effectiveness and to systematically feed learning back into practice.
- ❖ To be most helpful in meeting the challenges ahead, Results and Performance 2013 focuses on key areas where Bank Group performance might be improved as an input into the implementation of the new strategy. These include core activities such as developing good country assistance strategy results frameworks, knowledge services customized to client circumstances, effective project appraisal and supervision, and enhanced internal coordination across the Bank, International Finance Corporation, and Multilateral Investment Guarantee Agency.

Recent Development Trends

The global extreme poverty rate has fallen by half since 1990, but progress within the developing world has been uneven. The proportion of people living on less than \$1.25 a day fell from 43.1 percent in 1990 to 20.6 percent in 2010, leaving 1.2 billion in extreme poverty (World Bank and IMF 2013). Although the recent food and global economic crises have worsened the predicament of vulnerable populations and slowed poverty reduction in some countries, global poverty rates have continued to fall. Progress toward reducing absolute poverty has been stellar in the East Asia and Pacific Region. Absolute poverty has declined from 56.2 percent in 1990 to 12.5 percent in 2010 and is forecast to fall further to 5.5 percent in 2015. In Sub-Saharan Africa, a slower, downward trend continues – from 56.5 percent in 1990 to 48.5 percent in 2010, with a forecast to reach 42.3 percent in 2015.

But in many developing countries, growth has been accompanied by rising inequality, often with urban areas growing rapidly and rural areas falling behind. Strong overall growth in developing countries has narrowed the income gap between rich and poor countries, but growing inequality within many countries has offset the impact of this convergence on global inequality among all people in the world (Figure 1.1). The Latin America and the Caribbean Region has persistently had the highest average inequality within countries, though falling noticeably since 2000. Sub-Saharan Africa has the second-highest inequality average among the regions. South Asia has generally been a region of low inequality, though rising since the early 1990s. The East Asia and Pacific Region started out as having the lowest inequality within countries, but has seen a steady rise even as growth and poverty reduction have increased.

Figure 1.1. Extreme Poverty and Income Inequality



Source: World Bank data.

Within-country inequality is a factor contributing to the geographic distribution of extreme poverty across developing countries, which remains widespread in most low-income countries. Extreme poverty is also prevalent in some middle-income countries, which account for three-quarters of the world's 1.2 billion extremely poor people. Looking across regions, South Asia, with its relatively large population, low per capita income, and low inequality, accounts for 42 percent of the world's extremely poor people; Sub-Saharan Africa accounts for 34 percent; and East Asia and Pacific accounts for 21 percent (World Bank and IMF 2013). Extreme poverty is also scattered in other parts of the world (often in fragile and conflict-affected

states), posing serious humanitarian and social challenges for the people and places involved.

Progress in sharing prosperity has been mixed among developing countries. In all countries and regions – even where extreme poverty is low – within-country inequality drives perceptions about prosperity and fairness, and is a key ingredient in social and political stability and sustainability. Available data for 79 countries for the period 2005–2010 suggest a varied picture and the need for further progress. The bottom 40 percent in most countries experienced higher than average per capita income growth, but in about one-quarter of the sample countries, the per capita income growth of the bottom 40 percent fell short of the national average, suggesting a further rise in inequality (Narayan et al. 2013). The World Bank Group has set the progress of the bottom 40 percent of the population in each country as a benchmark for judging the success of its strategy for shared prosperity.

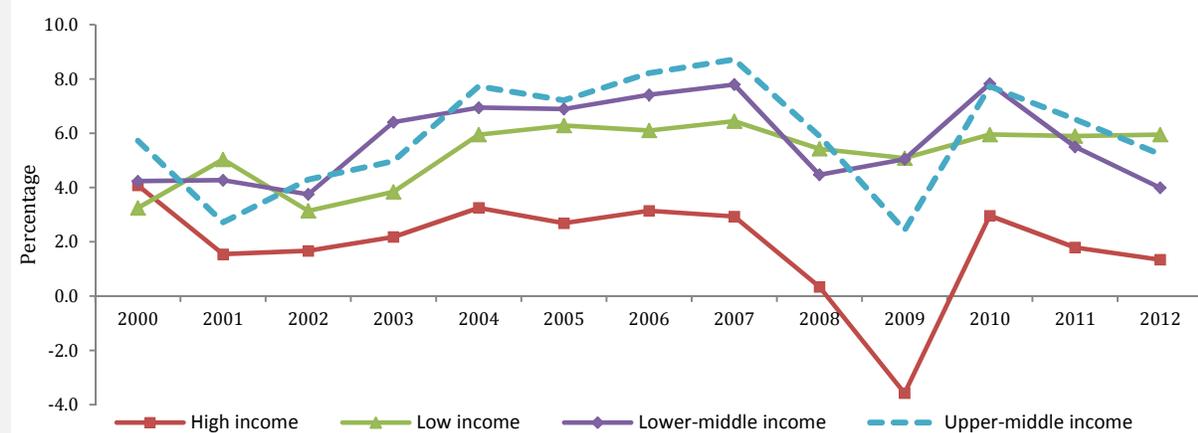
Paralleling these developments in poverty and inequality, regional and country-level progress toward achieving other Millennium Development Goals (MDGs) has likewise been uneven, with Sub-Saharan Africa and East Asia and Pacific occupying opposite ends of the spectrum. Despite significant absolute progress from a relatively weak starting position, Sub-Saharan Africa remains off-target for most MDGs, whereas the East Asia and Pacific Region is mostly on-target for all MDGs. Parity in the enrollment ratio of girls to boys at primary level education has been reached, and targets have been met in relation to access to safe drinking water and to improvement in the lives of slum dwellers. Good progress is also being made toward improving the ratio of girls to boys in second-level education; however, other targets, such as those relating to infant, child, and maternal mortality, access to basic sanitation, and primary school completion rates, are proving more elusive.

Analysis of performance for each MDG shows significant variation in the contribution of individual countries to meeting relevant targets. For example, 88 countries are on track to meet MDG 1.a (eradicate extreme poverty), seven have made progress, and four are moderately off-target. Seventy-two countries are on track to meet MDG 3.a (increase the ratio of girls to boys in primary and secondary education), and two groups of 11 countries have made progress or are moderately off-target. Only 18 countries are on track to meet MDG 4.a (reduce infant mortality); however, 20 have made progress and 34 are only moderately off-target.

Crisis-related fluctuations notwithstanding, economic growth has been a major driver of progress on the MDGs with the global economy playing an important role. World output growth is forecast to reach 2.4 percent in 2013 and 3.2 percent in 2014 (Figure 1.2). Activity is expected to gradually accelerate in advanced economies

from mid-2013, and despite a slowdown in 2012, the prospects for emerging markets and developing economies are positive (Table 1.1). Most economies in Asia and Sub-Saharan Africa and many economies in Latin America and the Caribbean and Europe and Central Asia are already seeing higher growth; however, economies in the Middle East and North Africa continue to struggle in part because of difficult ongoing internal transitions (World Bank 2014).

Figure 1.2. Growth Rates by Income Levels



Many low-income countries are experiencing sustained growth, and most have recovered from the crisis. These developing country economies have taken off from diverse economic bases including: manufacturing (Bangladesh, Cambodia); natural resource exploitation (Ghana, Mongolia); agriculture (Ethiopia); or a combination of both agriculture and natural resources (Lao People’s Democratic Republic). In other cases, economies have made progress in the absence of a dominant sector (Mozambique, Tanzania). Recent commentary suggests that prospects for many of these dynamic, low-income countries appear stronger than those of their peers during the 1960s and 1970s. Overall, output growth in emerging markets and developing economies is expected to increase from 5 percent in the first half of 2012 to close to 6 percent for 2014, driven by favorable macroeconomic conditions and recovering demand from the advanced economies (IMF 2013).

Table 1.1. Real Gross Domestic Product Growth Outlook (percentage change)

Country Category	2009	2010	2011	2012	2013 ^a	2014 ^b	2015 ^b
World	-2.4	4.1	2.8	2.3	2.4	3.2	3.4
High-income countries	-3.7	3.0	1.7	1.3	1.3	2.2	2.4
Developing countries	2.0	7.3	6.0	4.8	4.8	5.3	5.5

Source: World Bank (2014).

a. Estimate.

b. Forecast.

But medium- and long-term risks to development results and sustainability remain. From an economic perspective, the capacity of developed countries to trade with faster growing developing economies is inhibited due to political and economic issues, limiting overall growth and development potential as well as job creation. The 2013 World Development Report found that to keep employment rates constant, around 600 million new jobs will have to be created over a 15-year period (World Bank 2012). Many developing countries still have to undergo significant structural adjustment to regain competitiveness. The level of political and policy stability required to achieve such reforms cannot be taken for granted. Management of the necessary individual and collective processes poses inherent risks that could, if realized, lead to a protracted period of low growth or, in extreme circumstances, to another recessionary cycle that could ultimately challenge the robustness of growth in the developing world.

Many countries face also escalating physical and political risks. Physical risks from natural and constructed manmade disasters are likely to continue and may increase. The growing frequency of hydrological and meteorological disasters associated with climate change is likely to continue, bringing drought, crop failure, and income losses due to the disruption of trade. Political risks, such as those associated with the Middle East including the prolonged conflict in Syria, and the ongoing transitioning elsewhere in the Middle East and North Africa Region pose significant development challenges.

Opportunities and Challenges for the World Bank Group

Developing countries have clearly made impressive gains on growth and poverty reduction since the start of the new millennium. They have weathered major crises in food, fuel, and financial markets as well as natural disasters and conflicts. But the way ahead remains fraught – and filled with risks and uncertainties – both for them and for their development partners. Importantly, although there has been much progress, there is still a long way to go, especially for the people in the world’s bottom billion.

In confronting this changing environment, the World Bank Group has adopted an ambitious new strategy geared to eliminating absolute poverty within a generation and to boost shared prosperity, including by giving special attention to the countries in the most fragile situations (World Bank Group 2014). The new strategy emphasizes the need for adaptive behavior in response to “fast-moving challenges and opportunities,” and places a premium on the management of risk and volatility (see Box 1.1). To this end, the Bank Group plans to invest in knowledge and

technical skills, and to focus on multisectoral approaches with opportunities for the Bank, International Finance Corporation (IFC), and the Multilateral Investment Guarantee Agency (MIGA) to collaborate in pursuit of shared strategic goals. Going forward, the rollout of the associated change process will provide opportunities to systematically feed learning back into practice and, in turn, to improve Bank Group development effectiveness.

In implementing the new strategy, the Bank Group will need to draw on the lessons learned from all sources – including evaluation – making the current report both timely and opportune. To be most helpful in meeting the challenges ahead, the 2013 Results and Performance (RAP) report focuses on activities where Bank Group

Box 1.1. The New Strategy of the World Bank Group

Under its new strategy, the World Bank Group will work in partnership to help countries end extreme poverty by 2030 and promote shared prosperity in a sustainable manner. The two goals emphasize the importance of economic growth, inclusion, and sustainability, including strong concerns for equity.

The Bank Group's value proposition will be, building on a strong foundation, to work with the public and private sectors in partnership to:

- Contribute to the global development agenda through dialogue and action on ongoing and emerging development challenges, bringing the perspectives of all its member countries.
- Support clients in delivering customized development solutions backed by finance, knowledge, and convening services.
- Help advance knowledge about what works, combining the world's leading development research and practitioner experience with a commitment to transparency, open data, global outreach, and knowledge dissemination.

To this end, the Bank Group needs to reposition itself, including through investments in knowledge and technical skills, breaking down silos, focusing on multisector approaches, bringing in resources more effectively through partnerships, strengthening the country engagement model, and supporting evidence-based public policy. The Bank Group will establish global practices and focus on smart risk-taking while preserving its fiduciary, integrity, and safeguards norms.

The Bank Group will work as One Bank Group, increasing systematically collaboration across the Bank Group, with a new country partnership framework and an increasing number of joint projects, reinforced by stepped-up efforts to align policies, practices, and resources with a realigned financial strategy.

Human resource management will be improved to nurture and sustain the Bank Group's greatest assets – its dedicated and experienced staff.

Source: World Bank Group (2014).

performance might be improved as an input into the pursuit of the new strategy. Most of these activities – involving, for example, CAS results frameworks, knowledge services customized to client needs, project quality at entry, and improved supervision – are neither new nor exciting. But they are the core underpinnings of Bank Group products and services and in turn of development effectiveness. Successful implementation of the new strategy will require that they be strengthened in order to restore the Bank Group’s performance to its historic levels of excellence and preeminence. Meanwhile, RAP data also show that Bank Group internal cooperation remains the missed opportunity it has long been, but hopefully will also benefit from the new strategy’s focus on One World Bank Group.

Organization of the Report

The report is organized in five chapters. Chapter 2 presents findings from Independent Evaluation Group (IEG) country program, project, and thematic evaluations and their implications. Chapter 3 explores the Bank Group’s operational risk management, including a fresh analysis by IEG of project entry risks and outcomes. Chapter 4 looks at Bank Group institutional effectiveness, referencing ongoing mechanisms such as the World Bank and IFC corporate scorecards and MIGA’s Development Indicators, the Management Action Record, and the broader change agenda in which the Bank Group is engaged. Chapter 5 summarizes lessons relevant to the challenges identified in this report. This year, for the first time, regional updates are provided as part of the RAP (see appendix H).

In accord with previous practice, RAP 2013 is grounded in IEG evaluation data and reports. Consistent with previous practice, this report was prepared using a mixed methods approach involving: (i) analysis and synthesis of recently completed IEG evaluations as well as validations of self-evaluations of Bank Group projects, programs, and activities; (ii) analysis of databases containing results-related data; (iii) a literature review to include major Bank Group publications and other relevant material; and (iv) interviews and other interactions with key staff and managers.

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CHAPTER 1
THE GLOBAL DEVELOPMENT CONTEXT

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2. World Bank Group Operations: Findings from Evaluation Work

Highlights

- ❖ The World Bank Group scaled up its resource outflow in response to the global economic crisis of 2008–2009; as a result, the Bank’s equity-to-loan ratio has declined. In FY13, for the first time ever, International Development Association (IDA) commitments were larger than for the International Bank for Reconstruction and Development (IBRD) – the latter have dropped sharply from the crisis-related peak in FY10.
- ❖ The growth of International Finance Corporation (IFC) commitments has been driven by short term finance instruments while long-term finance has leveled off. The guarantees of the Multilateral Investment Guarantee Agency (MIGA) have grown, mainly driven by a new type of coverage against the risk of non-honoring of financial obligations by a sovereign or sub-sovereign government entity.
- ❖ Bank Group country program performance has been declining over time, reflecting (i) the impact on country outcomes of the food, fuel, and financial crises and the prolonged international recession that followed them; (ii) declining Bank Group portfolio performance; and (iii) issues in implementing the results-based country assistance strategy framework that was introduced in FY06.
- ❖ IBRD borrowers show better country outcomes than IDA-eligible countries. Among regions, Africa and the Middle East and North Africa present the most significant challenge for the Bank Group.
- ❖ Overall Bank portfolio performance on lending operations has declined, driven by investment projects. Development policy operations have performed consistently well. In line with historical experience, IBRD-funded projects have performed better than IDA projects. Contrary to the general trend, IDA project performance in fragile and conflict-affected states (FCS) has improved.
- ❖ Monitoring and evaluation are essential for the Bank’s delivery of results but its ratings continue to show deterioration.
- ❖ Development outcome ratings for IFC investments have declined from historically high levels due to low performance of projects in IDA countries, a substantial decline for infrastructure projects, and a further slide for financial market operations.
- ❖ IFC’s short-term instruments provided relevant trade finance risk mitigation, but their recent faster growth in lower-risk markets requires close monitoring of IFC’s additionality in these markets.
- ❖ The results for IFC investments in IDA countries reflect both shortcomings in IFC’s work quality and higher risks. Inadequacies in the quality of IFC’s front end work quality combined with a greater frequency of higher-risk projects led to difficulties in achieving positive results when exposed to unexpected challenges.
- ❖ MIGA’s evaluated guarantees perform well. The Small Investment Program has been effective in extending MIGA’s reach into higher-risk countries. But the program has experienced low operational results in FCS.

- ❖ The Bank's main strength on knowledge services is its ability to fulfill in a timely manner client requests for state-of-the-art advice. Knowledge services requested by the client and designed specifically to achieve client objectives are more likely to achieve successful outcomes than services of more generic character.
 - ❖ The success rate for IFC Advisory Services has remained slightly below its target, with activities in IDA and IBRD countries showing similar success rates.
-

This chapter distills the key messages from recent Independent Evaluation Group (IEG) work on World Bank Group operations. The Bank Group supports its clients 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 into country programs and into regional and global programs. Interventions supported by the Bank, International Finance Corporation (IFC), and Multilateral Investment Guarantee Agency (MIGA) also have a sectoral or thematic orientation, which IEG uses for analytic purposes in assessing the Bank Group's effectiveness.

This chapter begins by summarizing the evaluation environment for the Bank Group's lending and nonlending activities in terms of their volumes and directions. It then turns to the results from Bank-Group-supported country programs; second to major sectoral and thematic results, summarizing the findings of recent IEG evaluations; and third to portfolio performance for the Bank, IFC, and MIGA, individually. Finally, the chapter turns to knowledge services provided by the Bank and IFC. Differences in evaluation methods used by the three Bank Group institutions, reflecting their different business models and clients served, are taken into account in the presentation of the findings.¹ An important caveat to this analysis is that the conclusions are based on Bank Group activities that have already been completed, sometimes several years in the past; hence they may or may not apply to ongoing activities. Nevertheless, the recurrence of evaluation lessons over time suggests that evaluations can offer many useful insights to help improve the effectiveness of Bank Group interventions going forward. (See appendix A for an overview of evaluation methods across the Bank Group.)

Trends in World Bank Group Commitments

The Bank Group responded to the global economic crisis by scaling up its financial support to developing countries and by accelerating its processing of disbursements. The Bank, mainly through IBRD, sharply increased its lending volumes, with Bank commitments reaching an annual average of \$53 billion in FY09–10 compared with \$25 billion in FY07–08. There was somewhat greater reliance during the crisis on

projects that were relatively easy to prepare and negotiate. Programmatic development policy operations (DPOs) declined compared to stand-alone DPOs. In investment lending, additional financing was used more frequently than in normal times as were simple and repeated projects. Processing times for the preparation of operations declined.

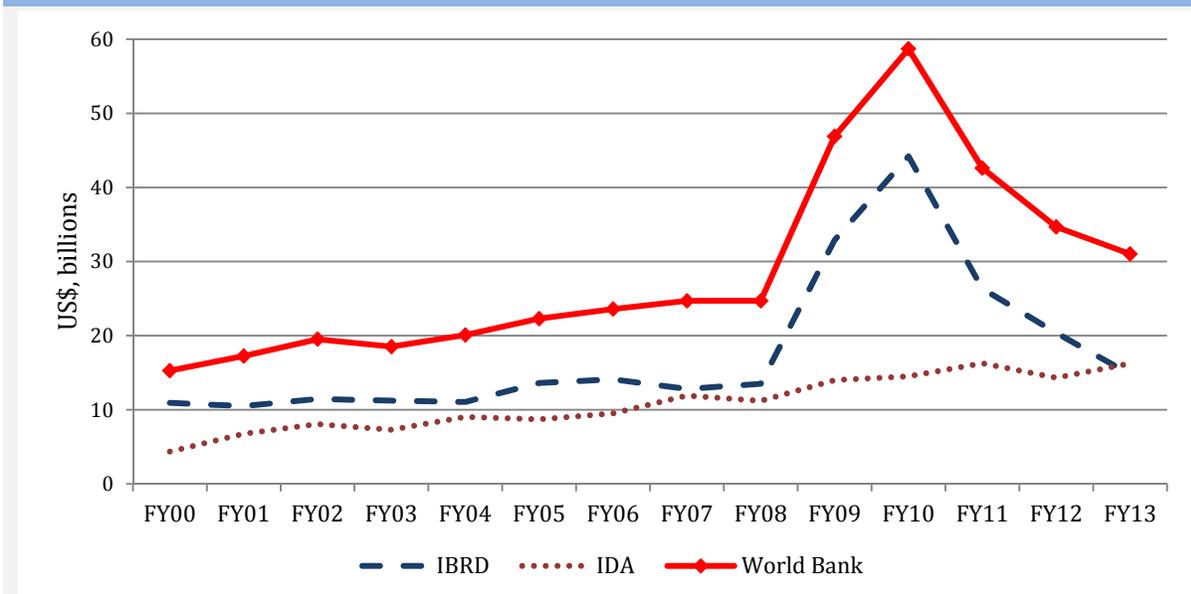
Partly due to the rapid increase in lending operations during FY08–10 with only limited increase in capital and reserves, there was a decline in the Bank's equity-to-loan ratio – from 37.5 percent at the end of June 2008 to 29.4 percent at the end of FY10 – and a consequent decline in the Bank's ability to take on more risky assets. These changes reflect deliberate and considered choices by management and shareholders, and the Bank remains above the strategic capital adequacy range. The decline in headroom was partly a result of the high volume of financing by the International Bank for Reconstruction and Development (IBRD) but also of the decline in income following the reduction in loan spreads just before the crisis and the commitment of transfers to the International Development Association (IDA). Similarly, IFC has experienced a decline in capital headroom since the financial crisis, as expressed in its deployable strategic capital. MIGA's guarantee volume has grown rapidly since FY11, driven by a new type of coverage with a higher-risk profile. While its overall capital utilization remains at a comfortable level, MIGA expects that with a continued rapid expansion of relatively higher-risk products and of coverage in high-risks markets, capital utilization would increase and statutory capital limits may be reached over the medium term.

New lending commitments by IBRD have been declining since FY10. They were \$15.2 billion in FY13 (Figure 2.1). This volume was still higher than the pre-crisis historical average of \$13.5 billion in FY05–08, but lower than the \$20.6 billion in FY12. The Bank's strength is based on IBRD's robust capital position and shareholder support as well as on prudent financial policies and practices, which help maintain its AAA credit rating. IBRD's equity comprises primarily paid-in capital and reserves. As of June 30, 2013, paid-in amounts in connection with the 2011 capital increase were \$1.9 billion and the equity-loan ratio stood at 26.8 percent as of June 30, 2013. While the headroom situation is now stabilizing, it warrants continuing attention for preparedness for any future crisis situations.

In FY13, for the first time ever, annual IDA commitments were greater than IBRD commitments. IDA commitments amounted to \$16.3 billion in FY13. The largest share of resources, \$8.2 billion, was committed to Africa. South Asia, \$4.1 billion, and East Asia and Pacific, at \$2.6 billion, also received large shares of funding, followed by Europe and Central Asia, Latin America and the Caribbean, and Middle East and North Africa. Commitments for infrastructure and human development

increased significantly. IDA is financed largely by contributions from partner governments. Additional financing comes from IBRD's net income, grants from IFC, and borrowers' repayments of earlier IDA credits. Under the Sixteenth Replenishment of IDA (IDA16), which covers FY12–14, total resources amounted to SDR 33.9 billion (equivalent to \$50.9 billion) (World Bank 2011a). As of June 30, 2013, SDR 19.9 billion (equivalent to \$29.9 billion) of the IDA16 envelope had been committed to credits, grants, and guarantees. The replenishment process for IDA17, which covers FY15–17, is underway.

Figure 2.1. IDA and IBRD Commitments

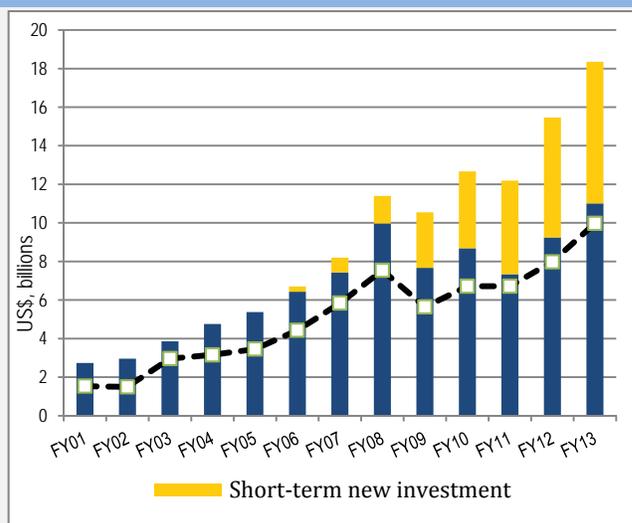


Source: World Bank data.

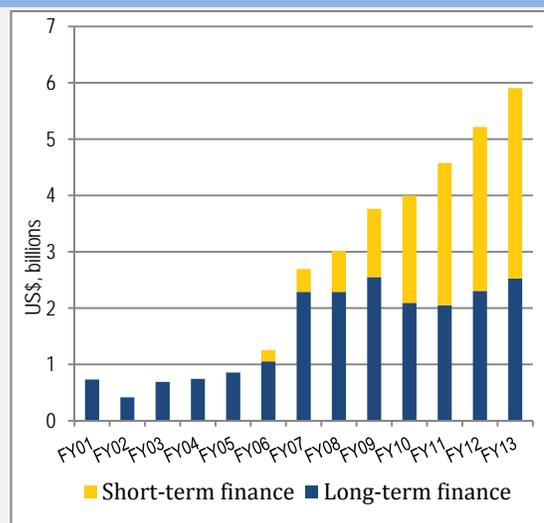
IFC's investments have reached historically high levels, almost entirely driven by short term finance instruments.² Having reached a high of \$18.3 billion in FY13, the volume of IFC's long-term and short-term programs is similar in size to annual commitments of IBRD or IDA. The overall increase in commitments is almost entirely due to the growth in short term finance instruments, mainly the Global Trade Finance Program, a guarantee program to support trade transactions. Thus, while short term finance instruments now account for more than 40 percent of IFC's commitments, traditional long-term investments have changed little since the beginning of the financial crisis in 2008 (Figure 2.2a). The trend in IFC's long-term finance reflects in part the continuing impact of the 2008 crisis, but internal factors also likely play a role. Another measure of IFC's portfolio size, core mobilization³ from other financiers, grew by 27 percent over the same period, adding about 40 percent to IFC's overall commitments during FY11–13.

Figure 2.2. IFC Commitments

a. IFC long-term and short-term commitments



b. IFC commitments in IDA-eligible countries



Source: World Bank Group data.

The increased focus on financial markets operations has implied that IFC has moved from direct support to enterprises to wholesaling of support through financial intermediaries, with limited evaluability of IFC's contribution and impact in such operations. Both the short-term and long-term finance through financial intermediaries have grown in importance in IFC's new commitments, whereas financing for real sectors has remained relatively constant, and infrastructure has declined since FY08–10. As a share of IFC's commitments, wholesaling operations through financial institutions account for 58 percent (FY11–13), up from 47 percent in FY08–10. This means that for over half of its investments IFC has no direct relationship with the underlying borrowers, investees, or beneficiaries but relies on intermediary bank and nonbank financial institutions to pursue its development strategies. RAP 2012 highlighted the implications of this trend, including challenges to measuring and attributing results in wholesaling projects to IFC (IEG 2013a).

IFC's commitments in IDA-eligible countries have grown at a rapid rate, also driven by short-term finance, while long-term finance has leveled off. IFC's commitments in IDA countries increased by 46 percent between FY08–10 and FY11–13, twice the pace of growth in IFC's overall commitments (Figure 2.2b).⁴ The main driver was again short-term finance, which rose to 57 percent of commitments in IDA countries (FY13). Long-term finance, on the other hand, has fluctuated around \$2 billion and \$2.5 billion in annual commitments (FY08–13) without a clear trend. The result has been a further concentration of IFC's IDA country investments in the financial sectors, while the share of real sectors—infrastructure, natural resources,

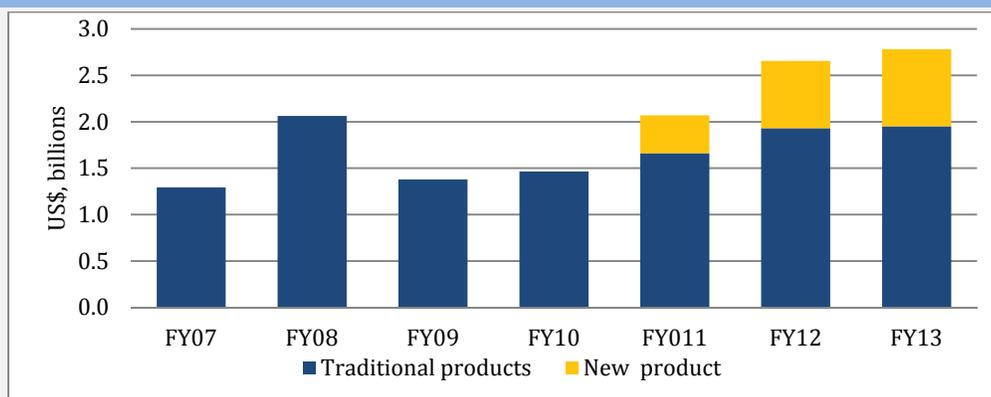
manufacturing, agribusiness, and services – has declined. IFC’s exposure in IDA countries increased to 35 percent in FY11–13 (up from 30 percent during FY08–10).

IFC’s exposure in low-income fragile and conflict-affected states (FCS), which have been added to IFC’s strategic target areas more recently, has remained low. Commitments in low-income FCS have remained at about 2 percent of IFC’s long term finance total, and have increased in parallel to those in IDA countries. The increase in FCS mirrors the trend in IFC’s overall investments and does not represent a significant shift in IFC’s overall portfolio toward FCS, but rather to frontier markets more generally (IEG 2014a). However, in contrast to IDA countries as a whole, IFC’s investments in FCS are highly concentrated in infrastructure. Seventy-eight percent of commitments (60 percent of projects, FY01–12) have been in three sectors: telecommunications, transportation, and oil, gas, and mining. Conversely, the FCS portfolio is less focused on financial markets.

MIGA guarantees have also grown to historically high levels, mainly driven by a new type of coverage for sovereign payment risk. MIGA’s operational regulations were amended in April 2009 and June 2013 to enable the agency to offer insurance coverage against the risk of non-honoring of financial obligations by a sovereign or sub-sovereign government entity or a state-owned enterprise. Though not unique to the global insurance market, this is a new coverage type for MIGA and part of the update to its products intended to meet the changing risk mitigation needs of investors and to benefit host countries by facilitating greater lending flows for productive use, primarily for infrastructure projects with significant developmental benefits. This new product is also consistent with an IEG recommendation (IEG 2008a) that MIGA seek innovative ways to utilize its comparative advantage in covering complex projects in the least-developed and highest-perceived-risk environments.⁵

The new coverage has helped achieve a major increase in MIGA’s support to IDA and FCS. Overall, MIGA’s business grew by 57 percent in FY11–13 compared to FY08–10 (Figure 2.3). As part of this growth, MIGA’s issuance to projects in IDA-eligible countries is now 47 percent (FY11–13) – coming from a low base in FY08–10. Correspondingly, the share of new guarantee volume in Africa has increased to 31 percent (FY11–13). Driven by several large-scale projects, MIGA’s support to FCS has also increased to 22 percent of guarantee issuance (FY11–13).

Figure 2.3. MIGA Guarantee Issuance



Source: World Bank Group data.

In addition, MIGA has achieved a major shift in the composition of its portfolio from the financial sector toward infrastructure. MIGA has significantly diversified its portfolio away from its heavy concentration in the financial sector whose share of new coverage declined from 70 percent to 20 percent (FY08–10 versus FY11–13). In contrast, the share of infrastructure, driven by the new coverage, has increased from 21 percent to 50 percent, in line with MIGA’s strategic intentions. This shift was also due to the phasing out of MIGA’s strong support to banking institutions in Central and Eastern Europe during the financial crisis, which had resulted in a heavily concentrated portfolio in the financial sector in that region.

Going forward, the new product also creates new challenges for MIGA’s business model. While the loans to governments under the non-honoring insurance coverage are intended for specific projects, the risk MIGA is covering is not associated with these projects but rather the payment risk of a sovereign or sub-sovereign. Moreover, the loan proceeds are fungible. In addition, these guarantees will require credit monitoring and active portfolio management to account for the possibility of credit deterioration or rating downgrades for the sovereign or sub-sovereign obligors, or ownership changes for state-owned enterprises.

Results from Country Programs

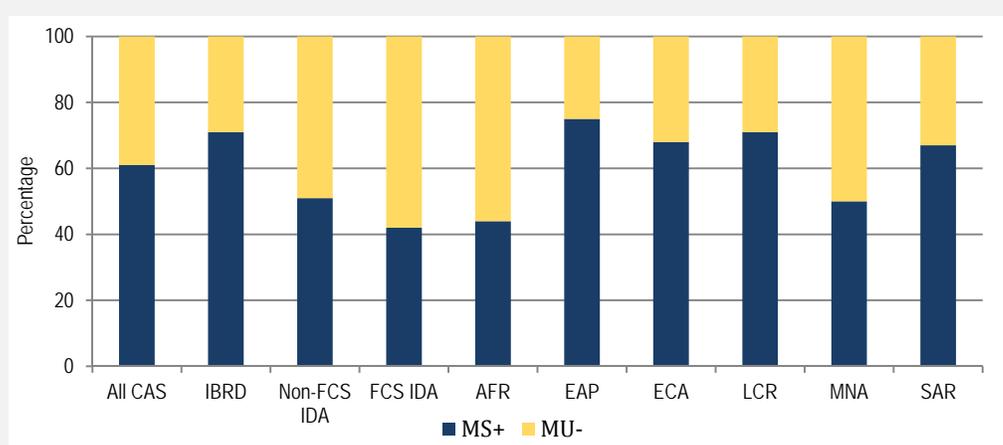
COUNTRY PROGRAM EFFECTIVENESS

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 Bank and the country authorities to agree on development assistance priorities for the coming period. IFC, and to a lesser degree MIGA, are increasingly aligning their programs with this process by

participating in the preparation of joint country strategies. The findings in this section are based on aggregate results from IEG’s reviews of CAS Completion Reports (CASCRs) and on evidence from its in-depth country program evaluations that provide more in-depth analyses over longer time horizons.

The programs of IBRD countries performed better than those of IDA-eligible countries during the review period. In the set of country programs that were rated during FY06–13 the higher the country income the better the rating. On average, IBRD countries showed better results than IDA countries, which in turn had better average outcome ratings than FCS (Figure 2.4). This positive and long-standing correlation between performance ratings and income per capita is confirmed statistically and points to administrative capacity and institutional development as important drivers for results. It also points to a need to enhance capacity building efforts at the lower end of the income scale of clients to improve country outcomes.

Figure 2.4. CASCR Outcome Ratings by Region and Institution, FY06–13



Source: IEG data September 30, 2013.

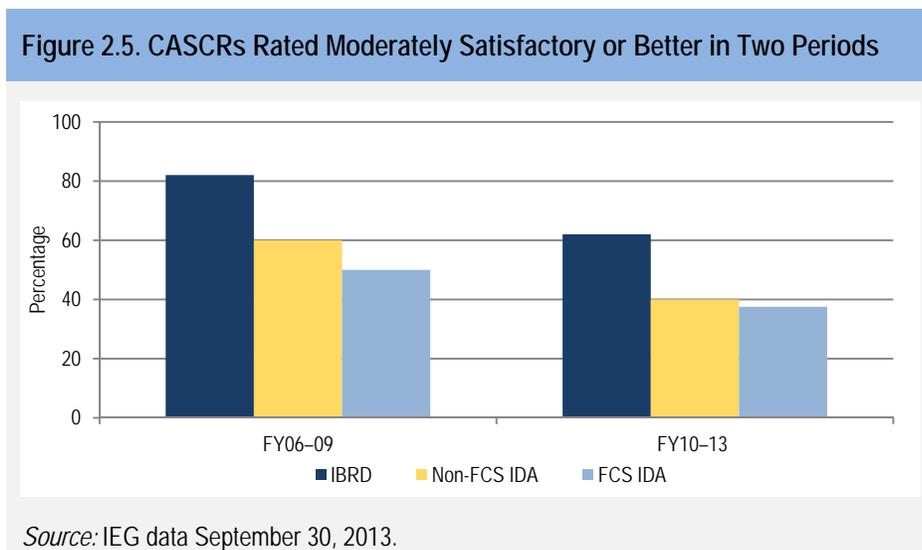
Note: AFR = Africa; CAS = country assistance strategy; EAP = East Asia and Pacific; ECA = Europe and Central Asia; FCS = fragile and conflict-affected states; IBRD = International Bank for Reconstruction and Development; IDA = International Development Association; LCR = Latin America and the Caribbean; MNA = Middle East and North Africa; MS+ = moderately satisfactory or better; MU- = moderately unsatisfactory or lower; SAR = South Asia Region.

Among the Bank’s regions, the Africa and Middle East and North Africa Regions are lagging. In those two Regions only about 50 percent of the country programs reviewed attained IEG ratings of moderately satisfactory or better (MS+). The Africa Region’s relatively low score reflects its larger than average number of IDA-eligible and FCS countries. For the Middle East and North Africa Region, the situation was affected by the political instability in several countries during the review period. The East Asia and Pacific, Europe and Central Asia, Latin America and the Caribbean, and South Asia Regions are fairly even on their ratings and close to the target of 70

percent set in the corporate scorecard. The East Asia and Pacific and Latin America and the Caribbean Regions both exceed this target in this set of country partnership strategies rated during FY06–13.

CASCR ratings suggest that country program performance has been declining over time. For the period FY06–13 the performance of the World Bank Group country programs has shown a declining trend, with the exception of the period FY06–07 where both the self-evaluations by the regions and the IEG ratings showed an improvement in measured performance. Figure 2.5 shows the decline in average outcome ratings between FY06–09 and FY10–13 in all three categories of countries: IBRD eligible, non-FCS IDA-eligible, and FCS.

The deterioration reflects three main factors, albeit to different degrees in different country settings. First is the impact on country outcomes of the global food, fuel, and financial crises and the international recession that followed. Second is the significant deterioration in the portfolio, which itself was also impacted by the adverse external economic and financial environment. And third, are the deficient results frameworks that underpinned many CASs – including weak links between instruments and intended outcomes, ineffective monitoring and evaluation (M&E) systems, and a continued focus on outputs rather than outcomes, notwithstanding the adoption of a new results-oriented CAS framework in 2006 and associated guidance to staff.



While income per capita and institutional capacity are important factors in determining results, this review also traces the unsatisfactory outcomes to other factors affecting clients across the income scale. External factors – particularly the effects of the 2008 global economic crisis – appear to have had a persistent effect on country programs evaluated in FY10–13. Moreover, country ownership of Bank

strategies, the quality of results frameworks, and to a lesser extent, the realism of the strategies are qualitative variables that showed an impact on IEG ratings.⁶ While ownership is highest for IBRD programs compared to the others, results frameworks fall short for all Bank clients between the pre- and post-crisis periods.

Inadequate results frameworks affect the outcomes of country programs. An internal IEG review of a sample of CASCRs prepared after the new CASCR guidelines of January 2011 found that out of the initial 221 program goals evaluated, 70 (32 percent) could not be measured because they had no associated outcomes, the outcome was not measurable, or the outcome indicator was irrelevant to the ultimate objective. Absence of such information affects the measured performance of country programs and constrains the effectiveness of results frameworks as a management tool and as an instrument to account for results.

International Bank for Reconstruction and Development

IBRD countries show a relatively high but declining average rating. During the FY06–13 period, 71 percent of IBRD country programs achieved IEG ratings of moderately satisfactory or better. IBRD countries in the cohort had an average per capita income on a purchasing power parity (PPP) basis of more than \$10,000, which put them in the first quartile of the income distribution. Factors associated with their higher levels of income helped the programs achieve an average rating of over 3.8 on the six-point scale, substantially above the average of 3.67 for the whole set. Yet, the results showed a substantial difference between two periods. During the pre-crisis period of FY06–09, over 82 percent of IBRD country programs were rated moderately satisfactory or better (average rating 3.94). During the post-crisis period of FY10–13, this ratio declined to 62 percent (average rating 3.65).⁷

External factors were a major player in the deterioration over time. All Bank Group clients were affected by the 2008 global financial crisis that started in advanced countries, especially the United States and advanced European countries, and then extended globally, affecting emerging markets and low-income countries. This led to a decline in per capita gross domestic product (GDP) growth rates and associated economic tensions in the countries affected that may have contributed somewhat to the decline in ratings between the two periods FY06–09 and FY10–13 despite an expansion of Bank programs.

Despite these conditions, many IBRD country programs were successful, providing useful lessons about what works even in difficult situations – often highlighting the importance of country ownership and Bank Group support through analytic work. About half of IBRD country programs – 34 out of the 70 evaluated for this review – showed satisfactory ownership. In a majority of the satisfactory programs, the

country strategy was underpinned by a broad consultation and the government commitment was well established. For example, in the case of Turkey (FY04–07), a new generation of Bank-supported interventions incorporated the lessons from past failures. In the social sectors in particular, new operations were planned through an extensive consultative process informed by collaborative sector work. These preparatory activities had a significant impact on refocusing line ministries from an inputs approach toward an outcomes approach. And, as encapsulated in Box 2.1, Brazil illustrates another example of success, this time of the Bank and IFC both making analytical as well as financial contributions to important social programs.

Box 2.1. Brazil: Successful Bank Group Engagement in a Middle-Income Country

The Independent Evaluation Group (IEG) recently evaluated the World Bank Group's involvement in Brazil during FY04–11, covering two country strategies (FY04–07 and FY08–11). Given the scale of Brazil's economy, the Bank has had to rely on the catalytic role of its strategy and operations to have an impact.

IEG found that the Bank Group made significant contributions to catalyze progress in the development agenda when it combined lending with analytical inputs on practical policy issues. For example, the Bank was effective in supporting the Bolsa Familia program (a conditional cash transfer program; improvements in student learning outcomes; and subnational results-based management systems. Some of IFC's advisory support for structuring public-private partnership projects served as innovative models to be replicated by others in Brazil.

The Bank's convening power provided diverse stakeholders with a platform to examine issues and trade-offs that cut across organizational boundaries in multisector operations at the subnational level. The Bank also helped Brazil reduce the pace of deforestation in the Amazon by supporting a major expansion of protected areas and indigenous territories and by building the capacity of national and state environmental agencies. Results were less satisfactory in addressing infrastructure bottlenecks, particularly in logistics, and the cost of doing business, where the Bank did not have significant impact. These areas remain critical constraints to Brazil's growth.

The successful engagement with Brazil over the past decade illustrates the need for adaptability of Bank Group strategies to changing country priorities.

Source: IEG (2013b).

In the less successful programs, country ownership was weak, with the Bank frequently owning the program more than the authorities. In some cases, the Bank was perceived to have a substantial policy agenda in the CAS process but in which the authorities were not as engaged or had only a superficial commitment. In other cases, government support was initially strong but weakened over time, sometimes following elections. For instance in Peru (FY06–11), the country strategy straddled two administrations. The first administration seemed committed to decentralization of social services, but the succeeding administration was less keen and eventually abandoned the strategy altogether. The Bank continued trying to implement aspects

of the decentralization agenda with less-than-satisfactory results (IEG 2011a). A realignment of the Bank's agenda with the new government priorities might have been possible with a more consistent policy dialogue.

Program results frameworks have shown a little improvement following the introduction of a results-oriented CAS framework in FY06. Indeed, just 15 out of 70 IBRD programs evaluated during the period – 21 percent – had satisfactory results frameworks. The CAS frameworks suffered one or more of the following drawbacks: (i) poor links between instruments and activities and intended outcomes, and weak chains relating strategy outcomes to broader country goals; (ii) poor M&E systems, including indicators that were far removed from the outcomes they intended to measure; and (iii) focus on inputs and outputs rather than outcomes.

Results for the Middle East and North Africa Region have been well below average owing in part to political turmoil and regime changes in some countries that have required a rethinking of the Bank strategy. Re-engagement with new authorities is also taking time to materialize. However, some of the Region's countries have relatively developed institutions and policy implementation capacity, and results frameworks in country programs have rated significantly better on average than country programs in the Africa Region.

International Development Association

During the FY06–13 period, 51 percent of non-FCS IDA country programs achieved IEG ratings of moderately satisfactory or better, significantly less than the score for IBRD country programs, reflecting the major differences in policy making and implementation capacity between the two country cohorts. Non-FCS IDA countries in the cohort had an average per capita income on a PPP basis of about \$3,000 which placed them in the lowest three quartiles of income distribution. IDA country programs had an average outcome rating of about 3.5 on the six-point scale against 3.8 for IBRD countries.

IDA country programs also show a declining trend. As in the case of IBRD countries, results showed a substantial difference between two periods of the sample. During FY06–09, 60 percent of the country programs were rated moderately satisfactory or better (average rating 3.67) and over FY10–13 this ratio declined to 40 percent (average rating 3.32). The relative decline in the average ratings between periods for IDA country programs was higher than for IBRD countries (-10.6 percent versus -6.8 percent).

External factors also affected IDA countries negatively. During the pre-crisis period, IBRD countries' PPP per capita GDP was growing at more than 5 percent annually

while that of IDA countries was growing at 4 percent. This relationship was reversed in the post-crisis period when IDA countries' PPP per capita GDP grew by about 1 percent more annually than for the IBRD countries in the sample. At the same time average ratings of both projects and country performance in IDA countries declined by about 10 percent between pre- and post-crisis periods, suggesting common factors that applied in both cases.

Just over one-third of IDA country programs – 21 out of 55, excluding 12 FCS programs – showed satisfactory program ownership, compared to about half of the programs for IBRD countries. In some of the countries that showed weak ownership, a lack of political consensus for reforms undermined the implementation of the Bank strategies. In a number of African countries, political divisions and difficulties in building reform coalitions were not fully recognized in the CAS, and proposed mitigation measures were inadequate to maintain reform momentum. Thus, despite considerable donor technical support, weak ownership and absorptive capacity posed significant constraints to the achievement of program outcomes.

Vietnam exemplifies how country and government ownership are essential for the success of the strategy. In the FY07–11 strategy the Bank Group aligned its strategy with the government's plan, but some of the interventions had weak links to its expected results. The strategy had positive results that justified a rating of moderately satisfactory for the overall outcome. But those aspects of the strategy that had greater ownership – such as health and education – had better results than others, like improving the business environment and competitiveness.

Poor results frameworks hurt IDA country programs. Less than one-fifth of the strategies had satisfactory results frameworks among the IDA country programs reviewed. A common theme in the results frameworks that were not well-designed was weak links between interventions and targeted outcomes. Several outcome indicators were poorly defined or lacked baseline data, some were not monitored or available, and others were not designed in relation to the planned outcomes. In addition, most of the targets were overoptimistic, IFC's contribution was only partially captured in the results frameworks, and some important objectives – such as governance – were missing from the frameworks.

The Africa Region showed below average ratings for ownership, results frameworks, and realism. Among the regions, 35 percent of the country programs showed satisfactory ownership compared with an average of over 40 percent for the whole set of country programs, with particularly difficult areas including civil service reform, decentralization, judicial reform, and local autonomy and accountability. Moreover, in the Africa Region only 16 percent of the results

frameworks were satisfactory during the period. The Region includes several countries with immense institutional challenges, and progress on the overarching foundation of governance and public sector capacity has proved difficult to achieve.

Bank strategies in IDA countries have shown inadequate selectivity in countries with weak administrative capacity, leading ultimately to strategies not owned by the government or other important stakeholders. In the Africa Region in particular, weak ownership led to long delays in releasing counterpart funds for Bank projects thus undermining the effectiveness of the Bank programs. Similarly, a relevant strategy was undermined by limited implementation capacity, lack of concreteness in the outcomes, and the government's lack of interest in the reforms underpinning the country programs. In other cases, weak country capacity led to programs that appeared to clients as an imposition from the Bank without sufficient country involvement.

Fragile and Conflict-Affected States

Fragile and conflict-affected states have the lowest country outcome ratings among country programs. These countries – a subset of IDA programs – face low average per capita incomes and substantial institutional challenges. Only 42 percent of the country programs reach moderately satisfactory or better outcome ratings. The reasons for low CASCR review outcome ratings are twofold. First, positive project results in FCS countries are taking time to show effects on country program results and institutional transformations.⁸ Second, FCS country performance ratings are affected by the limited number of FCS evaluations, including for some of the better performing countries like Afghanistan. The primary reason for the small number of FCS ratings is that management does not prepare a CASCR for the FCS where Bank Group assistance is governed by Interim Strategy Notes (ISNs).

The Bank has made significant efforts in FCS, which may have been relatively less affected than other countries by the international financial crisis. But as demonstrated in the recent FCS evaluation, the Bank has also made considerable efforts to build capacity in these countries (IEG 2014a). In some, Bank attempts at civil service reform and strengthening have been affected by the substitution of civil servants by externally funded advisers and by competition for skilled national staff among development partners. Box 2.2 discusses country engagement in a challenging FCS – the case of Afghanistan.

The FCS where policy ownership was not strong showed a few common characteristics. Three out of 12 country strategies showed satisfactory ownership. Inadequate selectivity in countries with weak administrative capacity led to efforts

stretched too thin over too many areas and ultimately a strategy not owned by the government or other important stakeholders. And sometimes policy dialogues came to a halt as commitment to reform fizzled amid alternative sources of funds or political disagreements.

Box 2.2. Afghanistan: Successful Bank Group Engagement in a Low-Income FCS

The Independent Evaluation Group evaluated the Bank Group's involvement in Afghanistan during 2002–2011 (IEG 2012a). It found that in the initial stages of this involvement the Bank Group rightly focused on building core state institutions, delivering services to build confidence in the state, rehabilitating critical infrastructure, and initiating analytical work to build the knowledge base for future development assistance. The Bank also worked to help improve the delivery of social services, including health and education.

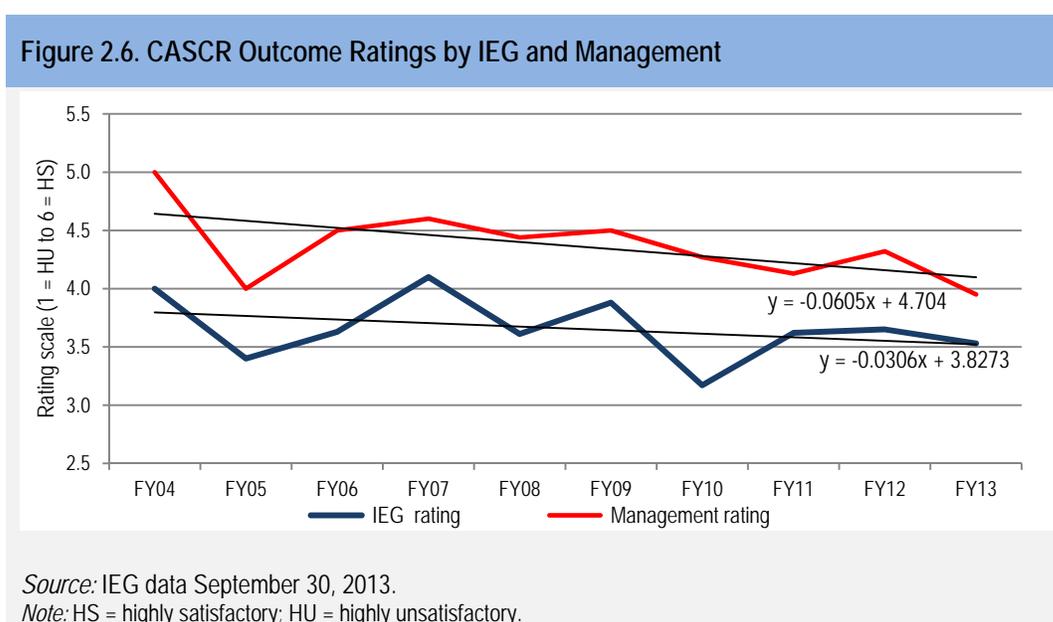
In part as a result of Bank and other donor support, Afghanistan now has a relatively strong public financial management framework and impressive revenue growth. Accounting and financial management reporting have improved with the adoption of the Afghanistan Financial Management Information System, which is used to pay salaries and to facilitate disbursement of donor funds and accountability in their use. Bank support also has led to the adoption of a civil service law and regulations for administrative reforms and to the extension of basic health services to cover all 34 Afghan provinces, which contributed to a 22 percent decline in the infant mortality rate and a 26 percent decline in the under-five mortality rate. And with Bank and other donor support for education, primary school enrollment increased from 1 million students in 2001 to 7.2 million in 2011. The enrollment of girls has grown from a negligible number to almost 3 million. While Bank Group results in supporting growth in the formal private sector were mixed, results have been noteworthy in microfinance, telecommunications, and mining.

However, security conditions continue to pose a formidable challenge, and achievements have not been uniform and have included setbacks. Moreover, public administration remains vulnerable; there is little evidence that the new laws, procedures, and regulations are translating into improved civil service performance.

Over 40 percent of FCS country strategies during FY06–13 had satisfactory results frameworks – better than the IDA average. The main problems of FCS strategies' results frameworks are typified by that for The Gambia. The results framework did outline the expected results chain linking strategy interventions to program and country goals. However, it did not capture a substantial portion of IDA's assistance, and there was a lack of baselines and targets. Many outcome indicators did not capture the broad scope of the targeted outcomes but rather were just taken from specific Bank interventions with a more limited scope. Moreover, a number of outcome targets depended on interventions that were beyond IDA's influence, as underlined by the lack of baselines and targets.

IEG Evaluations and Regional Self-Evaluations

IEG reviews and regional self-evaluations agree that outcome ratings for country programs are declining. Figure 2.6 shows that the trends for both the self-evaluation CASCRs and IEG’s CASCR Reviews have been declining over FY04–13, although with a disconnect as to the levels of the ratings. The self-evaluations have a somewhat larger negative slope than the IEG ratings, meaning a slowly declining disconnect. For the self-evaluations the average ratings declined from between moderately satisfactory and satisfactory in FY04 (4.7 on the six-point scale) to an average closer to moderately satisfactory (close to 4 on the six-point scale) in FY13. The IEG reviews show a decline in the ratings from an average rating close to moderately satisfactory in FY04 to an average rating virtually half-way between moderately satisfactory and moderately unsatisfactory in FY13.



Results from Sector and Thematic Areas

IEG has also completed major sector and thematic evaluations in recent years that shed light on Bank Group results from that perspective and reinforced country results. In summarizing the lessons from these evaluations, this section utilizes four operational categories derived from reviews of various Bank Group corporate strategies and CASs. They are:⁹ (i) expanding economic opportunities (macroeconomic stability and growth, poverty, public sector institutions, financial and private sector development, and agriculture and rural development); (ii) building infrastructure for growth (water, sanitation, transport, energy, and information and communications technology [ICT]); (iii) enhancing human

development (education, health, and social protection); and (iv) ensuring environmentally and socially sustainable development (environment, social development, and gender). As noted earlier, an important caution to this analysis is that the evaluations cover activities that have already been completed, sometimes several years in the past; hence they may no longer apply to ongoing activities. Nevertheless, the recurrence of evaluation lessons over time suggests that evaluations can offer many useful insights to help improve the effectiveness of Bank Group interventions going forward.

EXPANDING ECONOMIC OPPORTUNITIES

Bank efforts to support procurement capacity building have been fragmented and focused mainly on legal and regulatory reform. IEG's public procurement evaluation (IEG 2014b) also found extensive efforts to support procurement through policy-based lending instruments focused on broad-based economic policy reform—although the share of procurement in each operation was typically minimal—and limited evidence of systematic integration of procurement into the wider context of effective public expenditure. Notwithstanding progress, the Bank's capacity building support would be more effective if it were tied to country-level strategies and systems.

Present Bank procurement guidelines are adequate, but with areas in need of improvement. This concerns provisions on consultant selection, on new and complex forms of procurement such as ICT, and on public-private partnerships (PPPs). But procurement processes are time consuming and interpreted inflexibly. There is a need for better monitoring, clearer standards, and changes in incentives that would lead to the exercise of reasonable judgment and less risk aversion. More integrated risk management systems and a greater focus on risk, as opposed to value, could reduce the need for oversight through prior reviews. There is also a need for setting monitorable service standards and to use procurement monitoring tools to help the Bank track the achievement of economy, efficiency, and value for money. Such tools would make a major global contribution to information on markets, suppliers, and prices, thus contributing to open data, benchmarking, and knowledge objectives.

Building state capacity requires a particularly strong understanding of country context, including conflict and fragility drivers. IEG's evaluation of assistance to low-income fragile and conflict-affected states (IEG 2014a) also found that measures need to be designed, sequenced, and paced realistically and aligned with the expectations of citizens, political economy constraints, and the needs of donors. The Bank's support has contributed to progress in public expenditure and revenue management, although success has been uneven across countries and reform areas.

The Bank has used support for decentralization as an important element in the Africa Region, while hesitating to engage with decentralization in other regions until recently. The Bank has supported community-driven development as a useful vehicle for short-term assistance; but in the absence of a mechanism to ensure sustainability, its long-term viability remains questionable.

In fragile and conflict affected states, the Bank Group lacks a realistic framework for inclusive growth and jobs. The framework should be based on economic opportunities and constraints, and supported by effective coordination and synergies across Bank Group institutions. In the FCS context, a focus on inclusive growth and employment is highly relevant to address drivers of fragility, with important linkages to state-building and peace-building activities. Vulnerability caused by low per capita income and high unemployment is a major driver of conflict. But IEG finds that growth and job creation have been slow and face challenges in FCS. The private sector is constrained by the lack of infrastructure, a business friendly environment, bankable projects, and skills. Bank Group support for long-term jobs has focused on investment climate reforms, which are necessary but not sufficient for private sector development. The lack of synergies and linkages between infrastructure, human development, and private sector development across the Bank Group and fragmented interventions reduced the impact of programs on long-term employment. Many FCS are highly dependent on extractive industries, but in this area the Bank Group has paid more attention to legislation and regulatory reform and less attention to the distribution of benefits, local economic development and value chains, and the fragility risks (IEG 2014a).

A decline in analytical work affects agricultural support. The evaluation of World Bank Group support for the global food crisis response (IEG 2013c) found limited effectiveness in the resurgent financing mobilized in response to the food crisis (FY08–09) due to a decline in analytical work, technical staff, and resources for portfolio management. The evaluation also found that subsidized fertilizer programs alone are not the solution to the food price crisis. The availability of fertilizer is important to increase crop production, but crop production does not depend only on fertilizer. Availability of improved seeds is a crucial factor, and inadequate infrastructure, extension, and marketing arrangements also limit the effectiveness of fertilizer subsidies. There was not much evidence that aggregate crop production at the national level increased significantly as a result of the subsidized fertilizer programs financed by the global food crisis response program.

Participatory forest management operations have been the most successful at balancing poverty reduction, livelihoods, and environmental aims. The evaluation *Managing Forest Resources for Sustainable Development* also found that interventions

have contributed substantially to environmental outcomes, although for the most part poverty reduction has not been satisfactorily addressed (IEG 2013d). IFC's forest investments are creating jobs and helping forest companies produce higher value-added products, increasing productivity, and fostering the participation of smallholder farmers in tree farming schemes, but their impact could be increased by greater attention to promoting sustainable supplies that can be certified and traced.

The evaluation *Global Program Review of the Forest Carbon Partnership Facility* found that the Bank played a major role in shaping global forest-related priorities and dialogue (IEG 2012b). It suggested the need for a high-level, strategic discussion on how the Bank plans to support the implementation of Reducing Emissions from Deforestation and Forest Degradation strategies going forward, particularly given heightened expectations among beneficiary countries.¹⁰

IFC's strategic priorities are relevant for the twin goals of the World Bank Group, but the pro-poor orientation of its projects could be greatly enhanced. Although the majority of IFC projects generated satisfactory economic returns, they did not provide evidence of opportunities for the poor to participate, contribute to, or benefit from the economic activities the projects support. The fact that projects did not articulate or track poverty outcomes does not necessarily mean that they did not contribute to poverty reduction, but points to a failure to reflect poverty effects. Improvements are needed in three areas. First, the priority given to frontier markets needs to lead to investments in more IDA countries than where they are currently concentrated (for agribusiness IFC's direct investment strategy has shifted toward food exporting countries and Sub-Saharan Africa). Second, IFC needs to continue to strengthen its partnership and communication with the World Bank to enhance its poverty focus and results. Third, IFC investments need to increase in all targeted sectors rather than mainly in the financial sector (IEG 2011b).

The Bank Group has helped countries build innovation capacity, but it could adopt a more strategic approach to supporting innovation and entrepreneurship for development. Market and government failures and other bottlenecks impede innovation and entrepreneurship, a source of economic growth. Developing countries need to build the capacity to find, absorb, and use new technologies and processes as well as foster entrepreneurs who can take risks, look for finance, and bring new products and processes to market. IFC investments fostering innovation had significantly lower outcome ratings than other projects. However, when assessing IFC innovation projects on a portfolio basis, given their higher-risk profile, the average financial and economic rate of return on innovation-related projects performed just as well as for projects without innovation components. The main channel for fostering innovation in MIGA-supported foreign investments was

through technology transfer and acquisition of new technology and processes. IEG found many cases where MIGA projects that supported firm level technology upgrading helped promote innovation, skills development, and growth of the private sector (IEG 2013e).

MIGA's Small Investment Program (SIP)¹¹ has been designed to increase its support to smaller-size manufacturing, agribusiness, and services projects, but operational results have been disappointing. The program has been effective in extending MIGA's reach in its strategic priority areas. MIGA's early engagement, focus on projects in relevant sectors, and use of an innovative instrument have been relevant to developing small and medium enterprises that are typical of FCS, which account for one-third of SIP projects. But the viability of these projects has been challenged by low demand for their services; poor access to infrastructure; weak management capacity; poor choice of local partners; high operating costs; and lack of knowledge of local markets. As a result, most projects reviewed by IEG for the FCS evaluation have struggled financially and operationally, and some have failed.

DEVELOPING INFRASTRUCTURE FOR GROWTH

Access to infrastructure contributes to inclusive growth and employment. However, the impact of infrastructure investments and the services that arise from created physical capacities can be undermined if they are not sustained. IEG's water sector (2010a) and transport (2013f) evaluations found that, while physical outputs have been largely delivered as planned, the achievement of less tangible objectives, such as strengthened sector capacity or institutional reforms, has proved to be a challenge. Contributory factors include overly complex project design and ambitious objectives relative to local capacity. IEG found that continuous and sequential support to appropriate government-led programs contributed to strengthening the sector's institutional capability. There were only a few cases that ensured such cross-sector coordination or a consistent engagement.

In addition to institutional capability, financial viability is found to be linked to sustained infrastructure services. IEG's transport evaluation also finds that a broad-based approach has contributed to gaining government commitment in sustaining transport outcomes (IEG 2013f). Based on this experience, sector- and project-level evaluations indicate that resistance to reform can be reduced through a sound analysis of the political economy built on stakeholder consultation, inclusive analysis, and active communication strategies. Positive returns can be achieved from linking investment operations with analytic and advisory services and relevant sector-wide reforms being addressed through DPOs.

Infrastructure has been a major focus of Bank Group involvement in FCS. The Bank has prioritized projects in the transport, urban, and energy and mining sectors. For IFC, 78 percent of its commitments in low-income FCS during FY01–12 were concentrated in telecommunications, transport, and extractive industries. Similarly, the volume of MIGA guarantees in low-income FCS has been highly focused on infrastructure, especially transport and telecommunications. Even so, in spite of the huge demand for infrastructure services and the perception that the lack of infrastructure remains a leading constraint to private sector development and for growth, IEG concluded that the considerable Bank Group engagement in infrastructure as a whole has had only limited impact (IEG 2014a).

Support to telecommunications in FCS has been relevant and effective. The telecommunications sector is one of the few to attract sizeable and early investment and to demonstrate high rates of growth in FCS, outside of resource extraction. Telecommunications is considered a transformational sector due to its potential to spur growth, entrepreneurship, and the delivery of services. While the growth of mobile networks has been largely driven by private investment and accessibility has increased in great part due to greater competition, IEG found that the speed of mobile phone penetration has been faster in countries where the Bank or IFC supported the ICT sector; and coordination has been identified in IFC telecommunications projects as a main success driver.

IFC-supported PPPs, mostly in the infrastructure sector, have performed better when IFC involvement was coordinated with Bank sector reforms, supported by client commitment and political will, and had experienced sponsors. PPP advisory and investment projects undertaken by IFC in Africa confirmed the importance of client commitment and political will as top drivers for the success of partnership advisory projects. The presence of sector reform supported by the Bank, strong commitment to the partnership from the government, and sponsors with proven experience underpinned the success of IFC PPP investments. IFC's nonfinancial additionality, e.g., through IFC's technical expertise during due diligence, was as important as financial additionality in PPP investments in Africa.

IMPROVING HUMAN DEVELOPMENT

Taken as a whole, recent IEG evaluations and reviews under the human development (HD) heading share a number of common recommendations and messages that reflect priorities in the new Bank Group Strategy (IEG 2006, 2009b, 2011c, 2011d). They include the need to (i) renew commitment to and increase engagement with low-income countries and with the most disadvantaged and poorest groups; (ii) build projects that have conceptually stronger results frameworks backed up, for example, by sound analysis and reliable baseline data;

and (iii) improve overall project management and design through better matching of design to context, reduced complexity of design to reflect capacity, and enhanced risk analysis and mitigation strategies.

There have been some notable successes in HD areas, but the rate of improvements in some areas is problematic. Areas of progress include gender parity, increased access to education and advances toward realizing the human-development-related MDG. However, the 2013 Global Monitoring Report urges increased focus on reducing infant mortality, improving maternal health, and engaging early in education (World Bank and IMF 2013). Also, the degree of variability in performance across the regions is still high; for example, more than half of the 57 million children still out of school are located in Sub-Saharan Africa. The Bank's higher-level goals, including human development related goals, continue to be affected by a variety of powerful, interlinked dynamic factors. For example, increased market volatility that results in higher food prices can impact income poverty and have a knock-on effect for health outcomes, education results, and gender equality with nutrition as a key interlocutor in the process. To tackle the complexity of context, RAP 2011 notes an increasing Bank focus on broad systemic improvements in HD (IEG 2012c), and RAP 2012 emphasizes the shift toward engagement in systems change; for example, by developing social safety nets (SSNs) and institutional capacity prior to crises (IEG 2013a).

The focus in the education sector is moving toward a more demanding systems approach. The emphasis on systems change is reflected in the World Bank's Education Sector Strategy 2020 (IBRD 2011).¹² To deliver learning for all, the strategy seeks to promote country-level reforms of education systems and to build a global knowledge base powerful enough to guide those reforms. The use of the term "education system" includes the full range of learning opportunities (e.g., public and private, formal and informal, and in school and at work) signaling the Bank's intent to take opportunities to address barriers wherever they occur, including outside the bounds of education systems as traditionally defined, and the hidden exclusion of low quality and learning outcomes in schools serving the poorest children. (The emphasis on learning outcomes is in line with previous IEG reports that focused on the need to move beyond inputs and school attendance measurements.) But the achievement of systems change and learning outcomes is challenging. IEG's portfolio note on education (IEG 2011d) found a substantial drop in the quality of rated education projects over a decade, with success concentrated in increasing access and improving equity of access, but less in achieving education quality, labor force management, learning, or efficiency objectives. The report also cautioned against effectively excluding the very poor in any attempt to address "learning for all."

There is a need to improve health results, particularly for the poorest and most vulnerable. This is in spite of increased investment in health and the significant progress that has been achieved with IDA support over the last decade (e.g., 1.1 million malaria-related deaths avoided since 2000). Significant system-based obstacles remain – from poor infrastructure and weak logistics to inadequate policies or lack of sustainable financing or health insurance coverage – that prevent lifesaving resources and other inputs from reaching those who need them most. IEG’s review of interventions to reduce child malnutrition in developing countries (IEG 2010b) found slow progress, in part because of the food price and global economic crises, and no clear pattern of impacts across interventions largely because of the heterogeneity of real-world conditions and context within which interventions play out. However, the report found that Bank-supported conditional cash transfer, community nutrition, and early childhood development programs demonstrated some impact on child anthropometric (height, weight, and birth weight) outcomes. IEG’s 2013 review of impact evaluation evidence regarding efforts to reduce maternal and child mortality found that as a group the evaluated Bank interventions were effective in improving skilled birth attendance and reducing under-five mortality, but with fewer detectable impact as in other areas (IEG 2011d). The review also noted a skewed regional distribution of the available impact evaluations of Bank interventions, but a significant number of impact evaluations are under way or planned for Bank health sector interventions.

The development of social safety net programs now represents a dynamic and growing part of the Bank’s portfolio. Over recent years, the Bank almost tripled its social protection and labor lending to help countries respond to the food, fuel, and financial crises – from an annual average of \$1.6 billion in 1998–2008 to an annual average of \$4.2 billion for 2009–2011.¹³ IEG’s evaluation of SSNs (IEG 2011c) found that Bank support had evolved over the decade as it moved from a project-centered approach focused on delivery of social assistance benefits toward an approach focused on helping countries build SSN systems and institutions to better respond to poverty, risk, and vulnerability. The Bank’s support has relied heavily on both lending and knowledge sharing to engage clients. IEG concluded that whereas the Bank made significant progress in developing safety nets and addressing crises, key areas of support needed to improve including ongoing engagement during more stable times to help countries develop the capacity to respond to future shocks and stronger engagement with low-income countries. The evaluation also found that strategic rather than project-by-project engagement strengthens the effectiveness of efforts overall.

A major issue identified in the food crisis response evaluation was the lack of an operational model for helping low-income countries target their support to the most

affected groups in the absence of existing SSN systems (IEG 2013c). For the short term food crisis responses, Bank-supported operations largely involved the topping-up of existing in-kind transfers, public works, and school feeding programs. The World Bank's social protection and labor strategy incorporates several lessons from the food and economic crises and commits to increasing the Bank's sectoral engagement in low-income countries (World Bank 2012a).

In line with IFC's strategic priority for health and education, its investments in these sectors increased by more than half in FY11-13 compared with three years prior. The growth in the portfolio has come exclusively from education services projects as IFC's focus on private sector education has grown – mainly in tertiary education and less so in technical and vocational training. IFC's investments in the health sector have stagnated over the two periods under review. In terms of results, the few completed ex-post assessments of education projects indicate that achieving satisfactory development outcomes still remains a challenge; the development outcomes of only four of nine projects were rated as mostly successful (IEG 2013h).

There has been progress in the Health, Nutrition, and Population (HNP) sector. The Management Action Record (MAR) for the HNP evaluation found improved M&E, greater project quality control at the regional and sector levels, and increased multisector collaboration, and the issues raised by the evaluation are being addressed. In addition, more projects focused on health system development. The portfolio also appears to be improving, especially in Africa, a problem area in the original evaluation (IEG 2009c). More attention, however, is needed on the balance between investment and technical assistance (TA); administrative simplification should be an important priority; and the MAR noted major gaps in staffing.

IEG's gender evaluation recommended several actions to regain and sustain momentum of gender integration to improve the development effectiveness of Bank support (IEG 2010c). As a result of this evaluation, the 2012 World Development Report (World Bank 2012b), and the IDA16 Replenishment agreement, several changes have taken place in the Bank related to the gender and development agenda (GAD). Awareness has increased due to establishment of a results framework and regular monitoring, all CASs are monitored and the results are reported to the GAD sector board and senior management. Lending products are selectively monitored with results disaggregated by sector, region, and IDA or non-IDA. CASs and ISNs exceeded the policy benchmarks for being gender-informed, including all CASs that were discussed in the past year and all ISNs in 2012. The corporate scorecard and the IDA16 results management system include several gender indicators, and training in gender has been expanded. However, the GAD framework focuses on the design stage, on inputs rather than on outcomes. Augmentation would require

linkages between these tiers and intended country program outcomes or DPOs for lending products.

PROMOTING ENVIRONMENT AND SOCIALLY SUSTAINABLE DEVELOPMENT

An IEG review of the Bank's work in promoting policies with climate change mitigation benefits found that there is no significant trade-off between climate change mitigation and energy access for the poorest (IEG 2009d). It identified the scope for bundling efforts to remove subsidies with actions that improve energy efficiency and so reduce the burden of cuts. An evaluation of climate change mitigation through the Bank's investments in renewable energy, energy efficiency, forestry, transport, and other sectors found that the Bank could increase its impact by supporting high-impact sectors and instruments (particularly through energy efficiency) and by supporting the local adaptation and diffusion of proven technologies, policies, and financial practices (IEG 2010d). Pilot and scale-up efforts were successful only when demonstration and diffusion mechanisms were well thought out.

Bank Group safeguards and sustainability policies have helped avoid or mitigate large-scale social and environmental risks. This was a conclusion of *Safeguards and Sustainability Policies in a Changing World*, which also commented that categorization of risks had been inconsistent, and supervision and monitoring of results had not been thorough (IEG 2010e).¹⁴ The evaluation found that the Bank's compliance-based approach was becoming less effective as the portfolio moved beyond traditional investment projects. Shifts in the composition of the portfolios of all three institutions also presented a challenge to ensure continued relevance and effectiveness of the safeguards and sustainability policies.

Overall Implementation of Poverty and Social Impact Analyses (PSIAs) has experienced limitations. IEG's evaluation of the *Effectiveness of World Bank Support to Poverty and Social Impact Analyses* found some highly effective individual PSIAs but implementation had faced limitations. There were issues concerning the timeliness of analysis and the extent to which country analytic capacity was developed (IEG 2010f). Other issues included ownership by Bank staff and managers, quality assurance, monitoring, and evaluation. Quality assurance mechanisms should be strengthened to ensure that PSIAs are designed to achieve intended effects.

The environmental and social performance (E&S) of IFC investments has been stable in recent years. About two-thirds of projects are rated as satisfactory (63 percent). Over time, the E&S sustainability performance of financial markets projects has improved (70 percent satisfactory), while that of the infrastructure cluster has declined (67 percent in 2010–2012 versus 87 percent in 2007–2009). Manufacturing,

agribusiness and services projects have also shown weaker performance, with only half of projects achieving satisfactory E&S outcomes. Although IEG evaluations point to improvements in IFC's E&S appraisal quality for real sector projects, supervision quality has not been as strong, especially in regard to follow-up on inadequate client reporting on actual project performance (IEG 2013i).

Portfolio Performance by Institution

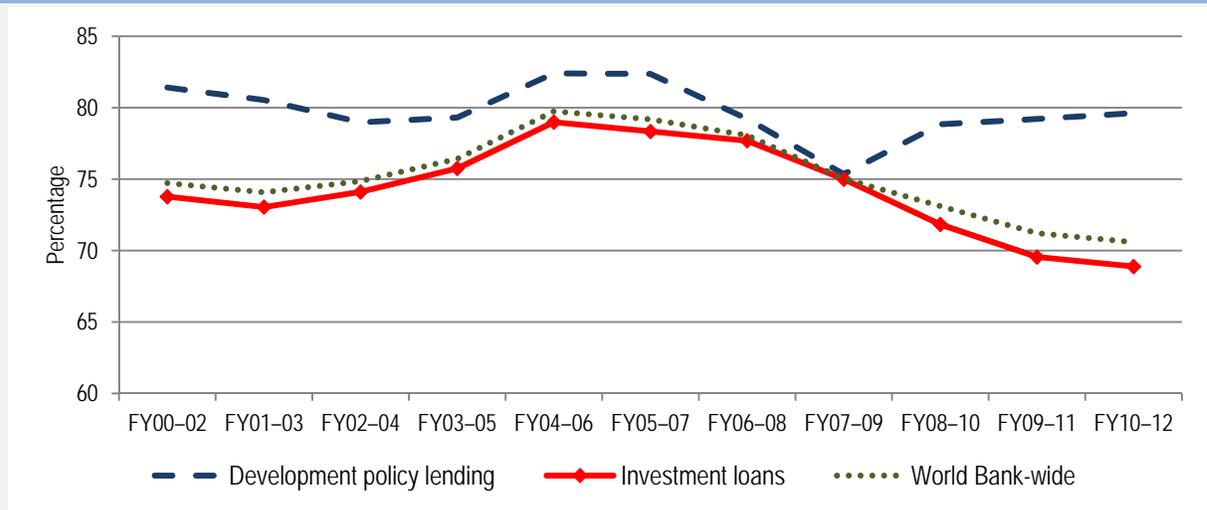
PERFORMANCE TRENDS IN BANK-FINANCED OPERATIONS

This section reviews trends in the performance of Bank-financed operations on the basis of IEG project evaluations – reviews of Implementation Completion Reports (ICRs) and separate Project Performance Assessment Reports. Performance and results are analyzed on an annual basis as well as by using averages for three-year nonoverlapping periods and three-year moving averages.

Recurrent lessons from evaluations point to the need to make adjustments for operations in design and implementation support by learning from completed operations and periodic verification of progress. It is an explicit priority of Bank strategy to learn from mistakes as well as successes and to disseminate findings effectively for better delivery of results. Lessons from completed operations are supposed to be incorporated for each new operation. Ex-post evaluations – even with a lag – have added value in providing feedback and in informing decisions to shape medium-term strategies. From this strategic perspective, fluctuations in relatively small annual samples of operations (e.g., for some Regions, many sectors, and DPOs) need to be evened out for more clarity on trends. And robust sample sizes are essential for statistically significant tests, articulated in this report by analysis of three-year periods.

Overall Bank portfolio performance has declined. Aggregate development outcomes measured as the proportion of moderately satisfactory or better outcomes on all types of lending operations financed by IBRD, IDA, and trust funds fell to 71 percent in FY10–12 from 73 percent in FY07–09 and 80 percent in FY04–06 (Figure 2.7). This decline after FY06 reversed a previous trend of steady improvements over several years. The drop measured by moving averages reflects sharp declines in the proportion of moderately satisfactory or better outcomes in FY07 and FY10, along with partial and temporary recoveries in intervening years.

Figure 2.7. Operations Rated Moderately Satisfactory or Better for Development Outcome by Number of Projects



Source: IEG data September 30, 2013.
 Note: Three-year moving average.

The performance of DPOs has been better than the overall Bank average despite the more difficult operating environment from the recent global economic and financial crises. A dip in outcomes of DPOs in FY07-09 was followed by improved performance on more recent exits to reach 80 percent moderately satisfactory or better by number of DPOs for FY10-12 (Figure 2.7). The temporary decline to 75 percent in FY07-09 reflected lower performance on 31 DPOs because of issues of lack of client ownership and weak capacity in several regions as reported by management’s 2012 retrospective report on DPOs (Francisco 2012). However, the performance of investment projects has continued to deteriorate and drives the lower overall Bank outcomes, notwithstanding recovery in some years. By FY10-12, investment project outcomes measured by number of projects were at 69 percent moderately satisfactory or better, falling from 75 percent in FY07-09 and 79 percent in FY04-06. Outcomes of investment projects fell across IBRD, IDA, regions, major operational areas, and several sectors. An example of a highly successful DPO is shown in Box 2.3.

Box 2.3. Learning from Success: The Philippines Food Crisis Response Program

The Philippines Global Food Crisis Response Program’s objectives were highly relevant to country conditions and to the country partnership strategy. Design took full account both of the program’s urgency and the institutional context in which it would be implemented. Government actions involved significant budgetary allocations; consolidation of the institutional mandate to cover social protection as a whole and thereby coordinate policy and actual implementation of the National Social Welfare Program; and introduction of a nationwide standardized and

transparent household targeting system.

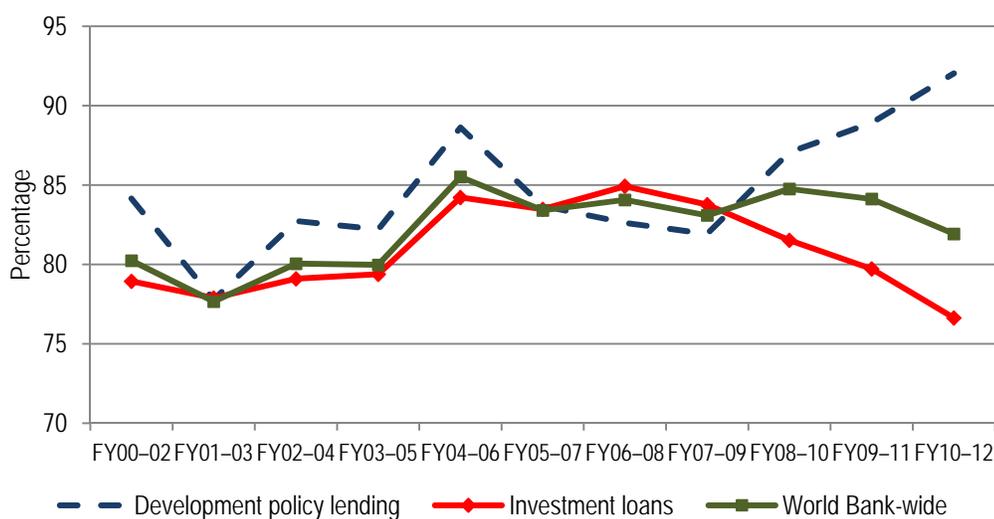
There was strong ownership by stakeholders, and the government was able to implement the reforms fully and in a timely manner consistent with its budgetary constraints and planning cycle. Design was selective and deliberately avoided some of the more complex and long-standing issues on the agenda of rice policy reform, such as the coverage of the rice subsidy program, permanent reforms in the trade regime affecting rice, and the focus on self-sufficiency rather than on food security. Addressing such issues would have made it impossible to respond to the food and related social assistance emergencies in a timely manner. However, the DPO-supported program may possibly facilitate moving on the trade reforms and phase-out of untargeted subsidies.

The substantial and direct results in the form of impact are well demonstrated by the conditional cash transfer (CCT) program. The gap between the incomes of beneficiary households and the average income is calculated to have been reduced by 5.3 percentage points, and severe poverty by 4.3 percentage points. The goal of reaching 320,000 poor households by the end of 2008 was attained; by May 2012, more than 3 million households were benefiting from the CCT. A subsequent study by the Australian Agency for International Development and World Bank concludes that although some challenges remain, the CCT successfully reached the poorest families in the Philippines (World Bank and Australian Aid 2013). The proxy mean testing-based targeting system, combined with geographic targeting, helped minimize errors of inclusion and exclusion, and 90 percent of beneficiaries belonged to the poorest 40 percent of the population.

The program was based on sound analytical underpinnings in prior technical assistance; international best practice and methods; ongoing analytical work and policy dialogue in the rice sector; and the analytical work, policy notes, and consultant studies on improved targeting as well as the inclusive growth economic and sector work program under way during preparation. Supervision and monitoring and evaluation were carried out through related operations and economic and sector work, using international expertise as needed. The Bank responded flexibly to the government's request through reopening the DPO for supplementary financing following the two major typhoons which struck the Philippines in 2009, thus keeping the social assistance program on track.

Bank portfolio outcomes by commitments have been less negative than when measured by numbers of operations, reflecting the larger size and better performance of IBRD operations relative to IDA operations. For DPOs, there was a sharp recovery after FY07–09, which improved to 92 percent in FY10–12 from 82 percent in FY07–09 and 89 percent in FY04–06 (Figure 2.8). However, for investment operations, the decline even by this measure has been pronounced and continuing, falling from 84 percent in FY07–09 (unchanged from FY04–06) to 77 percent in FY10–12 – a decline that is significant at a confidence level of 95 percent. The more gradual nature of the decline when compared with the trend in investment project outcomes measured by number seems to indicate that project size matters, possibly because larger operations may receive more attention from the Bank and borrowers.

Figure 2.8. Operations Rated Moderately Satisfactory or Better for Development Outcome by Commitments



Source: IEG data September 30, 2013.

Note: Three-year moving average.

IBRD-funded investment projects have consistently performed better than IDA projects. Table 2.1 shows that by number of projects the outcomes of IBRD investment projects declined from 84 percent in FY04-06 to 80 percent in FY07-09 and 75 percent in FY10-12. Outcomes of IDA-financed projects in non-FCS declined from a lower level of 76 percent to 66 percent, and then to 62 percent for the same periods. Higher outcomes for IBRD projects may reflect on average greater country institutional capacity and supportive policy frameworks than in IDA borrowers. The declining performance of both IBRD and IDA-financed projects in non-FCS countries indicates common Bank-wide institutional factors, principally related to issues in design and follow-up within the Bank's control, which did not receive focused attention as in the case of projects in FCS.

Table 2.1. Portfolio Performance by Country Type of All Projects Rated Moderately Satisfactory or Better (percentage)

Country Type	FY01-03	FY04-06	FY07-09	FY10-12
IDA fragile states	62	64	69	67
IDA-nonfragile states	70	76	66	62
IBRD	78	84	80	75
World Bank-wide	74	80	75	70

Contrary to the general trend, performance of IDA projects in FCS has improved. Projects in IDA FCS borrowers previously performed well below the level of nonfragile IDA countries. However, since FY07-09 IDA project ratings in FCS are now modestly better than in nonfragile IDA countries. The FCS evaluation found

that increased Bank support through larger administrative budgets and more international staff deployed in FCS has contributed to this positive trend, together with increased lending in transport and economic policy operations with high performance (IEG 2014a). It also sees improvements in overall FCS results as in part reflecting development policy lending that has increased in quantity as well as in quality. There are important examples in IEG evaluations of lending operations designed to fit difficult FCS contexts, such as the Democratic Republic of Congo Multisector Rehabilitation and Reconstruction Project, which featured design of implementation arrangements to compensate for the government's capacity limitations and to help lay the foundations for strengthening ability to implement future development projects in a very large country with massive deterioration of infrastructure and a difficult governance context.

Ratings for investment projects performance are not only declining but also becoming more concentrated. The percentage of investment projects at the high end of the six-point rating scale (rated satisfactory or highly satisfactory) declined by 50 percent (from 49 to 24 percent) between FY04–06 and FY10–12 (Table 2.2). There has been a corresponding increase in the ratings around the middle projects rated moderately satisfactory and moderately unsatisfactory. In line with higher overall ratings, a larger proportion of DPOs, at about 40 percent, were rated satisfactory or highly satisfactory in FY10–12; this is still a decline of about one-fifth from FY07–09.

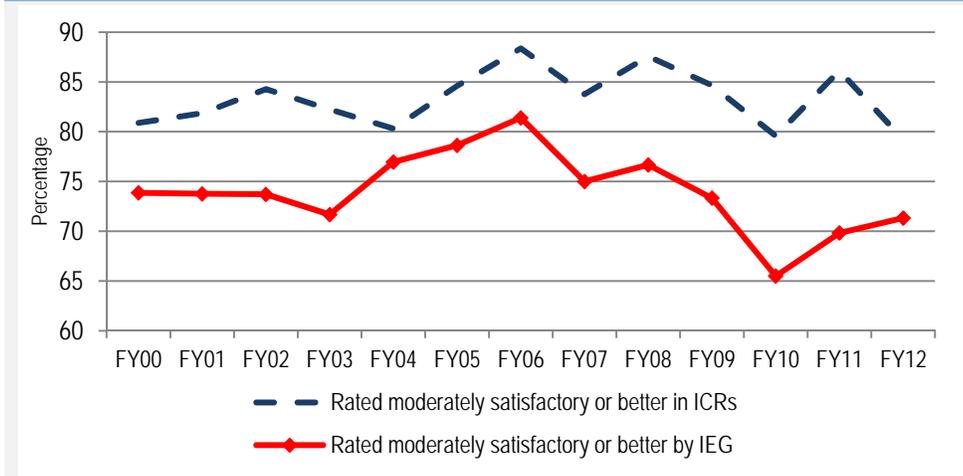
Table 2.2. Satisfactory and Highly Satisfactory Ratings by Instrument Type (percentage)

Fiscal-year period	Investment lending			Development policy lending		
	HS	S	S or better	HS	S	S or better
FY01–03	4.3	44.0	48.3	3.5	44.0	47.5
FY04–06	3.7	45.0	48.7	3.0	50.3	53.3
FY07–09	3.3	32.3	35.6	8.0	42.3	50.3
FY10–12	2.0	22.3	24.3	3.0	36.7	39.7

Note: HS = highly satisfactory; S = satisfactory.

The ICRs and ICR Reviews (ICRRs) ratings show similar patterns, with a disconnect. There has always been a disconnect between the ratings from the ICR self-evaluations and IEG's independent ICRRs – this is inevitable within reasonable bounds (typically within about 10 percentage points). Figure 2.9 shows that the patterns between years for the outcomes of investment lending have been broadly similar since FY00, but with a disconnect that widened after about FY07 until it narrowed again considerably in FY12 (with only partial coverage for ICRRs in the year), although it is still close to 10 percentage points. Weaknesses of the results frameworks and of M&E in investment projects contribute to the rating disconnect.

Figure 2.9. ICR and IEG Development Outcome Ratings for Investment Projects by Year of Exit (disconnect)

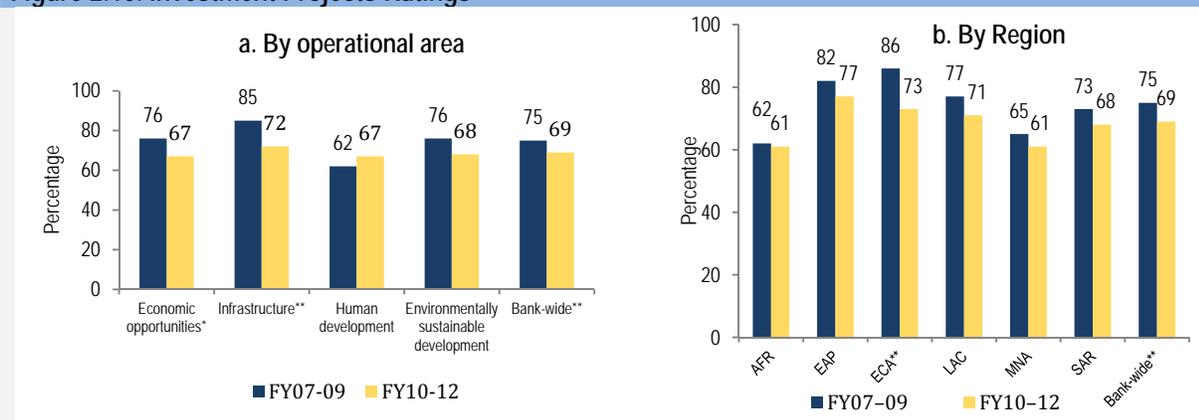


Source: IEG data September 30, 2013.

Annual portfolio performance ratings are more volatile than the three-year averages. This is demonstrated in Figure 2.9 for investment projects, which shows particularly large rating declines in FY07 and FY10 for the ICRs of investment projects. As noted elsewhere, a backlog for IEG’s ICRs still cover only 50 percent of FY12 exits; the aggregate results by percentages for that year are therefore not comparable with previous years for which the backlog of reviews is much smaller. The increase in disconnect over previous years followed from the Bank’s shift in FY06 to an increased focus on results specified in project objectives and indicators along with the requirement to provide evidence of outcomes to support ratings. ICRs have not presented consistently such evidence, hampered by weak project M&E systems.

The performance of Bank investment projects varies across operational areas. Figure 2.10 shows that building infrastructure for growth registered the largest decline among major operational areas in outcomes of investment projects from FY07–09 (85 percent) to FY10–12 (72 percent). This change was statistically significant at a 95 percent confidence level and was driven by equally significant falls in the transport (92 to 73 percent) and water (86 to 63 percent) sectors. Expanding economic opportunities and environment and sustainable development showed smaller declines of 9 and 8 percent, significant at the 90 percent confidence interval for expanding economic opportunities. Enhancing human development recorded a small increase in outcomes (5 percent, not statistically significant) because of a better performance of projects evaluated in the HNP sector (17 percent, significant at the 95 percent level of confidence). Between these four areas there has thus been an averaging trend, with large drops for the better performers and a modest increase for the lowest performer.

Figure 2.10. Investment Projects Ratings



Source: IEG data September 30, 2013.

Note: The difference in the share of projects rated moderately satisfactory or better between FY07-09 and FY10-12 is statistically significant at a 95 percent confidence for the category (**) and a 90 percent confidence level (*). AFR = Africa Region; EAP = East Asia and Pacific Region; ECA = Europe and Central Asia Region; LAC = Latin America and the Caribbean Region; MNA = Middle East and North Africa Region; SAR = South Asia Region.

Development outcome ratings by Regions for investment projects are becoming somewhat less uneven but at a lower level. Figure 2.10 also shows that between FY07-09 and FY10-12 the outcome ratings (moderately satisfactory and above) declined for all Regions, but more sharply for the highest performing Regions. Europe and Central Asia declined from 86 percent to 73 percent, which is statistically significant at the 95 percent confidence level. East Asia and Pacific declined from 82 percent to 77 percent, and Latin America and the Caribbean from 77 percent to 71 percent. At the same time the ratings for the Africa Region dropped by just 1 percentage point, from 62 to 61 percent, and for the Middle East and North Africa Region by 4 points, from 65 to 61 percent. As a result, the gap between the highest and lowest performing regions shrank significantly. Box 2.4 discusses an innovative and successful project in Malawi.

Box 2.4. Land Reform in Malawi

In Malawi, policy has been biased in favor of large farms, which has marginalized smallholders while leaving many large estates idle. The Bank therefore supported this pioneering pilot operation (2004) based on voluntary land transfers to persons with little or no land who are willing to buy – the first redistributive land reform project in the Bank’s Africa Region and the first worldwide to use Bank funds for land acquisition, under a formal exception to the policy against disbursements for land purchases.

The original project objective was to increase the incomes of 15,000 poor rural families through a decentralized community-based land reform pilot program. When additional financing was approved (2009), the objective was altered slightly to include explicitly the intention to increase agricultural productivity.

The project gave grants to groups of small farmers to buy land and provided training and inputs needed to develop viable farms. With some delays and domestic coordination problems, the project met its output target and exceeded both its original and revised development objectives. Two separate impact evaluations found that the increase in incomes, farm output, and agricultural productivity largely exceeded the results achieved by matched control groups. However, the boost to agricultural productivity tapered off after beneficiaries had used up their resettlement grants, and diversification from maize (the main staple) into cash crops was limited.

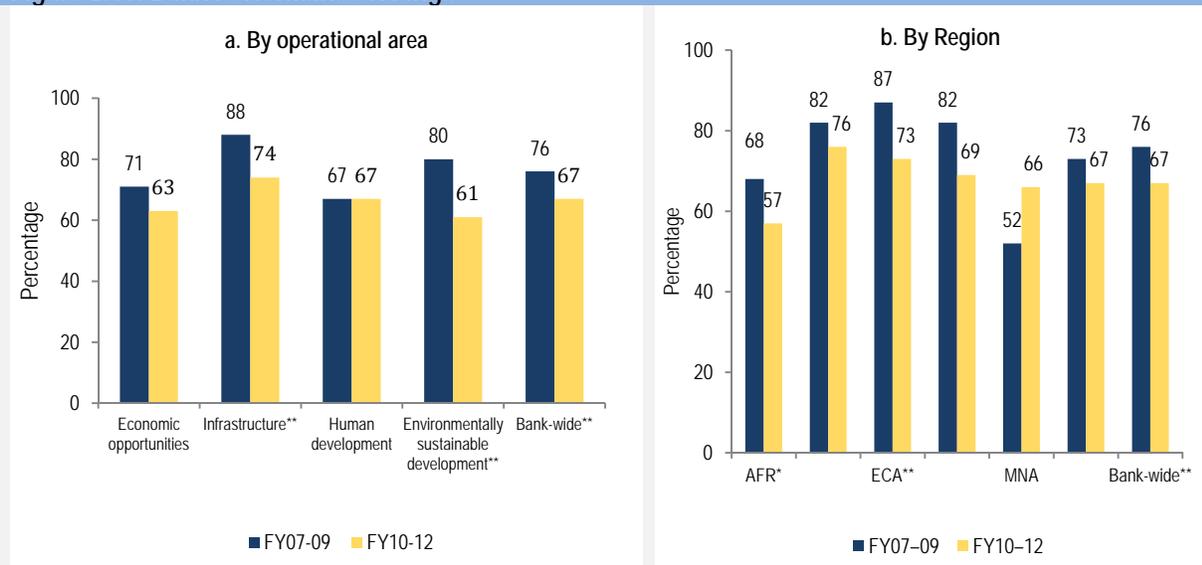
The Independent Evaluation Group rated the project outcome satisfactory, with strong achievement of original and revised objectives. Based on plausible assumptions, the economic rate of return exceeded expectations, and the project provided valuable lessons for such possible operations in Malawi or elsewhere. Bank performance is rated satisfactory with thorough and practical design and implementation arrangements.

However, the risk to development outcome is rated significant because the prospects are uncertain for the hoped-for scaling up of this pilot. The government has not introduced the expected reforms to allow for more efficient operation of land markets, and neither the government nor the Bank has committed to renewed efforts at redistributive land reform.

Bank performance ratings as evaluated by IEG deteriorated substantially for investment projects between FY07–09 and FY10–12. This is shown in Figure 2.11. The Bank-wide decline of 9 percentage points between FY07–09 and FY10–12 was significant at the 95 percent confidence level. The decline was even sharper over FY04–06, falling from 79 to 67 percent for all investment projects. This is a serious issue since by definition Bank performance is under the Bank’s own control. The performance declined for three of the four operational areas, most dramatically for environmentally and socially sustainable development (from 80 percent to 61 percent). The Bank performance rating was unchanged for human development. Five of the six Regions showed declines (statistically significant at the 95 percent level for Africa, Europe and Central Asia, and Latin America and the Caribbean). As a result of these declines and a sizable contrasting increase for the Middle East and North Africa Region from 52 to 66 percent, the difference from the highest to the lowest performing region dropped from 35 to 26 percentage points. The exit cohorts

for the Middle East and North Africa are relatively small which makes it more difficult to draw firm conclusions from the available data, but the improvement in Bank performance is in itself encouraging. This has been the result of a renewed approach to portfolio quality that focuses on factors within the Bank's control or sphere of influence in the face of very challenging regional conditions.

Figure 2.11. Bank Performance Ratings



Source: IEG data September 30, 2013.

Note: The difference in the share of projects rated moderately satisfactory or better between FY07-09 and FY10-12 is statistically significant at a 95 percent confidence for the category (**) and a 90 percent confidence level (*).

Bank performance has two dimensions – its performance in ensuring quality at entry and the quality of supervision. Consistently, the quality at entry is in the aggregate rated lower than the quality of supervision, but both showed a decline between FY07-09 and FY10-12. Quality at entry ratings Bank-wide declined from 72 to 66 percent moderately satisfactory or better. Among major operational areas, building infrastructure for growth showed the largest decline because of the transport and water sectors. Among Regions, East Asia and Pacific, Europe and Central Asia, Latin America and the Caribbean, and South Asia all showed significant drops in quality at entry (95 percent confidence interval). Quality of supervision Bank-wide declined between FY07-09 and FY10-12, primarily among major operation areas, for economic opportunities and building infrastructure, and among regions, most prominently for the Europe and Central Asia and the Latin America and the Caribbean Regions. The decline in supervision quality was significant at the 90 percent confidence interval in public sector governance, energy and mining, and education. Issues in quality at entry and quality of supervision are discussed in more detail in chapter 4.

Management and IEG analyses concur on several of the issues underlying the declining project development outcome and Bank performance ratings on investment projects. Management carried out a detailed analysis in 2012 of some 500 completed projects based on IEG's ex-post project reviews. The key findings of these analyses conform to current IEG findings:

- The steady decline in quality at entry is an important factor in the decline of project outcome ratings, given the strong correlation between this rating and project outcomes. Thus in the management sample, 84 percent of projects rated satisfactory (on the binary scale) also had satisfactory quality at entry, compared to only 29 percent of projects rated unsatisfactory.
- Within quality at entry, weakness in project design has been the most important factor such as over-ambitiousness and complexity, followed by project analysis such as weak or absent economic and financial analysis or risk analysis, and project readiness such as through inadequate assessments of counterpart capacity and mitigating measures, while the relevance of objectives has generally been high both for satisfactory or better and unsatisfactory outcomes.
- Quality of supervision, while consistently higher than quality at entry, has also shown a declining trend. The management report quotes IEG assessments that about half of the projects rated moderately unsatisfactory or lower during FY00–10 had unsatisfactory supervision, with lack of proactivity in the form of appropriate follow-up and inadequate supervision as important issues. Management also identified lack of candor in supervision ratings, indicating that project ratings did not provide adequate bases for problem recognition and resolution during implementation.
- Country conditions matter. The management report comments that a regression analysis undertaken for all exiting projects FY00–11 found a large and positive impact of country conditions as measured by Country Policy and Institutional Assessment ratings on outcome ratings. This finding shows the importance of country institutional and capacity constraints to which project design and supervision must adapt in order to lead to satisfactory outcomes.
- Project-level factors matter as much as country factors. Outcomes of previous projects for which the task team leader was responsible – the team leader's track record – are an effective proxy for project-level factors. Recent analysis in this regard examines a large database of 6,000 Bank projects to arrive at this

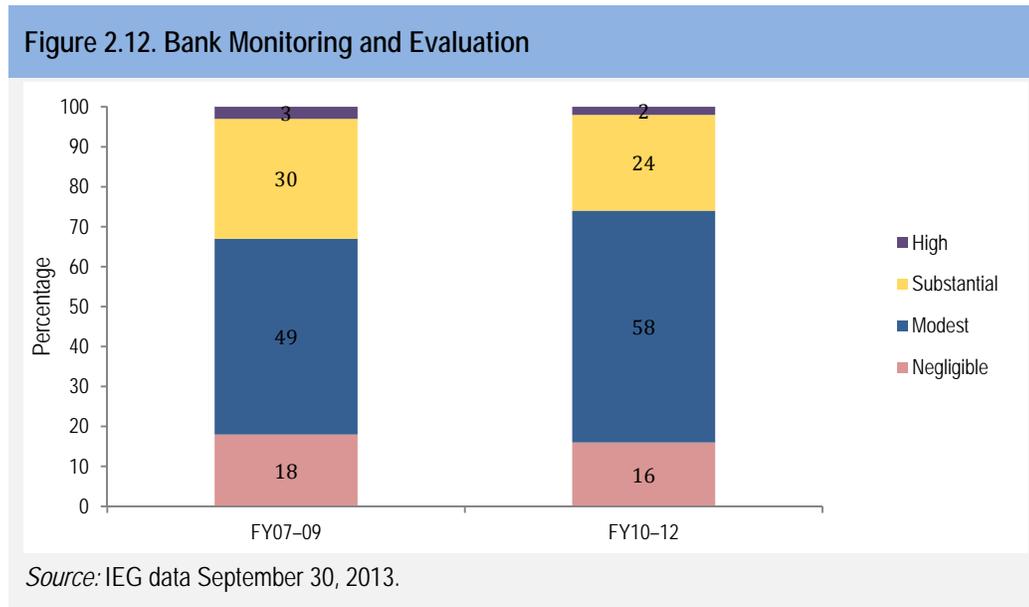
conclusion (Denizer et al. 2013). This finding is discussed in more depth in chapter 4.

In addition, management also considered as contributory factors to declining project outcome ratings the harmonization in 2006 of the rating scales and IEG's stronger emphasis since that time on evidence and the quality of project M&E. It does not seem plausible that these one-time changes could contribute to the continued decline in ratings year after year, but the decline in ratings for quality of M&E is an important issue in itself, and is indeed a contributing factor to the overall decline in ratings.

Tight operational budgets may also have contributed to lower project outcomes. During the recent crisis years the Bank (mainly IBRD) sharply increased its lending volume to developing countries, with Bank commitments reaching an annual average of \$53 billion in FY09–10 compared with \$25 billion in FY07–08. Given the fixed budget arrangements in place for the last eight years, the increase in lending took place without a commensurate increase in resources allocated for project preparation and only a slight increase in supervision budget. The recorded cost of project preparation has been in gradual, steady decline during FY04–10. In real terms, there has been substantial decline in total expenditures on preparation costs. Average preparation costs declined consistently from about \$556,000 per project in FY06 to \$456,000 per project in FY10. The decline was across all regions of the Bank. Finally, it is important to note that the resources allocated to economic and sector work (ESW) also declined during FY06–10. In this context, the relatively stronger recent results of projects in FCS seem to be associated with stronger commitments of budgetary and human resources, including for TA to strengthen domestic capacity – along with more focused staff and management attention. The IEG FCS evaluation noted that budgetary resources for supervision per million dollars in commitment volume increased by 55 percent in FCS during the FY07–12 period but had a more modest increase of 8 percent in the non-FCS group.

Managerial attention to quality may have been adversely affected by the matrix structure. IEG's evaluation of the matrix system noted that quality at entry and quality of supervision had shown a declining trend since the introduction of the matrix in FY97–98 (IEG 2012d). It also observed that quality assurance systems had focused on fiduciary and safeguards risks at the cost of other aspects of quality and that the matrix did not permit effective control spans for sector managers with large remits. Currently Bank-wide changes are under way with the creation of global practice groups.

Monitoring and evaluation are essential for the Bank’s ability to deliver results. Therefore, M&E is addressed clearly in the Bank Group’s new strategy. All Bank operations are already now required to be underpinned by results frameworks providing the basis for M&E, consistent with the results frameworks in country strategies and articulating them at the project or DPO level. IEG reviews M&E in ICR and CASCR reviews.



However, the quality of M&E in investment projects has been declining. Investment projects in FY10-12 showed lower M&E quality than in FY07-09 (Figure 2.12). The number of such projects with M&E rated high or substantial declined from 33 to 26 percent, so that only about one in every four projects was rated in the top half of the rating scale, against 40 percent reported by the 2009 IFC annual report on development effectiveness (IFC 2009). In contrast, results frameworks and M&E for DPOs were rated at 43 percent substantial or high for FY10-12.

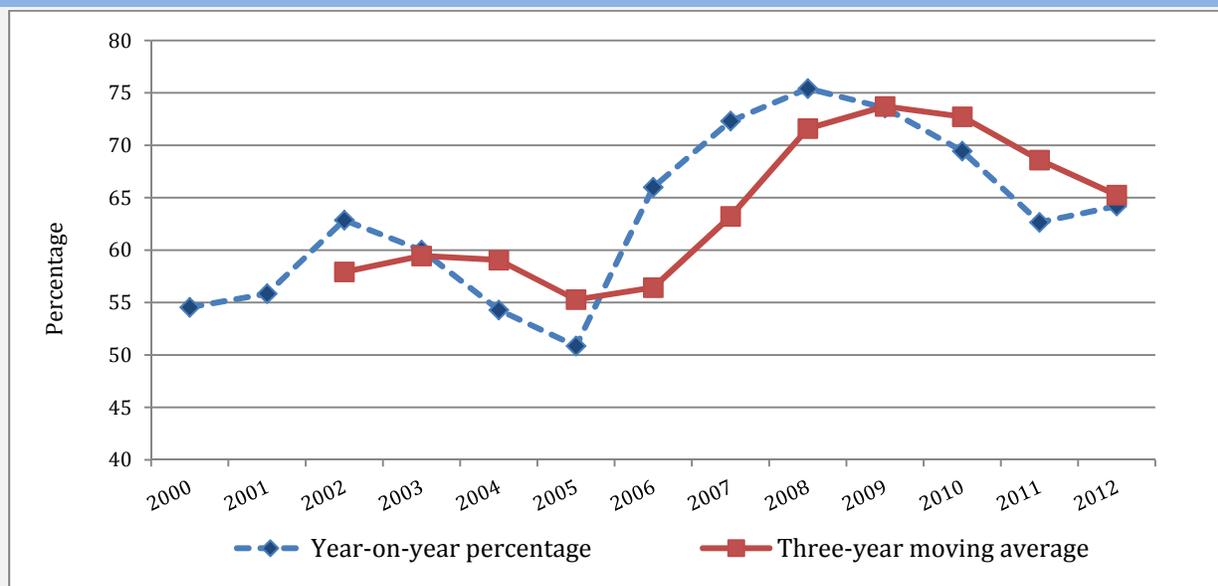
Common issues in M&E reported by IEG evaluations include limited availability of sound baseline data, too many unfocused indicators, and too few outcome indicators. Issues in countries include weak institutional frameworks with high staff vacancies or turnover, lack of clarity in roles and responsibilities for data collection, problematic management information systems, poor quality of data, and poor use of data for decision making. M&E including results frameworks in global and regional partnership and trust fund programs have faced similar problems, with objectives or strategies not well-defined and difficult to measure, scope for ambiguity in interpretation, and too much focus on process and outputs rather than outcomes.

Shortcomings in M&E prevent the Bank from demonstrating fully the results of activities it supports through projects. These shortcomings contribute to some extent to lower ratings of project outcomes because of deficient specifications of indicators, lack of information on their evolution, or failure to collect and present relevant evidence for results claimed in ICRs.

PERFORMANCE OF IFC INVESTMENT PROJECTS

The development outcome ratings of IFC-supported projects have continued to decline, albeit from historically high levels. Sixty-five percent of the 236 mature investment operations involving long-term finance evaluated from 2010 to 2012 had development outcome ratings of mostly successful or higher, compared with 74 percent of the 213 operations evaluated in 2007–2009.¹⁵ On an annual basis, development outcome ratings of rated projects peaked in 2008, prior to the financial crisis (at 75 percent mostly successful or higher) and have since declined to 64 percent for the 2012 cohort (Figure 2.13). Outcome ratings of IFC investments (and MIGA guarantees) are not directly comparable with those of Bank operations, given the former are assessed both against market benchmarks and achievement of objectives (see chapter 4).

Figure 2.13. IFC Development Outcome Ratings: Mostly Successful or Higher



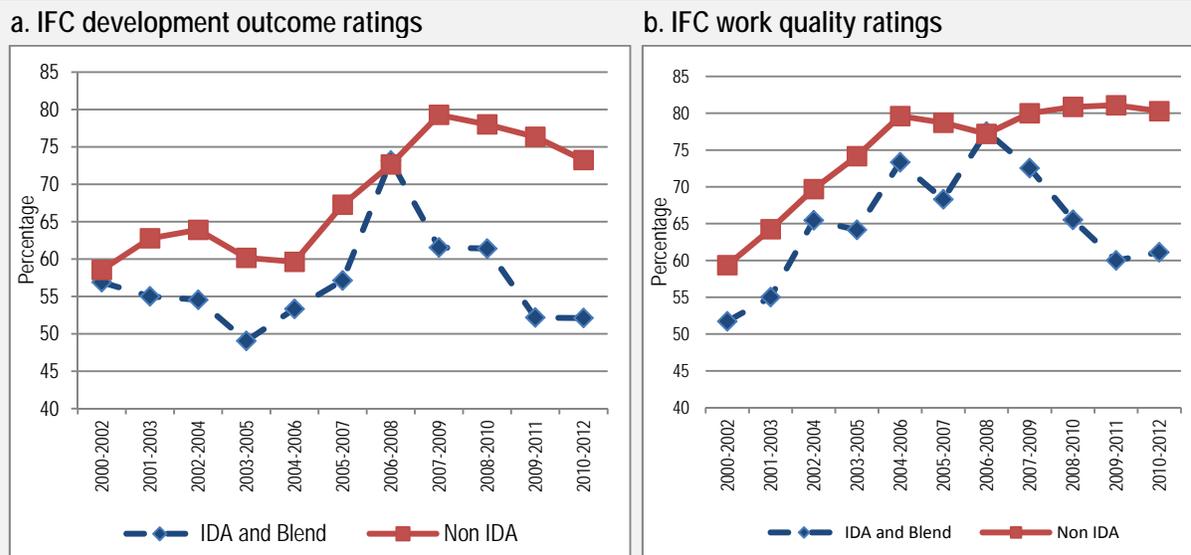
Source: IEG data September 30, 2013.

Note: Results for 2012 include preliminary ratings.

The performance of IFC projects in IBRD countries has remained strong, but has deteriorated in IDA-eligible countries. In spite of the strategic priority given to frontier markets, the gap in development outcome ratings of IFC’s investments

between IDA (52 percent mostly successful or above ratings, down from 62 percent in the three preceding years) and non-IDA countries (73 percent) has widened (see Figure 2.14a). At the same time, the share of IDA projects among the sample of mature investments is rising, relative to non-IDA projects, reflecting IFC's push into frontier markets between FY04 and FY07.

Figure 2.14. IFC Development Outcome Ratings and Work Quality in IDA and Non-IDA Countries



Source: IEG data September 30, 2013.

Unlike the experience in the Bank, IFC projects in low-income FCS have low development outcome ratings. Based on 26 ex-post evaluations of projects in FCS completed in 2001–2011, the development outcome ratings in FCS were modest (54 percent, or 14 out of 26 with mostly successful or better ratings), and somewhat lower than those in non-FCS IDA countries (59 percent mostly successful).

The results in IDA and FCS countries reflect both higher risks and shortcomings in IFC's work quality. The decline in performance in IDA countries reflects higher country, sponsor, and markets risks, which are also reflected in higher required rates of return benchmarks for the projects to achieve positive business success ratings. In other words, projects in riskier markets have to meet higher weighted average cost of capital benchmarks for indicators such as project business success compared with projects in low-risk markets. Evaluated projects in low-income FCS showed a higher-risk intensity (the presence of more than one risk factor per project) than in non-FCS IDA countries. Aside from external risks, a decline in the quality of IFC's work¹⁶ in IDA countries relative to that in IBRD countries has also contributed to the lower project success rates (see Figure 2.14b). Comparing projects evaluated in 2007–2009 with those in 2010–2012, positive ratings for IFC's appraisal work quality,

which covers screening, appraisal, and structuring, in IDA slumped from 73 percent to 50 percent. This is important because analysis in chapter 4 indicates that work quality is significantly associated with the likelihood of achieving positive development outcome.

Drivers of the decline in work quality. While a full explanation would need to await a comprehensive evaluation of IFC's appraisal process, a review of projects in IDA countries and in two clusters, infrastructure and financial markets, provided some insights. The infrastructure cluster experienced the steepest decline of any IFC sector. Development outcome ratings declined from 80 percent mostly successful or higher in FY07–09 – the highest among the clusters – to 63 percent in FY10–12. Here again, the decline in development outcome ratings was associated with a decline in IFC's front-end work quality. Based on an IEG review of 19 infrastructure cluster projects with Expanded Project Supervision Reports done in 2010–2012, low development outcomes are most frequently associated with the inability of projects to generate enough revenues in the face of strong competition. The decline in the quality of IFC's screening, appraisal, and structuring work appears to have been associated with reliance on optimistic assumptions about sponsor experience, market conditions, and costs that left them less resilient and able to cope with and adjust to increased competition, regulatory changes, technological changes, and other unexpected shocks – perhaps aggravated by the headwinds in the global economy mentioned earlier – with the attendant decline in development outcomes.

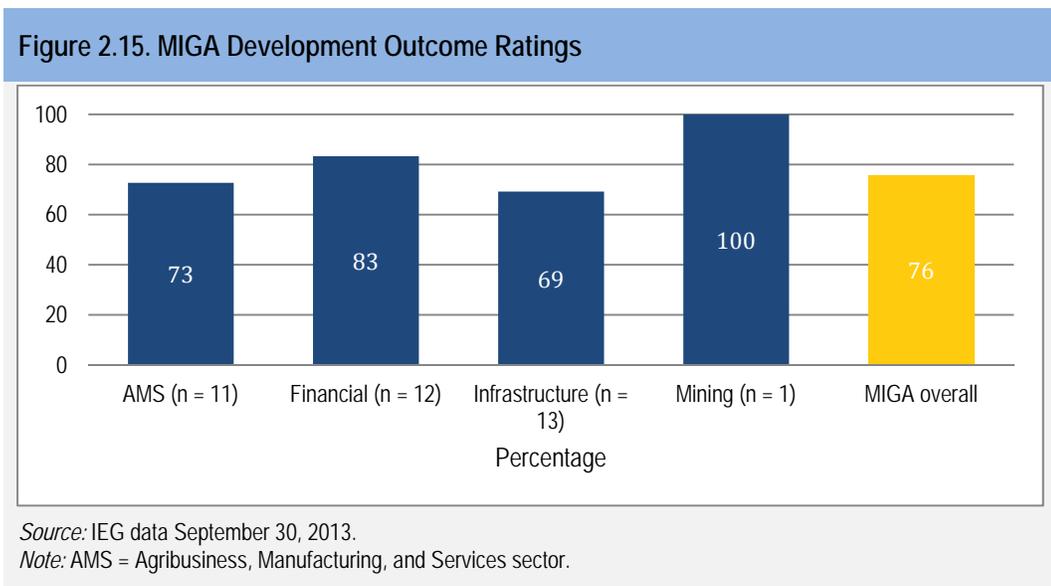
The financial markets cluster, IFC's largest, also experienced a continuing decline in development outcomes, from 72 percent to 59 percent.¹⁷ Both the financial markets sector and the funds sector (collective investment vehicles) contributed to the decline. This performance was associated, and possibly driven, by a parallel decline in IFC's appraisal quality, from 71 percent to 60 percent satisfactory or better for the financial markets cluster. On the other hand, IFC's supervision quality remained fairly steady.

With respect to IFC's short term finance instruments, IEG finds that the Global Trade Finance Program has been relevant in providing trade finance risk mitigation in emerging markets, but its faster recent expansion in lower-risk markets requires close monitoring in these areas (IEG 2013j). Initially concentrated in high-risk, low-income countries, during the 2008 global financial crisis the program became relevant in much broader markets, but has since then grown faster in lower-risk countries where program additionality is less clear (IEG 2013j). According to IEG case studies, GTFP had high additionality in high-risk and crisis-affected countries; however, in an IEG survey of issuing banks 44 percent of responses indicated that they have used the program for transactions that the banks would have executed

anyway. The program has been effective in mitigating risks that would otherwise inhibit the activities of commercial banks and has played a useful role in connecting local emerging market banks with global financial institutions.

PERFORMANCE OF MIGA GUARANTEES

MIGA projects have relatively good development outcome ratings, albeit those in IDA countries and the infrastructure sector performed below average. Of 37 evaluated guarantee projects from FY09–12, 76 percent were rated satisfactory in terms of their overall development outcome (Figure 2.15).¹⁸ The success rate was higher for projects in non-IDA countries (85 percent of 20 projects) than in IDA countries (65 percent of 17 projects). Africa had the largest number of projects (16 or 43 percent of the total) but the lowest share of successful outcomes (56 percent). Among sectors, financial projects had the highest success rate (83 percent), followed by agribusiness, manufacturing, and services (73 percent) and infrastructure (69 percent).



Results from Knowledge Products

Knowledge products are essential Bank Group instruments, bringing Bank Group’s analytic capacity and broad country and sectoral experience to bear in helping clients address their development challenges. IEG evaluations consistently show that sound analytical work contributes to successful project design and implementation, and capacity building is an increasingly important component of program delivery, customized to different types of client. Consequently, the new

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Bank Group Strategy places strong emphasis on knowledge as the key to become a solutions bank and to assist client more effectively.

BANK KNOWLEDGE PRODUCTS

Bank Group country programs have shifted toward more intensive delivery of knowledge services relative to lending, and this trend is expected to continue. This shift is a response to an increasing number of Bank clients needing less financing but still wishing to maintain a partnership with the Bank based on TA and ESW. It corresponds to an earlier IEG finding that clients in middle-income countries preferred nonlending to lending services (IEG 2008b). In response, TA and ESW have more than doubled in the past 10 years, and core knowledge services¹⁹ have increased to about one-third of the Bank administrative budget from a quarter of the budget 10 years ago.

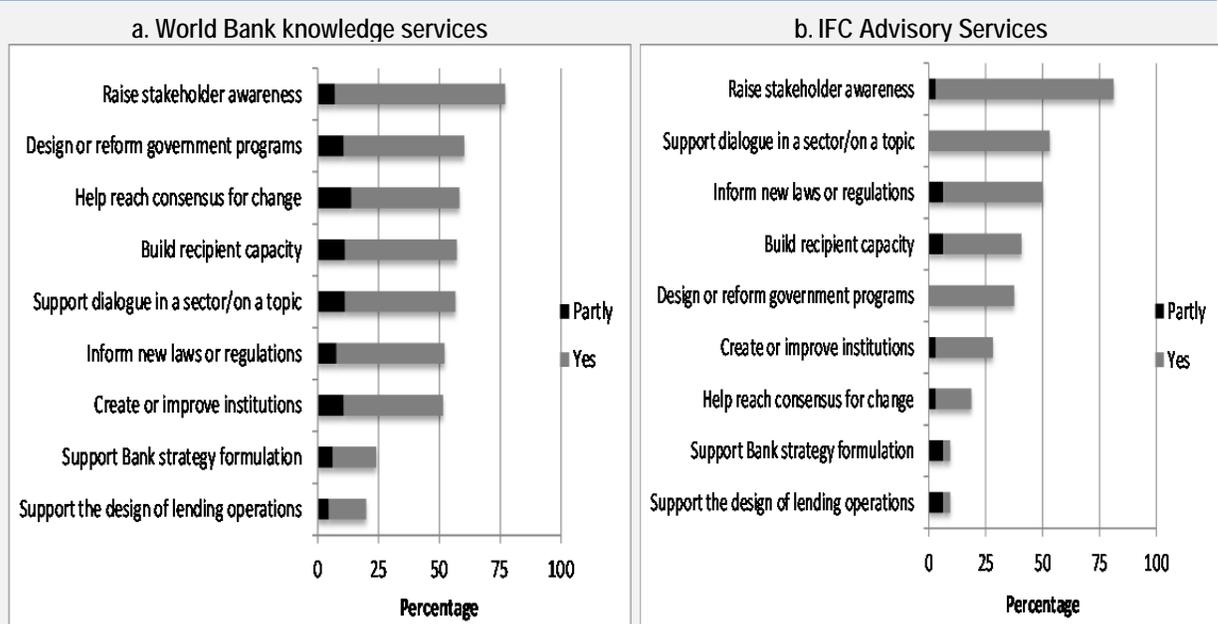
IEG conducted an evaluation of knowledge services, primarily to assess the effectiveness of TA and ESW in countries that make intensive use of such services as opposed to lending (IEG 2013k). The nine selected countries comprised high-income and upper-middle-income countries with a high share of knowledge services in their programs, a diversified economic structure, none or moderate Bank lending, and fee-based knowledge services.²⁰ The sectors covered by the activities comprised the full range of Bank expertise, from sector work in agriculture and education to multisector engagements in social protection, economic policy, and public sector governance.

Raising stakeholder awareness has been the predominant use of Bank knowledge activities. Figure 2.16 shows that use for other purposes was observed almost equally frequently in about half of the knowledge activities reviewed.

Lending, where present, remains a powerful driver of results of knowledge services. Lending was not significant in most of the focus countries, but where present at least partial achievement of expected outcomes of Bank knowledge services was observed more frequently when knowledge services were used for the design of lending operations. This corresponds to the finding of the earlier evaluation that the presence of relevant ESW was statistically associated with better loan design.

Intended outcomes are often achieved to at least some extent. This has been demonstrated in both of the IEG evaluations (IEG 2008b, 2013k). The 2013 report found that intended outcomes were fully achieved or likely to be achieved in 47 percent of the knowledge activities reviewed and partly achieved in another 37 percent, with no significant difference between the various models of knowledge service delivery.

Figure 2.16. Use of World Bank Knowledge Services and IFC Advisory Services (percentage of reviewed activities)



Outcomes are more likely to be achieved when the knowledge services focus on specific sectors. Reaching outcomes can be more difficult in broader thematic areas, encompassing an ambitious reform agenda, or when the achievement of results requires multisector efforts, economic policy, and public sector governance. In such complex areas, knowledge service results can also suffer when new legislation is necessary to implement recommended reforms.

Knowledge services requested by the client and designed specifically to achieve client objectives are more likely to achieve outcomes than services of a more generic character. For example, in China there is evidence that the recommendations of the report *Reducing Inequality for Shared Growth in China: Strategy and Policy Options for Guangdong Province*, a high-profile study conducted jointly with the provincial authorities (World Bank 2011c), are being gradually implemented with concrete results in declining inequality.

Knowledge services benefit from the use of local expertise. Use of local experts and counterpart participation appear to help modify global best practices to local conditions, consider capacity constraints, and improve stakeholder ownership of findings and suggested actions. Client participation in the various stages of knowledge services is often also associated with the achievement of results. Moreover, the 2013 evaluation found that knowledge services that achieved results

have contributed more often to strengthening institutions as well as the analytical and policy formulation capacity of recipients.

The Bank's main strength is its ability to fulfill in a timely manner client requests for state-of-the-art advice. The 2013 evaluation found that clients valued most the Bank's ability to address relevant developmental issues, convey international best practice, act as a trusted knowledge broker, customize knowledge to the local context, and take a pragmatic approach to important issues that required multisector development solutions. Another key strength was linked to the Bank Group's role as "knowledge connector," such as for the Bank to use its convening power to mobilize top international experts for sessions with high-level officials or government agencies. The Bank has mostly used its informal networks to facilitate South-South exchanges and policy dialogues.

There are multiple examples of knowledge work used for capacity development. About 60 percent of Bank knowledge activities under the 2013 evaluation contributed to developing or strengthening institutions. Examples include in Chile for risk-based pension and insurance supervision; in Thailand for risk-based tax audits, analysis of tax incidence, and development of anticorruption institutions; and in Bulgaria and the Russian Federation for the development of performance-based budgeting. In the majority of cases where sustainability of outcomes was likely, knowledge services contributed to strengthening institutions or the analytical and policy formulation capacity of recipients. This was observed less often when outcomes were partly sustainable and was virtually not observed when sustainability was unlikely.

Where the Bank is less able to provide operational value for clients it also tends to achieve poorer results. The 2013 evaluation found that knowledge services that lagged in the achievement of outcomes were weak in conveying international best practice, providing relevant examples, producing new evidence and data useful for policy making, formulating actionable recommendations, and discussing the capacity requirements and administrative feasibility of implementing recommendations. In some cases the lack of customized solutions aligned with client demand hampered relevance.

The Bank needs to have relevant country knowledge to be able to deliver solutions. Its ability to customize knowledge services to the local context and to provide multisector solutions can be at risk of eroding where country knowledge is too shallow or too narrow. It comes out of the 2013 knowledge evaluation that this risk arises mainly when the Bank works through reimbursable advisory services and does not maintain a local presence. The Bank's strengths may also be challenged by

its increasing tendency to deliver knowledge services through the “consultant firm model” with insufficient follow-up and emphasis on important issues for the medium-term development agenda. There is also an inherent tension between the Bank as a development agency – focusing on important medium-term development issues – and the Bank providing specific solutions to narrower problems suggested by the main counterpart in the country, such as a unit within the ministry of finance. This possible tension on who is the client needs to be resolved case-by-case, reflecting the Bank’s broader development mandate.

The monitoring of Bank knowledge services results is weak, both for individual activities and for country programs. This issue was discussed in both the 2008 and 2013 evaluations. In the latter, only 17 percent of the assessed knowledge activities had at least a partial results framework in the country partnership strategy, allowing a tracking of the contribution of the activity to the broader development outcomes sought by the strategy. Similarly, only 23 percent of the knowledge services included, at least partly, result indicators to track the achievement of the activity’s outcomes.

Strong M&E is required for the Bank’s science of delivery, which relates to evidence-based design, agile implementation, and structured learning. In particular “rapid cycle learning” from project design to implementation will need to be based on a strengthened M&E framework for both projects and country programs. Significant investments would therefore seem to be required in M&E for the greater effectiveness of knowledge services.

The Bank’s strategic positioning with respect to other knowledge providers seems generally favorable. In relation to other international financial institutions, universities, think tanks, and global consulting firms, interviews under the 2013 evaluation found the Bank generally recognized as a credible and neutral partner and in some cases in a niche position with few if any perceived competitors.

But the Bank could strengthen its learning from upper-middle-income countries and the intermediation of this knowledge to other countries. The 2013 evaluation found ample opportunities for learning from development experiences in the focus countries, and the mechanisms could be strengthened for such learning to be shared inside and outside of the Bank. In this regard it is worth noting that the 2008 evaluation with its broader scope found some evidence that ESW and TA could be less effective in countries with lower government capacity and that ESW tasks were less well-resourced in IDA than in IBRD countries.

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The Bank can continue to expand the use of reimbursable advisory services. This would expand the feasible set of Bank services, ensure the sustainability of the Bank's business model in knowledge-based country programs, and generate new knowledge that the Bank can then intermediate to lower-income countries. Reimbursable advisory services are a small but growing portion of the knowledge portfolio, and the policy framework for reimbursable services should be the same as the Bank knowledge services. The relevance of such services is strengthened by client demand and financial commitment, but results do not appear significantly different from those of knowledge services funded by the Bank's own resources. Other fundamental success factors are more closely associated with the achievement of results.

IFC ADVISORY SERVICES

IFC Advisory Services (AS) have aimed to provide knowledge, capacity building, and solutions to the private sector and governments in four business lines: Investment Climate, Access to Finance (A2F), Public-Private Partnership (PPP), and Sustainable Business Advisory (SBA). The strategies for AS have consistently emphasized support to IDA-eligible countries and increasingly shifted toward a more integrated delivery of IFC advisory and investment services. As part of the Bank Group's change process, AS will be aligned with several IFC and Bank departments and global practice groups to seek greater synergies across the World Bank Group.

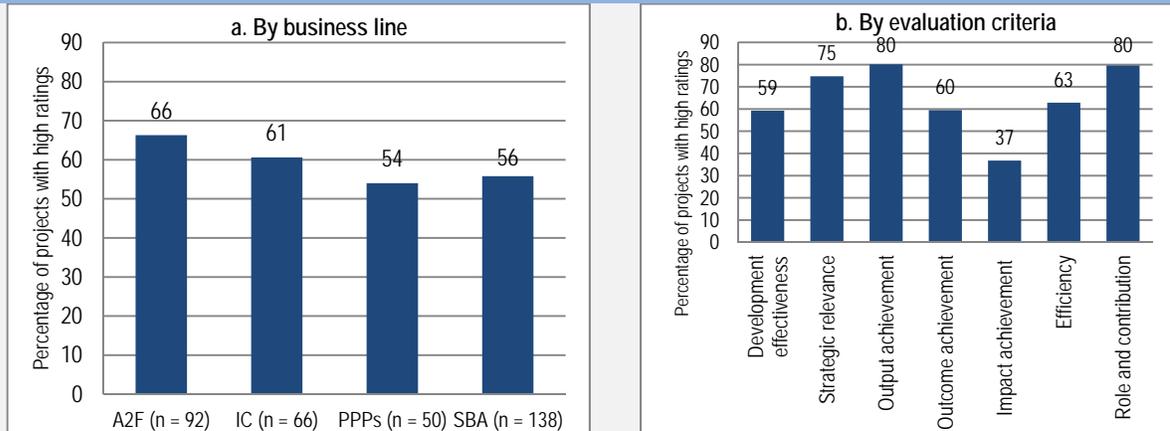
As expenditures have continued their growth even as the number of new projects has fallen, indicating an increase in project size and more programmatic approaches. In line with its strategy, IFC increased the focus of advisory activities on IDA-eligible countries (66 percent of expenditures in FY11-13).

The performance of IFC Advisory Services has remained just below IFC's target success rate of 65 percent. IEG's development effectiveness ratings of 346 projects closed in FY08-12 indicate that 59 percent of AS operations for which ratings could be assigned have had a development effectiveness rating of mostly successful or better. IDA and non-IDA countries experienced the same level of performance (60 percent). The Africa Region, the one with the largest number of evaluated operations (88), had the lowest effectiveness rating at 48 percent, driven mainly by low results for the SBA, whereas the Europe and Central Asia and South Asia Regions performed best. Both the ability to assign ratings in evaluation dimensions and the evidence of positive ratings declined from outputs to outcomes and to impacts.

Among business lines, Access to Finance was the best performing. Sixty-six percent of projects were rated high for development effectiveness over FY08-12 (Figure

2.17).²¹ IEG also found that joint A2F Advisory Services and investments targeted toward extending lending to women were particularly successful, while broader small and medium enterprises lending and microfinance initiatives performed below the A2F average.

Figure 2.17. IFC Advisory Services Success Rates, FY08–12



Source: IEG data September 30, 2013.

Note: A2F = Access to Finance; IC = Investment Climate; PPPs = Public-Private Partnerships; SBA = Sustainable Business Advisory. Results for FY12 include preliminary ratings.

Among business lines, Access to Finance was the best performing. Sixty-six percent of projects were rated high for development effectiveness over FY08–12 (Figure 2.17).²² IEG also found that joint A2F Advisory Services and investments targeted toward extending lending to women were particularly successful, while broader small and medium enterprises lending and microfinance initiatives performed below the A2F average.

Public-Private Partnerships and Sustainable Business Advisory projects had lower development effectiveness ratings. They were rated mostly successful or better in just over 50 percent of projects. IEG’s analysis suggests that PPP projects are more risk intensive (in terms of individual risk factors identified at appraisal) than those in other business lines. Lack of political will of government clients, along with challenging country conditions (social, political, and legal readiness for the PPP transactions) were the main factors affecting projects that performed poorly. As a result of waning client commitment, strategic relevance weakened during implementation. Nevertheless, IFC’s additionality was visible in both successful and failed PPP projects.

Investment Climate advisory projects experienced average development effectiveness ratings – 61 percent mostly successful or better. After PPP, Investment Climate presents the highest incidence of “too early to judge” ratings at the impact

level. Most Investment Climate projects aim to implement legal and regulatory reforms or institutional changes that take time to materialize. Therefore impacts cannot realistically be observed at project completion.

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¹ See appendix A for an overview of evaluation methods.

² Short-term finance (STF) operations are defined on the basis of their short maturity (less than 5 years) and revolving nature. They include all trade finance operations (92 percent of all STF commitments) plus warehouse receipt financing, receivable financing, factoring, and other operations in the manufacturing (2 percent), financial markets (3 percent), consumer and social services (3 percent), and agribusiness and forestry sectors (0.3 percent).

³ Core mobilization is financing from entities other than the International Finance Corporation (IFC) that becomes available to a client because of IFC's direct involvement in raising resources.

⁴ The analysis by the Independent Evaluation Group (IEG) of IFC commitments in International Development Association (IDA) eligible countries excludes regional and global projects, some of which may cover IDA countries.

⁵ Reviewing and, if necessary, adapting the product range of the Multilateral Investment Guarantee Agency (MIGA) in view of the needs of its clients and changed circumstances in the political risk insurance industry was also recommended in an evaluation of World Bank Group guarantees instruments (IEG 2009a).

⁶ These were factors identified in the matrix evaluation as drivers of country program performance.

⁷ Country programs evaluated in FY10 were typically concluded in FY09 and thus already affected by the global financial crisis.

⁸ Historically, institutional transformations take at least a generation. An analysis of the 20 fastest-moving countries in the 20th century found that it took an average of 20 years to achieve good progress in bureaucratic quality and 27 years to bring corruption under reasonable control. Fragile and conflicted-affected states (FCS) take longer to achieve institutional change (World Development Report 2011: 108-9). Thus it is not surprising that FCS countries could have good performance on project level outcomes, while country program outcomes lagged behind.

⁹ This follows the approach adopted in Results and Performance 2012 and as derived from reviews of country assistance strategies (CASs) and various Bank Group corporate strategies.

¹⁰ Reducing Emissions from Deforestation and Forest Degradation (REDD) is an effort to create a financial value for the carbon stored in forests, offering incentives for developing countries to reduce emissions from forested lands and invest in low-carbon paths to sustainable development. REDD+ goes beyond deforestation and forest degradation, and includes the role of conservation, sustainable management of forests, and enhancement of forest carbon stocks.

¹¹ The Small Investment Program is a special facility to process eligible guarantees of up to \$10 million.

¹² The Bank has supported investment in education since 1962 and is now one of the largest external education financiers for developing countries, managing a portfolio of \$9 billion with operations in 71 countries as of January 2013. In FY12, new support for education was \$3 billion, largely involving increased support for primary and lower secondary education; 2010 saw peak investment in education at \$5 billion. Between 2000 (when the IFC started to focus on education) and June 2012, IFC has invested almost \$850 million in private education projects. As part of its new global agenda, IFC is leveraging its knowledge and understanding of private education to work more closely with providers based in developed economies who are looking to expand their investments into under-served developing countries.

¹³ Between FY00 and FY10, the Bank loaned \$11.5 billion to support social safety net programs through 224 loans to 83 countries.

¹⁴ World Bank safeguards consisted of 10 separate policies—6 environmental, 2 social, and 2 legal. IFC replaced the safeguards in 2006 with a single policy on social and environmental sustainability and eight performance standards divided equally among social and environmental standards; MIGA followed suit in 2007.

¹⁵ This decline is statistically significant at the 90 percent confidence interval.

¹⁶ IEG rates the quality of IFC's work with the three main indicators: (i) quality of appraisal, (ii) quality of supervision, and (iii) IFC's role and contribution.

¹⁷ Ratings from IFC's Development Outcome Tracking System (DOTS), covering all active companies in IFC's portfolio, show a success rate of 70 percent for the financial markets sector as of FY13. However, there is a significant variance between DOTS and IEG Expanded Project Supervision Reports ratings for the same cohorts of projects. For example, in 2011 development outcomes ratings in DOTS were mostly successful and above for 78.1 percent of projects, compared with IEG's 67.2 percent for the same sample of projects (64 projects were rated by both systems).

¹⁸ Including 15 self-evaluations of guarantees prepared by MIGA since FY10 validated by IEG, and 22 project evaluation reports done by IEG.

¹⁹ Core knowledge services comprise knowledge for clients (technical assistance and economic and sector work), knowledge for internal use, and knowledge as a public good.

²⁰ The selected countries were Bulgaria, Chile, China, Kazakhstan, Kuwait, Malaysia, Russian Federation, South Africa, and Thailand. The evaluation assessed 196 Bank knowledge activities and 32 IFC Advisory Services that had links to the strategic priorities of the country partnership strategy of each of the focus countries.

²¹ This compares with an overall IFC average of 37 percent Advisory Services and investment services linkage, with Sustainable Business Advisory at 46 percent, Public-Private Partnership at 8 percent, and Investment Climate at 3 percent.

²² This compares with an overall IFC average of 37 percent Advisory Services and investment services linkage, with Sustainable Business Advisory at 46 percent, Public-Private Partnership at 8 percent, and Investment Climate at 3 percent.

3. Risk Management and Results

Highlights

- ❖ The World Bank, International Finance Corporation (IFC), and Multilateral Investment Guarantee Agency (MIGA) have all invested heavily in parallel and complementary processes for managing strategic, operational, stakeholders, and financial risks. Risk failure appears to be relatively minor and contained, but both entity and project-level risks can be better mitigated.
- ❖ Independent Evaluation Group (IEG) evaluations have found that pressures to support the delivery of global and regional public goods have necessarily involved joint actions with external parties, which in turn have entailed risks to the cohesion of the Bank Group corporate strategy, to relations with stakeholders, and to the stability of the Bank's financial standing.
- ❖ At the project level, operational risk involves a balance between compliance with fiduciary requirements and delivery of effective development results. Fiduciary weaknesses uncovered in recent evaluations have been addressed, but risk management tools are in need of renewal.
- ❖ In its choice of projects there is evidence that the Bank may be less risk averse than often perceived, while declining performance of investment projects suggests that the risk of failure to deliver development results may be increasing.
- ❖ Sampled Bank projects in fragile and conflict-affected states showed higher-rated risks yet they achieved outcome ratings similar to those in International Bank for Reconstruction and Development countries.
- ❖ Evidence from Bank Implementation Status and Results Reports shows that risk management during implementation is weak.
- ❖ The evidence does not support major departures from present risk management practices for the Bank, but the attention must be paid to replacing or improving the Operational Risk Assessment Framework and Procurement Risk Assessment Management System and achieving better project performance.
- ❖ For IFC investment and advisory projects, development success was found to be significantly associated with the quality of IFC's quality of work, under all external risk conditions.
- ❖ Project design was a major determinant of IFC Advisory Services project outcomes as well as effective implementation. A new mandatory risk framework has significantly increased identification of risks that may lead to more effective project risk management.
- ❖ MIGA's portfolio is relatively concentrated in higher-risk countries, especially its Small Investment Program. Although IEG's analysis did not find a relationship between country risk and development outcomes, the largest grouping of projects with high outcomes was in the low-risk quadrant.

This chapter focuses on how the World Bank Group manages risks. This focus is timely because of the 2014 World Development Report (WDR) (Box 3.1) and the increased recognition of risk management as a critical factor in successful

development. As highlighted in the 2012 Results and Performance report, uncertainties in the world's economy have been heightened by the multiple crises in food, energy, and financial systems during 2007–2009 and their aftermath that is still being felt (IEG 2013a). The worldwide retraction in capital markets has heightened the perceived risk of lending to emerging markets and developing economies; declining capital flows reflect this (Chelsky et al. 2013). Political instability in some areas and the threats posed by climate change and natural disasters add a further dimension (IEG 2013b).

The ongoing Bank Group change agenda is thus being pursued under conditions of significant uncertainty and is to involve a shift away from risk avoidance toward “smart” risk management, accepting reasonable increased risk for greater development impact. The Bank Group reform agenda also includes modernizing its products, rebalancing its matrix management system, and providing remedies for identified control weaknesses. Attention to risk is implicit in all of these efforts.

Box 3.1. Highlights of *Risk and Opportunity: Managing Risk for Development*

The 2014 World Development Report (WDR) focuses on managing risk for development (World Bank 2014a). Key messages include:

- Effective risk management can be a powerful instrument for development.
- A strong risk management strategy includes these four components: knowledge, protection, insurance, and coping.
- To confront risk successfully, it is essential to shift from unplanned and ad hoc responses when crises occur to proactive, systematic, and integrated risk management.
- Identifying risks is not enough: the trade-offs and obstacles to risk management must also be identified, prioritized, and addressed through private and public action.
- For risks beyond the means of individuals to handle alone, risk management requires shared action and responsibility at different levels of society, from the household to the international community.
- Risk is a shared responsibility between the World Bank Group and client countries.
- Governments have a critical role in managing systemic risks.

Five principles of public action for better risk management were developed:

- Do not generate uncertainty or unnecessary risks.
- Establish the right incentives for people and institutions to plan and prepare, while not imposing risks or losses on others.
- Keep a long-run perspective by building institutional mechanisms that transcend political cycles.
- Promote flexibility within a clear and predictable institutional framework.
- Protect the vulnerable while encouraging self-reliance and preserving fiscal stability.

Effective risk management is good business. The costs of prevention are often far smaller than the costs of treatment, and benefits often far outweigh the costs. Demonstrated cases include vaccinations, early warning systems, weather forecasts, and nutritional interventions.

This chapter first deals with risk management at the agency and program and project levels for the Bank – including the results of an Independent Evaluation Group (IEG) analysis of the relationships between project risks and results – and then for the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA). The analysis for IFC and MIGA emphasizes project level risk factors influencing development outcomes. Much of the discussion is based on existing IEG evaluations, including on the Bank side of International Development Association (IDA) controls, the government and anticorruption (GAC) initiative, trust funds, crisis responses, and procurement, complemented by analyses undertaken for this report.

There are two important aspects to Bank Group risks. This chapter deals with risks primarily from the perspective of managing the likelihood of committing mistakes. However, there is another and much broader aspect – the risk of not delivering on development effectiveness and poverty impacts, such as from misplaced priorities and incentives. The whole of this Results and Performance (RAP) report can be seen as addressing aspects of this broader risk, including the discussion later of the observed relationship between risk and outcomes in Bank Group operations.

Each of the Bank Group agencies has its own system, but with complementarities that support each other – IDA, IFC, and MIGA – as a whole. Common among them are mechanisms to address the risks facing the entity as a whole as well as at the levels of the client country and individual lending, investment, and guarantee operations. Development impact is the end objective of all three agencies, but with significant differences given their different types of operations – the Bank as a sovereign lender and IFC as a profit center lending and investing to the private sector; for MIGA the focus is on the country risk context. In each case, entity-level risk involves a focus on aspects of the Bank Group’s financial standing; impediments to the effectiveness of its development impact; and the sustainability of the Bank Group’s operations as a global and knowledge- and solutions-based leader in development.

World Bank Agency Level Risks

LESSONS FROM IEG EVALUATIONS

In the present climate of continuing global uncertainty, the Bank Group faces competitive and other pressures that can place at risk its corporate strategy, stakeholder relations, and financial standing. However, given its robust risk management structures, the Bank Group does not appear to be beset by levels of risk that might seriously jeopardize its mission. But risk pressures exist that must be

managed to protect project development outcomes, and ongoing attention must be paid to proposed mitigations and remedies as the Bank Group pursues its change agenda.

Corporate, Strategic, and Stakeholder Risks

The International Bank for Reconstruction and Development (IBRD) and IDA face ongoing risks related to stakeholder support, a changing competitive position, and possible financial constraints. Two complicating aspects of maintaining stakeholder support that have been subject to recent evaluations are: (i) the need to deliver global and regional public goods, finance and services through Global and Regional Partnership Programs (GRPPs); and (ii) the need to respond to the impacts of climate variability and change. A third aspect that is both relevant and recently studied by IEG concerns an internal factor – the matrix management system – that affected the Bank’s ability to respond to these pressures. Managing the risks generated by these factors is essential to the fulfillment of the Bank Group’s goal of retaining its leadership position as a knowledge and solutions institution and an effective champion for poverty reduction around the world.

Global and Regional Partnership Programs

The effectiveness of the Bank Group’s global programs is discussed in chapter 4. Their rapid growth has been fuelled by the demand for action to address the delivery of global, regional, and country public goods. These partnership programs have permitted the Bank Group to offer new products that benefit a wide range of stakeholders. At the same time, IEG studies found that GRPPs can strain the Bank-client relationships by creating a stakeholder triad – donors, Bank, and client – whose agendas may not always be closely aligned (IEG 2009, 2011a). This situation can jeopardize the cohesiveness of Bank strategies and add to tensions within the Bank’s matrix management system. In its synthesis report of 17 major GRPPs, IEG found significant vulnerabilities in three areas: performance, governance, and Bank management and oversight. The Bank has developed strategies that commit both Network and Regional vice presidential units to strengthening oversight and linkages to country strategies and result frameworks, but these commitments have not always been fulfilled (IEG 2011a).

IEG found that shared governance within the vast diversity represented by the GRPPs has strained the Bank’s country-based business model. This has raised concerns that the Bank’s accountability would be diluted, and has also presented potential conflicts of interest because of the multiple roles played by the Bank in both governing and overseeing programs. Reflecting IEG’s concerns, the Bank has presented a new management framework for partnership programs.

IEG also found that stronger oversight and risk management was needed to ensure strategic alignment with the Bank's development goals, but systems to track performance have been lacking. A stronger risk framework would involve an updated GRPP database; guidelines for Bank staff working on GRPPs and serving on their boards; adequate budgetary resources for effective oversight; regular reporting on involvement in GRPPs; more specifics on sustainability for the longer term to guard against closure once Bank participation ends; and a policy framework and training for staff engaged in managing these programs. As reported in chapter 4, there has been some recent progress on some of these issues.

Matrix Management

The Bank's matrix management is still in place although changes are under way under the new Bank strategy. The matrix was designed with two goals in mind: to enhance client country responsiveness and to secure the delivery of world class technical services to its clients. In its 2012 evaluation of the Bank's organizational effectiveness, IEG found improvements in attaining country responsiveness; 96 Country Assistance Strategy Completion Reports in 80 countries recorded successful country programs in two-thirds of all cases examined since introducing the matrix. But imbalances and a range of malfunctions in the matrix were putting at significant risk the Bank's objective of becoming an effective knowledge and solutions bank (IEG 2012a). In a still dominant regional- and country-based structure, lending imperatives appeared to trump quality factors and knowledge delivery. Quality assurance had been de-emphasized since the Quality Assurance Group was dissolved and not replaced with an equivalent although recently management has initiated a significant quality program motivated by the decline in outcome ratings for investment projects (see chapter 4). Both quality at entry and quality of supervision have declined since the matrix was introduced.

Several key issues were identified (IEG 2012a) that are relevant for the Bank's ongoing reform process. Resource imbalances had driven network staff to increasingly seek trust fund support for their activities with some ensuing inefficiencies and added risks. The intended links between global knowledge and local applications in the form of solutions for client countries had been hampered by silo mentalities (sectors, regional, and networks). Interaction between regions and networks had declined dramatically, and the expected cross-fertilization of knowledge into the Bank's projects had often been missing. Decentralization had empowered country management units in the field, but these had not always interacted well with network staff in the center.

There were also mismatches between country assistance strategies (CASs) and sector strategies. The latter have longer time frames for completion and no specific operational content. Major Bank knowledge instruments – economic and sector work products – have been more successful in their completion than in their dissemination and contribution to dialogue. The control span of some sector managers was too large to ensure the delivery of quality services; for example, the Sustainable Development Network and the Human Development Network had 47 and 40 staff per sector manager, respectively. With the combination of silo complexes and global decentralization, IEG found the Bank in danger of becoming more akin to a set of six regional development banks with serious possible consequences for the knowledge sharing required by a knowledge bank.

IEG made strong recommendations for substantial changes to the matrix system. They included rebalancing the country-sector relationship to improve the institutional incentive structure for knowledge sharing under guidance of the newly created Knowledge and Learning Council; creating better staff incentives for knowledge sharing and quality of results; redefining the scope and purpose of social safety nets on a shorter five-year cycle; strengthening the emphasis on quality management; and improving interactions and knowledge flows as well as quality control at a Bank-wide level, within the regional matrix, and within the Sustainable Development Network, seen as overly encumbered (IEG 2012a). These issues remain relevant as the Bank Group is reorganizing its structure into Global Practices.

Climate Change

The Bank has long been at the forefront of addressing climate-related risks. It has supported efforts to combat and adapt to climate change, such as in its pioneering management of carbon funds; and it has mobilized funds for a Pilot Program on Climate Resilience. The Bank's adoption of the Strategic Framework for Development and Climate Change (SFDCC) in FY09–11 mainstreamed a focus on adapting to climate variability and climate change as part of its business strategy at both the country level and in projects. This is a particularly vexing area of corporate risk management for the Bank because both climate variability and change outcomes can become catastrophic, yet the probabilities of occurrence are either essentially unknowable or problematic to discern. IEG found that anticipatory adaptation (i.e., a climate industry term meaning pay now to avoid damages later) is inherently unappealing both to individuals and countries faced with urgent expenditure needs (IEG 2013b). Given the relatively early stage of the Bank's addressing these issues, and despite its deployment of sophisticated analytical tools and new financial instruments, the segment of its strategic risk management portfolio dealing with anticipatory adaptation remains a work in progress.

The 2013 IEG evaluation showed that benefits from climate-related risk management through the adoption of the SFDCC have accrued at both country and project levels. However, unmitigated risks remained in three areas: taxonomies and screening, results frameworks and rain index insurance, and new financial instruments.

Taxonomies and Screening. An analytical framework and taxonomy of concepts and terms for adaptation to climate variability and adaptation to climate change have been created, and there is some progress in their application. Of 56 CASs completed during FY09–11, 21 had a significant focus on adaptation and another 12 had a modest focus. The IFC has been piloting climate risk and adaptation initiatives since 2007. Its 2012 revised performance standards include specific requirements for identification and screening of climate risks and adaptation opportunities in IFC-funded projects; however, IEG finds that climate risk screening in both agencies remains ad hoc. The Bank has developed and plans to deploy project-level screening tools for selected climate-sensitive sectors.

Results Frameworks and Rain Index Insurance. The Bank has addressed climate risk with specific tools at the project level but has not yet developed an adequate results framework to track adaptation and resilience. In rain-fed agriculture, the Bank has successfully supported watershed management with some cases of maladaptation. The Bank has also recently initiated greenhouse gas accounting for selected projects and plans to roll out such accounting in a phased manner. There have been cases of successful expansion of irrigation systems and improved water management,¹ and the Bank has supported drought mitigation through rain index insurance. But so far, rain index insurance has not become a major risk management tool.

New Financial Instruments. In the area of disaster management for IBRD countries, the Bank pioneered the Catastrophe Deferred Drawdown Option, which has been well received by IBRD borrowers. In addition, the Bank has developed other financial risk management products, including the Caribbean Catastrophic Risk Insurance Facility; however, they can only provide coverage for a small fraction of the total damages from floods and storms. The Bank has shifted its focus from disaster relief to disaster risk reduction, leaving a major gap in addressing climate risk. Much unfinished business remains in this part of the Bank's portfolio.

Despite these intractable aspects of the risks to climate adaptation, IEG identified specific actions that can be taken to anticipate and mitigate these risks. They were reflected in five recommendations: to develop reference guidelines for incorporating climate risk management into project and program design, appraisal, and implementation; to improve results frameworks for national adaptation measures in selected relevant areas by creating indicators of adaptation capacity, measures of

household vulnerability, and measures of water use sustainability and recurrent urban flooding; to adopt pilot approaches to better assess the costs, benefits, sustainability, and impact of activities with presumed resilience benefits; to support countries in developing hydrometeorological services and in sharing their information; and to promote attention to anticipatory adaptation by fostering a focus on coastal zone management in order to encourage resilience-serving spatial planning.

Financial Risks

Two new sources of financial risk have emerged from the global crises and the Bank's responses to the need for global and regional public goods. Pressures have grown on its capital adequacy and headroom, and the stability of its funding sources is threatened now that external sources are the dominant source of disbursements by the Bank. The replenishment of IDA and trust funds is not controlled by the Bank.

Response to the Global Crisis

The headroom has declined. In its evaluations of the Bank's response to the global economic crisis, IEG found that the sharply increased magnitude of lending, the decline in global interest rates, and the use of traditional instruments and their low yield rates had left the Bank with limited headroom to accommodate new crises in middle-income countries (IEG 2011b, 2012b). Currently, the Bank operates at a comfortable level for its callable capital (around 10 percent), and headroom risk has been mitigated by the secular decline in IBRD lending over the past three years. IBRD commitments, which were almost \$44 billion in 2010 or 71 percent of Bank, IDA, and trust fund commitments and disbursements, declined in 2013 to less than \$15 billion or 53 percent.

Use of Trust Funds

Meanwhile, the Bank has come to rely increasingly on external funding to complement its own resources. As a result the cohesiveness of its strategy, its independence and reputation as well as its effectiveness, efficiency, and accountability in using these funds are at risk of eroding. These developments also have brought into question both the additionality and predictability of these external sources of funding. In its evaluation of trust funds, IEG suggested that priority should be placed on reducing the fragmentation of trust funds and that mobilization efforts should be focused around funds that complement—rather than act as a substitute for—Bank operations (IEG 2011c).

IEG also recognized that management had instituted a program to integrate trust fund controls more fully into the Bank's internal controls. Total trust fund contributions exceeded IDA contributions in each of the last three replenishment periods. However, the bulk of this increase was channeled through Financial Intermediary Funds (FIFs) over whose operational content the Bank has no supervision or oversight authority. Funding for FIFs is often financed from the multilateral aid budgets of donor countries, so these funds may thus compete with IDA. As discussed in chapter 4, management has responded to the IEG trust fund recommendation for a three-pillar trust fund structure (IEG 2011a).

PROJECT-LEVEL RISKS AND RESULTS

Recent IEG evaluations have also examined the Bank's control of risks at the project level. IEG analyzed operations risks from the perspectives of (i) what is the evidence of how internal controls have balanced fiduciary risks against development effectiveness; and (ii) what does the evidence suggest regarding the links between at-entry risks and project results and outcomes.

Internal Controls Reviews

Fiduciary weaknesses, including in controlling for fraud and corruption risk in operations financed by IDA, were uncovered in two major evaluations. IEG carried out an evaluation of IDA Controls (2005–2009) and an overlapping evaluation of the implementation of the 2007 Strategy and Implementation Plan on GAC (IEG 2011d). The review of IDA controls was the most far reaching examination in the Bank's history of the quality and compliance of its internal controls, involving a management self-assessment and a review and opinion by the Internal Audit Vice-Presidency, both feeding into IEG's independent evaluation and reporting to the Board of Directors (IEG 2010a). IEG's major finding was that the Bank's internal controls operated generally to a high standard, but there were some significant fiduciary weaknesses. The lack of explicit controls to address fraud and corruption in Bank-financed projects constituted a material weakness. In addition, there were six significant deficiencies, including in the Bank's fiduciary controls, specifically in some of its procurement practices and somewhat in its weak enforcement of financial management. The GAC evaluation found a clear conflict between the Bank's lending imperative and its ability to implement the GAC strategy by withholding lending if fraud and corruption risks were not being adequately addressed.

Management responded to the IDA controls findings with a Five-Point Action Program (FPAP). This introduced among other remedies the Operational Risk Assessment Framework (ORAF) and the Procurement Risk Assessment

Management System (P-RAMS). These were seen as potentially major improvements in the Bank's ability to address fiduciary risks including fraud and corruption in its projects. Moreover, fiduciary diagnostic studies showed the limitations of addressing fraud and corruption risk in countries without a strong commitment among the political elites despite judiciaries having the will and capacity to back this effort (IEG 2008a). IEG was subsequently asked to review the FPAP and wrote a follow-up report, acknowledging the progress that had been made in improving the Bank's controls, downgrading the material weakness to a significant deficiency, and removing two of the remaining six significant deficiencies.

The FPAP was seen as a major advance. IEG had stressed the cultural dimension of addressing fraud and corruption risk by deploying ORAF and P-RAMS, and argued that the effectiveness of these instruments would take time to become fully operational. However, Bank management has now found the newly introduced instruments to be inadequate in both design and operation. This leads to significant questions about the extent to which the remedies introduced after the IDA controls review and other related studies are still valid and whether the Bank's procurement and safeguard risks are being adequately mitigated.

Procurement Policies and Risks

Procurement is a key aspect of fiduciary risks. For the first time in its history, management has conducted a major review of its procurement policies and procedures. IEG conducted a parallel review to assess whether the Bank's procurement practices best achieve development effectiveness (IEG 2014b). The IEG study also evaluated the Bank's methods and instruments for managing procurement risk and considered whether the right balance had been found between risk and efficiency in procurement systems. Client country capacity was found to be the overwhelmingly critical factor in determining procurement efficiency and effectiveness. Where capacity is weak, poor procurement performance becomes more likely. The Bank has placed considerable emphasis on improving country procurement capacity, using a variety of instruments including diagnostic studies such as country procurement assessment reviews, project-related TA, grant-funded TA, and a few dedicated free-standing Bank loans. There has been progress in recent years; however, IEG found that a strategic approach to building country capacity with systematic goals has often been lacking.

IEG concluded that the present procurement guidelines for goods and works are reasonably successful in securing fairness, competition, and transparency in contracts under Bank procurement (IEG 2014b). It saw scope for a graduated shift toward greater use of country procurement systems as long as the Bank maintained

its presence. On procurement risk management, IEG found a wide array of instruments available to project staff in tailoring risk assessment and mitigation, noting the relatively high quality of procurement risk treatment in projects as well as the progress made in addressing fraud and corruption risk before the introduction of P-RAMS.

IEG also extensively reviewed the design factors and applications of P-RAMS so far, including how it has been operationally linked to the ORAF. P-RAMS was found to be cumbersome in design and rigid and repetitious in application, adding little to the quality of either procurement risk assessment or mitigation. Its links to ORAF, where evident, were found to be much less effective than originally intended. In the opinion of many practitioners surveyed as part of the IEG study, P-RAMS exercised risk management through “checking boxes,” which is not what was intended. A new operational risk rating template is under preparation. The availability of risk tools that encourage staff to exert judgment about risks and their priorities remains the challenge.

Evidence from the procurement evaluation corroborates management’s own findings that – contrary to their original promise – neither ORAF nor P-RAMS have added much value to the pre-existing procurement risk tools. The two systems should therefore be improved or replaced by other risk management tools. The evaluation also suggested that the Bank could be less risk averse in procurement methods and processing. Measures of procurement risk and risk failures suggest that procurement risks have been reasonably well contained. Such measures include misprocurement, procurement complaints, and “red flag” referrals to the Integrity Vice Presidency, all of which fall within the range of less than 2 percent of total contracts. IEG therefore saw scope for reducing the share of prior-reviewed contracts, focusing prior reviews on the highest-risk contracts, and making better strategic use of findings from post procurement reviews and independent procurement reviews (IEG 2014b).

Safeguards

The Bank Group’s safeguards and sustainability policies have helped to avoid or mitigate large-scale social and environmental risks. IEG’s safeguards evaluation (IEG 2010b) found that the Bank’s safeguards and sustainability policies, first adopted in the 1980s and extended with the creation of the Inspection Panel in 1992, have helped to avoid or mitigate large-scale social and environmental risks. But it also found that improvements were needed in certain areas: risk categorizations that were inconsistent across the World Bank Group;² supervision and monitoring of safeguards measures that were not thorough; an emphasis placed more on

compliance with policy strictures than on project outcomes; and the need for grievance mechanisms in parallel with the Bank's Inspection Panel and the Compliance Advisory Ombudsman in IFC and MIGA, but with a more rapid response cycle. In addition, in compliance-driven approaches, client ownership was often wanting. This suggested the need for greater use of country systems and framework monitoring to accommodate the growth in noninvestment lending products where civil witness oversight can take place.

Risk and Results in Projects and Programs

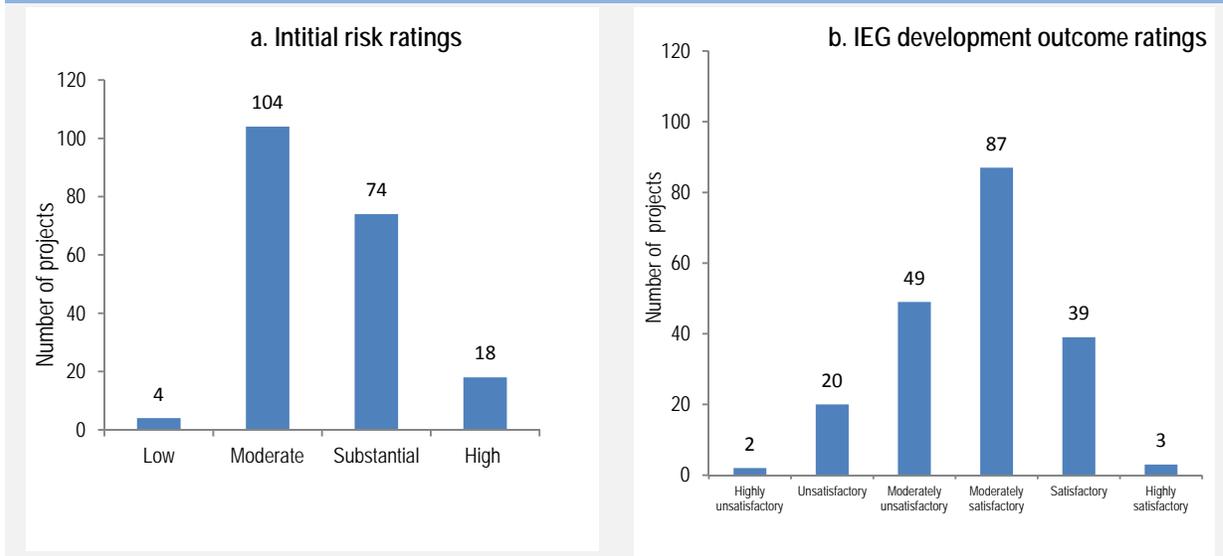
In an exercise carried out for the RAP 2013, IEG examined the relationship between at-entry-level project risks and final project outcomes. To this end, it assembled data from the project appraisal documents (PADs) of a random sample of 200 investment lending (IL) projects and 30 development policy lending (DPL) operations. Two questions were at the center of exercise. First, is there evidence to suggest that the Bank has been overly risk averse in its choice of projects? Second, what can be said empirically regarding the correlations between projects' at-entry risk ratings and their final results?³

Evidence on Risk Aversion

The analysis found that in the aggregate – when IBRD and IDA projects are considered together – the Bank may be less risk averse than often perceived in choosing projects to fund, at least for small projects. Figure 3.1 shows that based on the sample of 200 projects, 46 percent were rated as having substantial or high risk, and 54 percent were rated moderate or low risk. Measured by commitments, the share of higher-risk projects fell to around 29 percent, suggesting that larger projects selected for Bank funding (such as in infrastructure) may tend to have less at-entry risks.

Chapter 2 showed similar differences in ratings – albeit for project development outcomes – when project counts were measured in numbers of projects versus volumes of commitments. There, the main driver was IBRD versus IDA, as IBRD operations tended to have both higher satisfactory rates and larger commitment volumes. Here the IBRD versus IDA distinction is similarly a key driver – with the difference being simply that IBRD projects both tend to be larger and have lower at-entry risks for all the same reasons discussed in chapter 2 with respect to IBRD countries' higher program outcome scores.

Figure 3.1. The Distribution of Risk and Outcome Ratings in the Sample of 200 Investment Lending Projects



At-Entry Risk as It Relates to Project Outcomes

The analysis also examined several questions about project outcomes. How do project outcomes relate to the perceived riskiness of projects? Do higher-risk projects tend to have better performance outcomes, or is there greater variability in their outcomes? Are there differences between IL and DPL in these risk-result outcomes? Are the relationships the same for different sectors and groups of countries? Do changes in risk ratings during supervision add to the explanation of the risk-result relationship as measured by the at-entry PAD risk ratings? Details of the method and results of this analysis are summarized in appendix F.

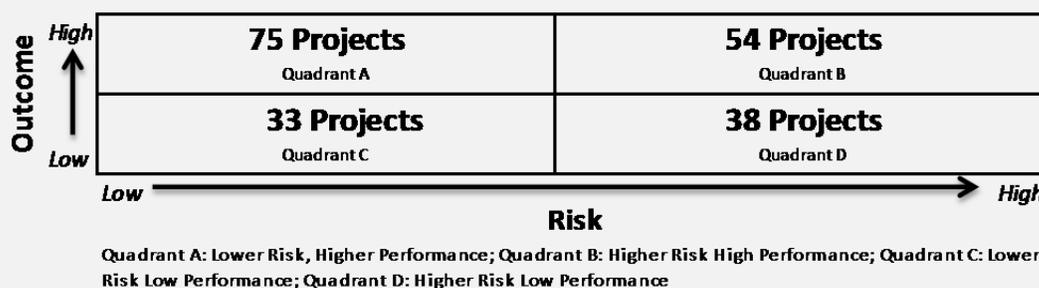
The data sets for both risks and outcomes are heavily clustered around central ratings, with few projects at the extremes of either risk or results (Figure 3.1). Most projects in the sample were rated moderate or substantial risk, with only a small fraction rated high or low risk. On the outcomes side, the bulk of the sample was found to be moderately unsatisfactory, moderately satisfactory, or satisfactory, with only a few projects rated highly unsatisfactory or highly satisfactory. To this extent the correlations were dominated by the mid-ranges, and a fitted regression line showed a very gentle slope, which was negative (higher risks associated with lower returns) but not statistically significant.

Quadrant Analysis

The sample indicates that lower-risk projects may tend to be associated with better outcomes. This result is more graphically evident from the quadrant display of the

same data, summarized in Figure 3.2. The greatest number of highest performing projects (75 out of 200, or 38 percent) are in the lower-risk quadrant A, while the highest risk quadrants B and D have fewer high performers (27 percent) and greater numbers of lower performing projects (19 percent, compared to 17 percent in quadrant C). The hypothesis that riskier projects would have greater variability of outcomes is also not supported. Low-risk-rated projects had the highest standard deviation in outcome ratings, although the evidence is not strong. This quadrant analysis was repeated using total project commitment values rather than numbers of projects, showing that a larger percentage – about 47 percent of total project value – was found within Quadrant A (lower risk, higher return). Notwithstanding the lack of statistical significance, this analysis suggests overall a relative absence of risk-return trade-offs in Bank investment projects.

Figure 3.2. Quadrant Analysis of Risks and Outcomes in the Projects Sample



Note: IEG estimates are based on Business Warehouse data for risks and Implementation Completion and Results Reports for outcomes.

Development Policy Lending

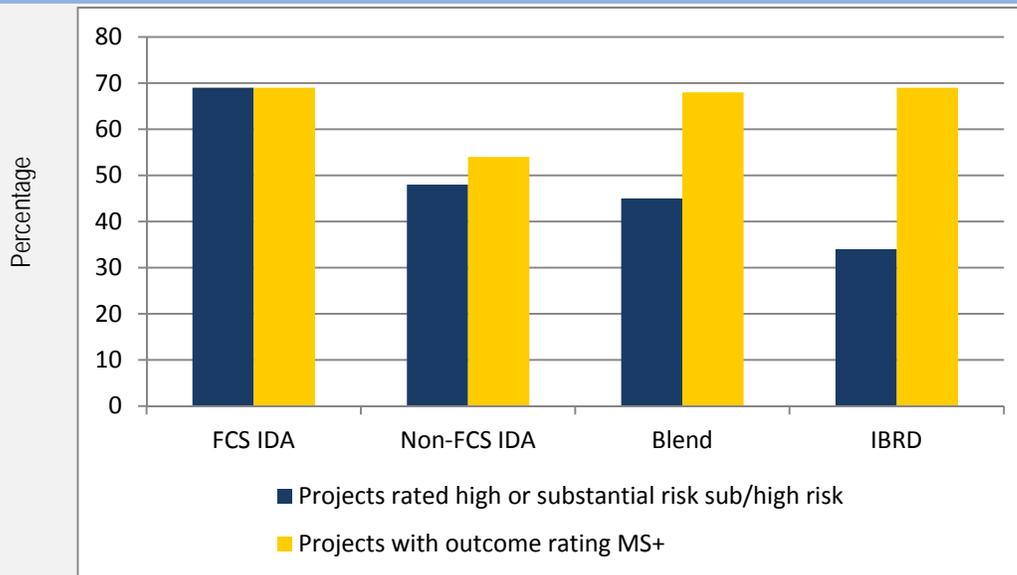
A similar analysis was conducted for development policy lending, with broadly similar results. Since DPL program documents do not provide risk ratings, it was not possible to correlate at-entry risk ratings with outcomes, but correlations were made using risk to development outcomes, which are risks to sustainability assigned by project staff at completion. No significant insights from this analysis suggested that DPL experience was much different from IL projects although possibly it may be slightly more risky overall. However, compared to investment lending, the types of risks described in the program documents for DPLs were largely more institutional, political, and fiscal.

Risk and Results by Country Groupings

Country groupings may have quite different project risk profiles. The above risk-results linkages were examined for the four key country groupings found in Bank

lending: IBRD, blend, IDA, and IDA fragile and conflict-affected states (FCS). These four groups show in the sample quite differentiated overall risk ratings (see Figure 3.3). Projects from IBRD and blend countries have generally lower-risk ratings (only 34 percent and 45 percent of projects in IBRD and blend countries respectively were rated substantial or high risk) while those from IDA countries had significantly higher risks (48 percent substantial or high risk) with the highest being the projects in IDA FCS (69 percent).

Figure 3.3. Risk-Results Outcomes by Country Groupings



Note: IEG calculations based on Business Warehouse data for risks and Implementation Completion and Results Reports for outcomes.

In IDA FCS, higher-risk projects may have higher development outcomes. In terms of outcomes, always bearing in mind the lack of statistical significance of the analysis, these findings demonstrate interesting correlation. They indicate that for IBRD and blend countries lower-risk-rated projects tend to have better outcomes, since the projects in these countries have been rated 69 percent moderately satisfactory or better (MS+). This is just short of the Bank target of 70 percent MS+ for these countries. For IDA countries, and most particularly in FCS, project risks are higher on average but tend to have better outcomes; the outcome ratings in projects in the FCS sample were the same (69 percent MS+) as those for IBRD and slightly better than those for blend countries, even though the FCS risk ratings were much higher.

There may be lessons to be drawn from these results regarding budget allocations, intensity of supervision, and Bank processing procedures. Overall, the analysis indicates a country grouping dimension to the relationship between risks and

possible outcomes that would be a pertinent factor for any new risk policies at the project level. Lessons from this dimension might be applied to FCS and in other countries where the Bank might wish to pursue a new smart risk strategy.

Sector Groupings

The analysis also indicated some risk-return differences between different sector groupings. The sample of projects was grouped into four thematic areas: expanding economic opportunity, building infrastructure and growth, enhancing human development, and sustaining environmental and social aspects. The largest area in the sample, enhancing human development (73 projects out of 200) had the highest risk rating (56 percent substantial and high) but with outcome ratings (62 percent MS+) below the mean of 65 percent. For the projects in expanding economic opportunity, risks were lower (40 percent substantial and high) but outcomes were lower still below the mean (59 percent MS+). For building infrastructure, the risks were lower (44 percent substantial and high) while the outcomes were the second highest at 71 percent MS+. Sustainable development had the lowest risk (29 percent substantial and high) and the highest outcome ratings (79 percent MS+), but with only 14 projects out of 200, this sample is likely under-representative.

Risk Management during Implementation

This analysis found evidence that suggests that dynamic risk management (i.e., managing risk reasonably in real time during implementation) is often lacking. The evidentiary basis for this analysis was the extent to which risk ratings were found in the Implementation Status and Results Reports (ISRs), and the frequency with which these ratings were changed during the life of the projects. IEG found a surprising lack of use of the ISR as a risk monitor and even less as a source of any degree of dynamic risk management. In the sample of 200 projects, 51 (26 percent) had no risk ratings recorded in the ISRs; of the 149 projects that did contain ratings, 123 (83 percent) showed no changes in the ratings throughout the project life. The outcomes ratings for the group that had changes, compared to the much larger group in which no changes were made, were almost identical, suggesting that dynamic risk management either did not occur or did not have any significant impact. This underlines the evidence gathered from other sources that has called into question the efficacy of the ISR as a risk management tool under current practices.

Risk and Development Outcomes in IFC and MIGA

IFC's and MIGA's approaches to risk management derive from their development mandates and the need to manage financial risk. IFC and MIGA have underpinned

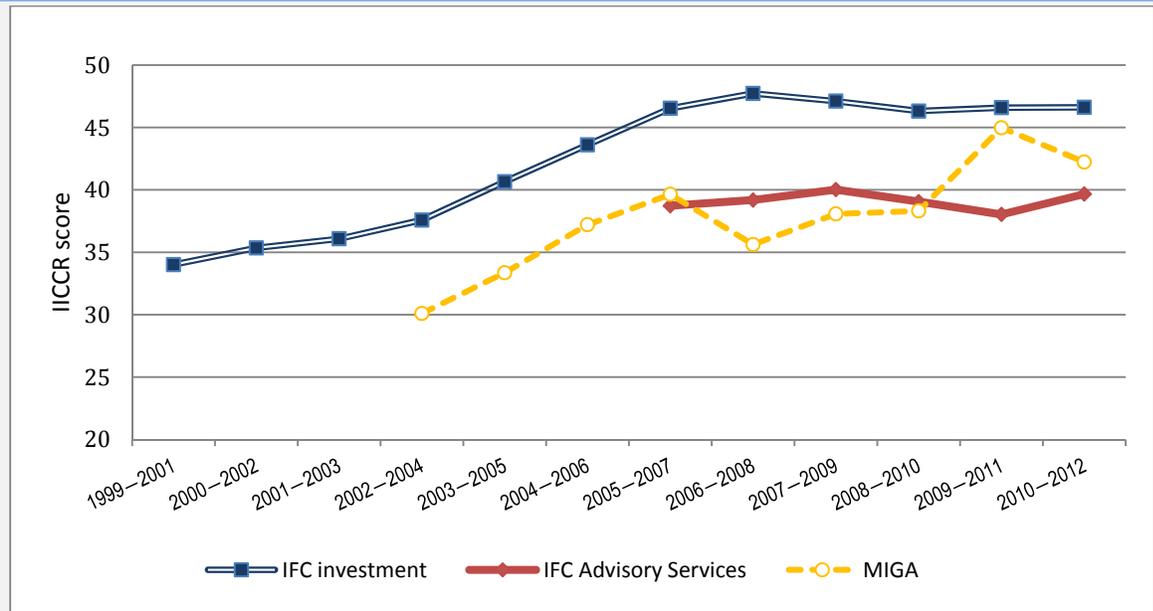
their risk management strategies with capital adequacy frameworks (since FY07) based on an economic capital framework. More recently, IFC and MIGA have further aligned their overall risk frameworks with the Bank Group-wide Integrated Risk Management Framework.

IFC's project level monitoring and evaluation (M&E) systems are a tool to track and address strategic risk. IFC's risk management framework focuses on four areas: strategic, operational, financial, and stakeholder risks. The key approach for managing strategic risk consists of an ex-ante assessment of the strategic fit of each project with the guiding principles for IFC's operations (catalytic role, business partnership, and additionality), environmental and social policies, and IFC client integrity reviews. A sound and credible M&E system can provide updated information about the extent to which IFC meets its development objectives and thus manages its strategic risk effectively.

MIGA's dual mandate as a development institution and a financially self-sustaining guarantee agency is at the core of its approach to risk management. The main risks faced by MIGA are insurance risks (risks arising from its portfolio of insured projects), credit risk (especially related to reinsurance counterparty credit risk), as well as other types such as interest rate and exchange rate risks and operational (including internal controls) and legal risks. Building on processes for assessments of country and project risk, MIGA's key management risk system is its economic capital framework, which is used for determining capital adequacy, pricing, provisioning, and portfolio management.

Risk-taking is fundamental to IFC's and MIGA's mandates as they depend on private enterprises as the conduits for their development results. IFC- and MIGA-supported private sector projects and their development outcomes involve types of risks (e.g., commercial) that differ from those faced by Bank projects implemented by client governments. Figure 3.4 below illustrates the relative differences in country risk for IFC investments compared with MIGA guarantees and IFC Advisory Services (AS) based on Institutional Investor Country Credit Rating (IICCR)⁴ scores for new project approvals (note that lower scores correspond to higher risk). Not surprisingly, MIGA has operated in a higher-risk environment compared with IFC investments. AS have been deployed in more risky environments than its investments; particularly its Investment Climate advisory projects, which have been undertaken in higher-risk countries.

Figure 3.4. Average Country Risk of Approved Portfolio



Source: IEG data September 30, 2013.

Note: Based on Institutional Investor Country Credit Rating (IICCR) scores, which range from 0 to 100; higher scores represent lower risk; three-year rolling average.

RISK AND DEVELOPMENT OUTCOMES IN IFC'S INVESTMENT PORTFOLIO

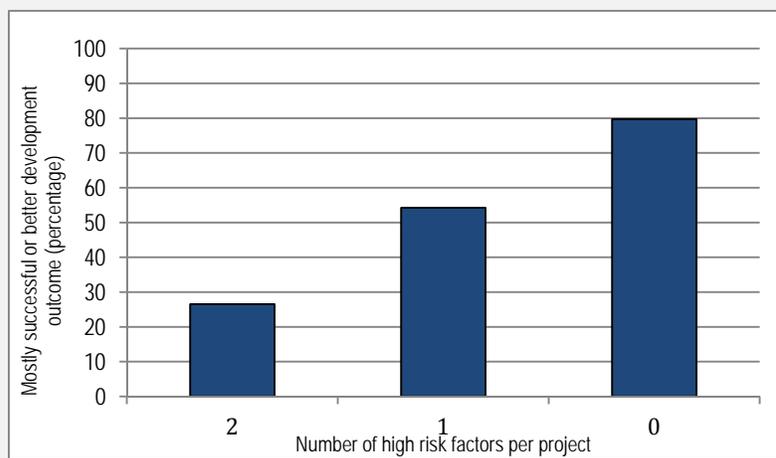
To explore the extent to which IFC's risk monitoring system could be used to obtain better development results, this section examines several dimensions of the relationship between risks and outcomes for IFC investments. It looks at several determinants of development outcomes for IFC investments, including risk identification, mitigation, and portfolio management.⁵ The assessment used IFC's Credit Risk Rating (CRR) system data, originally designed to assess the credit risks associated with each client company, together with work quality and outcome ratings from the entire set of IFC project evaluations (Expanded Project Supervision Reports [XPSRs]) on projects approved between 1998 and 2008, and evaluated from 2003 to 2012.⁶ The objective was to identify the key external and internal risk factors associated with the projects' development success and estimate the relative impact of each these factors, using a simple statistical regression model.

Based on IEG's regression analysis three of the external risk factors drawn from the CRR are identified as closely associated with development results (in addition to the country risk discussed earlier): management quality, profit margin (for real sector projects), and quality of corporate governance (for banks). Basically, for projects where these risk factors had been rated low by IFC staff at appraisal, there was a good chance that the development outcome of the project would be mostly

satisfactory or better. Conversely, projects for which these factors had been scored as high, risk tended to have lower development outcomes.

Figure 3.5 shows the association between the number of risk factors per project and development outcome ratings. Projects with two external risk factors scored as high had a success rate of 25 percent, whereas projects without any external risk factors scored as high achieved a success rate of 80 percent. These findings broadly echo the risk-results analysis described above for the Bank where less risky projects were more frequently found to have better outcomes, though the statistical significance was less in the case of the Bank.

Figure 3.5. Risk Intensity Influencing Development Outcomes

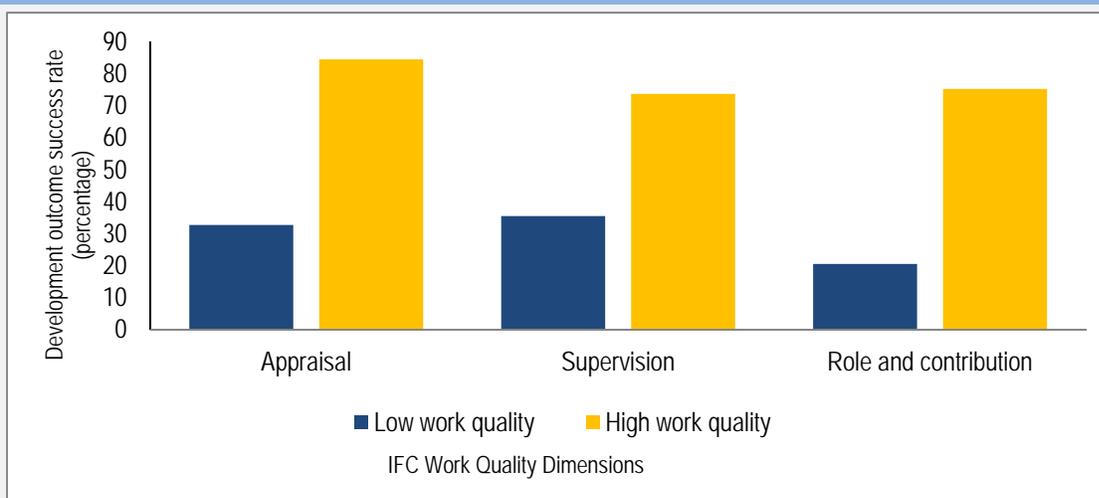


Source: IEG data September 30, 2013.

IEG's analysis also confirmed the expectation that internal, IFC-controllable work quality factors can act as mitigants of external risks and improve development results. The three work quality factors – drawn from IEG's XPSR ratings – considered in the analysis are: quality of screening, appraisal, and structuring; quality of supervision and administration; and IFC role and contribution (additionality). Here again, better ratings for each of these work quality factors were associated with better development results.

Figure 3.6 shows how IFC's work quality factors are associated with portfolio-level development outcome success rates. It suggests that better work quality helps projects achieve better development results, and that the quality of appraisal (screening, appraisal, and structuring) has a somewhat greater impact than the quality of supervision and of IFC's role and contribution. Thus, for example, 85 percent of projects with a high (i.e., satisfactory or excellent) quality of appraisal had a mostly successful or better development outcome, while 74 percent of projects with a high quality of supervision achieved mostly successful or better outcomes.

Figure 3.6. IFC Work Quality Influencing Development Outcomes



Source: IEG data September 30, 2013.

The regressions also found that the association between external risk factors, IFC’s work quality, and development outcome ratings is statistically significant. On this basis, the estimated regression model can be used to provide insights regarding the relative sensitivity of project outcomes to alternative assumptions about specific risk factors, both internal and external. Thus, for example, the results suggest that the development outcomes of all projects are highly sensitive to the client company’s management quality; the outcomes of real sector projects are sensitive to profit margin; and the outcomes of financial institution projects are sensitive to the quality of corporate governance. Financial institutions are also more sensitive to country risk, reflecting the systemic risks associated with the banking industry. Of the internal factors, the development outcomes of real sector projects are highly sensitive to the quality of IFC’s screening and appraisal, while the outcomes of financial institution projects are more sensitive to the quality of IFC’s role and contribution (additionality). These findings point to areas which deserve greater attention as IFC strives to improve its development results.

RISK AND RESULTS IN IFC ADVISORY SERVICES

Encountering risks over which IFC does not have full control is an expected part of AS. Negative perceptions of affected communities or other parties; market, economic, and political factors; and environmental hazards are all risk factors that IFC cannot fully control when implementing AS projects. However, data from past projects show that IFC’s proactive risk management can effectively mitigate the degree to which external risks affect project success. Of projects tagged by IEG as having been strong in identifying risks, only about one-third had risks that could not be mitigated.

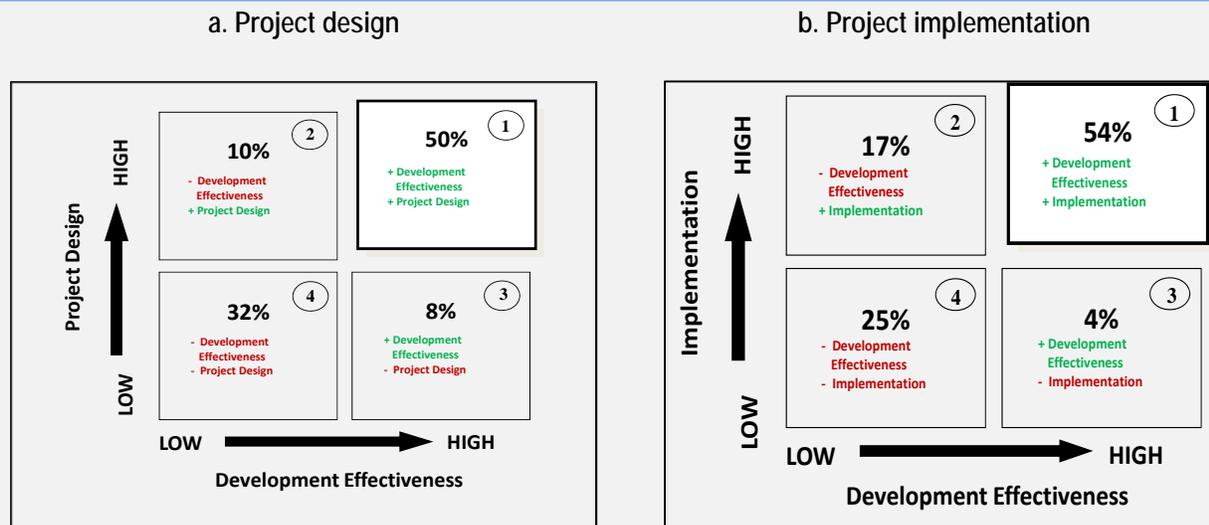
To better understand the relationship between risks and results, IEG analyzed the risks and results for a sample of 289 AS projects completed from FY08–11 and rated for development effectiveness. Additionally, IEG has systematically assessed the work quality of AS, which is intended to reflect the strengths and weaknesses of IFC’s work at two stages: (i) project preparation and design, and (ii) project implementation.⁷ This RAP uses IEG’s work quality assessments to analyze the impact of IFC’s internal risk factors on project outcomes. Detailed information on the process and rating criteria for work quality assessments is presented in appendix F (annex 2).

IEG’s design work quality rating is based on the assessment of several design areas such as appropriate mix of project activities, identification of committed counterparts, needs assessment, and tailoring of projects to local conditions. Similarly, the rating for project implementation work quality was based on analysis of factors such as engagement with clients and stakeholders, work of consultants, and project management methods.

When comparing the work quality and development effectiveness ratings of AS projects, an association emerges between high work quality in project design and high development effectiveness. As shown in Figure 3.7, only 60 percent (173 of 289) of the projects completed in FY08–11 (with a development effectiveness rating) scored high on project design (i.e., ratings of excellent or satisfactory). However, considering those projects that scored high on project design, 84 percent (145 of 173) went on to achieve positive development effectiveness ratings. Meanwhile, projects scoring low on project design (i.e., rated partly unsatisfactory or unsatisfactory) achieved success only 21 percent of the time (24 of 116 projects).

A similar impact was found with respect to the quality of project implementation. Figure 3.7 shows that 71 percent achieved high development effectiveness ratings. Thus, up to a certain degree, project teams are able to make corrections or change course during implementation.

Figure 3.7. IFC Work Quality Influencing Development Effectiveness



Source: IEG data September 30, 2013.

IFC's mandatory risk framework for AS was enhanced in FY12. This has had an impact including: (i) the use of consistent structure and terminology; (ii) the provision of a list of possible risks to consider rather than forcing AS project teams to identify risks on their own (in their own words); (iii) the assignment of impact and likelihood rating for each risk identified; and (iv) the enhancement of risk identification simply through its existence in the AS portal. Within the first two years of introducing the mandatory risk matrix, the median number of risks identified increased from two to six per project. Data from FY12 and FY13 AS approvals also indicate the emergence of distinct risk profiles for each business line.

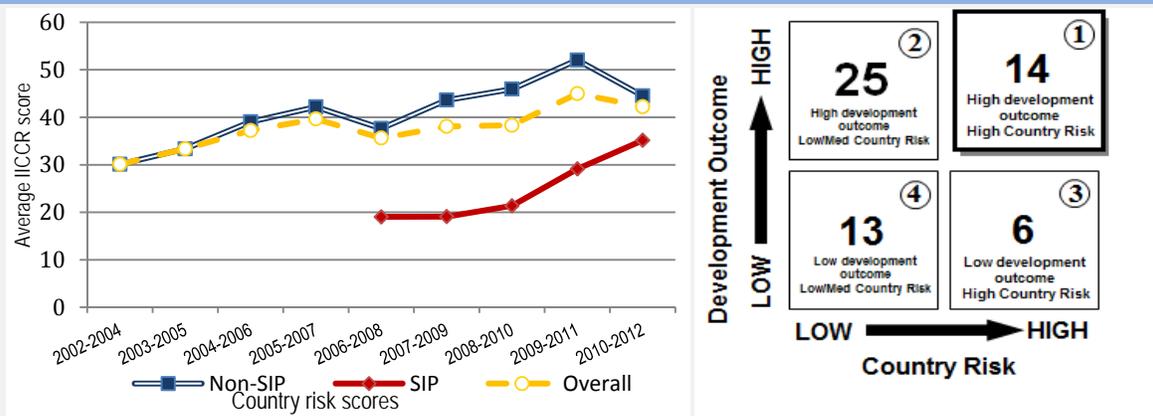
But the use of a structured risk framework carries its own risks. Simply increasing the quantity and consistency of identified risks does not necessarily translate into higher quality risk identification, nor does it necessarily translate into improved risk mitigation. While the risk framework provides the basis for such improvements, it will only be an effective risk mitigation tool if it is actively used and updated throughout the project lifecycle. IFC itself has identified failure to follow up on risks as a common shortcoming in projects, a finding which again echoes the findings in the Bank's analysis of weak risk management during supervision. The framework in its current state is not designed or equipped to promote, reward, or assign responsibility (apart from workflow approval) for risk taking. And whereas IFC management has indicated a desire for taking greater risks, the framework does not provide any incentive (and perhaps instead provides a disincentive) for IFC staff to seek out or engage in higher-risk projects.

RISK AND RESULTS IN MIGA'S GUARANTEES PORTFOLIO

How do MIGA's project outcomes relate to the perceived riskiness of projects? Do higher-risk projects tend to have better performance outcomes, or is there a greater variability in their outcomes? There are several challenges in addressing these questions. First, project risk measurement in MIGA focuses on country risk and general project viability rather than a project level risk system. Although MIGA assesses project viability at the appraisal stage, MIGA's focus is on the political risks it insures, underpinned by a thorough country risk assessment and assessment of project risks and risk mitigants for each proposed guarantee. By contrast, IFC as a financier considers various aspects of commercial risks in its decision making as well as performance measurement.

Because of the political risk product offered by MIGA, its portfolio is relatively concentrated in higher-risk countries, especially its Small Investment Program (SIP). As shown in Figure 3.8, on average, SIP projects tend to be in higher-risk countries as reflected in their IICCR ratings of less than 30 (a higher IICCR score indicates lower country risk). This is consistent with the intended purpose of the program: SIP projects are expected to be located in countries that have not attracted substantial foreign direct investment or where political risk insurance (PRI) providers have little presence. MIGA's regular guarantees on average tend to be located in medium-risk countries although more recently the trend has been toward higher-risk environments.

Figure 3.8. Risk and Results of MIGA Projects



Source: IEG data September 30, 2013.

Based on IEG's evaluation results, there is no significant association between country risk levels or changes in country risk levels during the project life cycle and MIGA development results. In high-risk countries (as measured by IICCR at the time of issuance of the guarantee), the development outcome success rate was 70

CHAPTER 3 RISK MANAGEMENT AND RESULTS

percent, while in low- or medium-risk countries, the rate was 66 percent. Similarly, projects experiencing an improvement in country risk categories between the time of approval and evaluation had a 79 percent success rates compared with a rate of 65 percent for projects that remained in the same country risk category during their implementation. However, because of the small number of observations (58 projects with development outcome ratings), the difference in results is not statistically significant, and other variables may play a more dominant role (such as the differential results by sector as shown in Figure 2.15 in chapter 2).

The introduction in FY10 of MIGA's non-honoring of financial obligations (NHFO) coverage has implications for the risk profile of MIGA's portfolio and the type of risk assessment and monitoring required. MIGA recognizes that the NHFO coverage has a higher-risk profile than its traditional PRI coverage, which is limited to a list of defined risks, such as currency convertibility. By contrast, NHFO covers against default on payments by the ultimate sovereign, sub-sovereign, or state-owned enterprise (SOE) obligor for any reason, without an arbitral process. Finally, risk profiles in projects may vary, requiring more rigorous credit assessment, credit monitoring, and dynamic portfolio management to account for the possibility of credit deterioration or rating downgrade for obligors, ownership changes for SOEs, and risks due to fiscal deterioration.

Conclusions

Effective risk management is central to the Bank Group's development efforts, and its three parts can enhance their knowledge of and focus on corporate risks and the relationships between their risk levels and development results. In operations, the Bank Group's risk management architectures are robust and broadly coordinated, and have generally contained risk pressures at operational levels. However, at more detailed levels there are some weaknesses, including that not enough attention is being paid to dynamic risk (i.e., risk management during implementation) – evidence of an area of project management that could be tightened as a means to improve risk management. Also, the Bank's ORAF and P-RAMS processes that were introduced after the IDA Control Review have not worked as intended, in the face of possibly increasing operations risk, which obliges the search for new or improved tools. A new operational risk rating template is under preparation.

Bank operations seem less risk averse than is often assumed, with the exception of FCS where there seems to be a positive association between risks and results. For IFC, higher-risk projects have a lower chance of success, while better work quality is associated with better development outcomes. MIGA's portfolio performance shows

no significant association between country risk levels and development results. The expansion of its product range to cover the non-honoring of financial obligations has important implications for the risk profile of MIGA's portfolio and capital utilization and requires enhanced assessment and monitoring efforts of such guarantees.

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¹ For example, reforestation by species has reduced erosion and increased carbon storage but has depleted the local aquifers.

² The Bank has since adopted those used by the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency.

³ The project universe from which the 200 projects in the sample were drawn comprised 648 projects. Using 31 percent of the total makes this a fairly robust sample, whose relationships may not be expected to change significantly were the sample size to be increased. Little if any evidence exists that these linkages have been systematically examined elsewhere in the Bank. The staff in the Office of the Chief Risk Officer (CRO), working on background for the annual 2014 Integrated Risk Management Report, has conducted similar analysis based on a sample of bank-financed projects in the health sector. The IEG team consulted with the CRO team and compared their analysis with that conducted for this chapter. It found both the method and the results to be broadly consistent, although the scope of the IEG analysis was across all sectors and addressed more hypotheses.

⁴ The Institutional Investor Country Credit Rating is an indicator of sovereign creditworthiness, published semiannually. The scores range from 0 to 100. Higher scores represent lower risk.

⁵ This discussion of determinants of project results is an expansion of work done previously on the concept of a Risk-Adjusted Expected Development Outcome (IEG 2012c).

⁶ Based on 334 real sector project and 132 financial institution projects with Expanded Project Supervision Reports.

⁷ A work quality framework for Advisory Services was first presented in *IFC Advisory Services in Eastern Europe and Central Asia: An Independent Evaluation of the Private Enterprise Partnership Program* (IEG 2008b). Work quality ratings used in this report are not part of Advisory Services self-evaluations (Project Completion Reports) and have not been vetted by IFC management, but they are based on the Independent Evaluation Group's analysis.

4. Institutional Effectiveness

Highlights

- ❖ The new World Bank Group strategy envisages a repositioned group against a background of global volatility and risks and identified weaknesses in effectiveness.
- ❖ Monitoring and evaluation including results frameworks represent cross-cutting – and perennial – problems in World Bank operations. There also is scope to enhance the focus of the International Financial Corporation’s (IFC) results framework on development impact and to improve its usefulness for learning and decision making.
- ❖ The Bank’s new approach to country partnership formulations has the potential to encourage more focused and coherent partnership strategies, with a stronger emphasis on program monitoring and evaluability.
- ❖ For investment lending, important aspects that determine results are quality at entry, quality of supervision, and quality of results frameworks, and the Bank needs to consider more targeted support and guidance for task teams.
- ❖ An improvement in the outcome ratings for projects in fragile and conflict-affected states (FCS) came from stronger attention and more resources, with more international staff in country offices, and a substantial increase in FCS analytic and advisory activities.
- ❖ An ongoing management program seeks to address the quality of Bank lending operations motivated by the identified weaknesses in Bank performance in investment lending. Early implementation has been promising notwithstanding delays associated with the ongoing organizational reforms.
- ❖ The traditionally high quality of IFC’s self-evaluations for investments has deteriorated over the past two years. The Multilateral Investment Guarantee Agency still needs to adapt and streamline its approach to self-evaluations to fit its business practices.
- ❖ Monitoring and evaluation of Global and Regional Partnership Programs (GRPPs) and multi-donor trust funds need strengthening, and GRPPs generally have weak linkages to Bank country programs.
- ❖ The new Bank Group strategy emphasizes the need to work as One World Bank Group, but thus far deliveries have largely been separate. Despite some encouraging examples, synergies among and within Bank Group institutions do not seem to have been exploited in a systemic way.
- ❖ The Management Action Record shows that adoption of the recommendations of the Independent Evaluation Group increases over time and by the fourth year, 90 percent are substantially adopted.

This chapter builds on previous discussion of outcomes and risks, focusing on the implications for the World Bank Group’s institutional effectiveness. It starts with background on the Bank Group’s new strategy as the context for considering particular topics, and then turns to institutional effectiveness in country programs, portfolio management, knowledge services, global partnerships and trust funds, and internal coordination. It ends with a brief discussion of the Management Action

Record (MAR), which tracks implementation of recommendations made by the Independent Evaluation Group (IEG).

The new Bank Group strategy envisages a repositioned organization that “has catalyzed the development community to seize the opportunity to win the age-old struggle against poverty and exclusion” against a backdrop of rapid shifts in the global economy; volatility and global risks in an interconnected world that depends on international markets for goods, services, and finance; the potential impact of social and political instability as illustrated by the turbulent world events of the past decade; and the ever more clear challenges of climate change and environmental degradation (World Bank Group 2014). To this end the Bank Group has set itself the two ambitious goals of ending extreme poverty and promoting shared prosperity.

Experience from previous institutional Bank reforms foretells short-term costs for longer-term gains. The strategy will involve significant institutional change. An evaluation of the reform process of the mid to late nineties under the Strategic Compact found that efforts to improve project quality had borne fruit, but changes to the Bank to make it more relevant and responsive (such as through decentralization) had increased costs and expanded the range of skills required for Bank involvement (Johnston and Battaile 2001). Perhaps paradoxically, partnerships had contributed to an overload rather than to greater burden sharing and selectivity. New lines of business had opened, but few old ones had closed. The Bank’s administrative budget also had come under pressure from increased demands of, for example, improved project design and supervision, nonlending services, and global activities. These trends had led to a remarkable increase in organizational and staff stress.

It can be challenging to achieve priority objectives through institutional and organizational reforms. This lesson clearly emerges from the matrix management evaluation (IEG 2012a). The Bank’s matrix management concept was introduced in the Bank as part of the 1997 institutional reform. Changes in the external environment indicate that the system is more relevant than when it was introduced; however, the evaluation also found:¹

- considerable variations in the different components of country programs with strong alignment with national priorities and flexibility when country circumstances changed but low scores for realism, quality of results frameworks, and ownership;
- global and regional programs not well integrated into country programs;

CHAPTER 4 INSTITUTIONAL EFFECTIVENESS

- the persistence of sector silos and even stronger regional and network silos; and
- issues of budget pressures and excessive spans of control, ineffective Bank budget processes in promoting cross-sector collaboration, and ineffective teamwork under the matrix system.

The Bank Group corporate scorecards are becoming a management and accountability tool to help track progress in strategy and change program implementation for the Bank Group as a whole. Work is under way for the design of a World Bank Group corporate scorecard and the alignment of the Bank and International Finance Corporation (IFC) scorecards and the key performance indicators of the Multilateral Investment Guarantee Agency (MIGA) with the Bank Group goals and strategy. The current intention is for the use of the scorecard to widen. It will still be used for strategic dialogue with the Board and as a management tool monitoring corporate performance.

Pending such changes, the current-Bank scorecard presents a high-level view through four tiers (Figure 4.1). Observations from the 2012 Results and Performance (RAP) report are still highly germane. The scorecard's relevance can be further improved; priority should be given to filling the gap in capturing the results of the Bank's knowledge work; measurement can be improved especially in Tier II; and steps can be taken to make the Tier II information easier to interpret (IEG 2013a).

IEG needs to address the timeliness of its production of data used in the Bank scorecard. An audit of the scorecard in 2013 by the Internal Audit Vice-Presidency (IAD) underlined the 2012 RAP's observations. It also pointed out that four of the seven indicators in the Tier III Development Outcome Ratings category have a three-year lag in the reporting of data; these are for IEG's ratings of operations outcomes at completion. There are some unavoidable systemic delays for these ratings, but the current significant IEG backlog in completing Implementation Completion Report Reviews (ICRRs) is a contributing factor to the overall lateness of reliable numbers for these indicators.

IFC's corporate scorecard has already been used as a performance management tool. The IFC strategic goals are cascaded down from the scorecard through regional and departmental scorecards, which are used to reward staff for contributing to corporate objectives. IFC has also linked staff performance awards to development results and to the financial results of operations in which individual staff members have been involved. The IFC Development Goals (IDGs) that were formally introduced in 2012 after two years of pilots include targets for reach, access, and other development outcomes designed to measure clients' increased contributions in

target areas. IFC intends for these targets to be incorporated into its scorecard, supplementing the output-based indicators such as commitment volume and number of projects in International Development Association (IDA) countries. However, these indicators (including IDGs) rely on data from the existing monitoring and evaluation (M&E) systems that come from the client companies (for investments) or project teams (for advisory services), and the quality control is not sufficient to validate the nonfinancial information or to make firm attributions to IFC. Finally, emphasis on volumes creates a disincentive for departments to support investments and advisory services operations in strategic areas such as fragile and conflict-affected states (FCS) as these tend to be smaller in size and involve more complex appraisal and design work because of opaque market and sponsor information and the presence of weaker sponsors (IEG 2014).

Figure 4.1. Summary of the World Bank Corporate Scorecard



There is broad agreement that attention to results and strong M&E are vital for development effectiveness, but significant weaknesses persist. Significant long-standing weaknesses in Bank M&E exist and include results frameworks, whether for investment projects, country programs, knowledge activities, or global and regional programs. These issues can only be explained to some extent by practical

issues such as the lack of data or baseline information. The 2012 RAP emphasized that stepped-up efforts were needed, but the most recent available data do not give much scope for expecting early improvements (IEG 2013).

Effectiveness in Country Programs

The declines in country program outcome ratings are reported in chapter 2. Over 2006–2013, the corporate scorecard objective of 70 percent of programs with moderately satisfactory or better outcomes was exceeded slightly for International Bank for Reconstruction and Development (IBRD) countries at 71 percent. But performance fell short for IDA countries including for FCS, although there are limited data on the latter. Bank performance ratings have been fairly even for IBRD and IDA country programs, but with a significant decline for FCS programs.

Outcomes of country partnership strategies (CPSs) are determined by the joint impact of the country, the Bank, its partners, and exogenous forces. This helps explain how the overall outcomes for the country assistance strategies (CASs) were rated moderately satisfactory or better for 61 percent of the evaluations, with Bank performance rated similarly for 76 percent. In much of the period under review, Bank support aimed to protect clients against the worst effects of the financial crisis. And in the period ahead, continued uncertainties in the economic environment for many Bank Group client countries may test policy implementation frameworks.

Methodological differences between management and IEG have now been addressed. IEG has been basing its evaluations on program outcomes as defined in the CASs and CAS Progress Reports where applicable, while the self-evaluations have been based on outcome indicators underpinning the results frameworks of the country strategies (Box 4.1). This difference cannot explain the declining trend-line for country program outcomes. It is, however, positive that IEG and the Bank have issued a fully common methodology to assess the achievement of country strategy outcomes.

There may be a need for additional attention at the lower end of the income scale. Both country programs and investment projects have had better outcomes in IBRD than in IDA countries, which points to a more general need for additional attention for lower-income clients to help improve outcomes. Depending on circumstances, greater attention could be in the form of additional resources, more management attention, allocation of more experienced task managers, or more technical assistance (TA) for capacity development, as documented in the IEG FCS evaluation (IEG 2014).

Box 4.1. A Shared Approach in Assessing Country Programs

Until now, the self-evaluations and IEG's assessments of country programs have been based on somewhat different methods. For the self-evaluations, the unit of assessment has been the individual country assistance strategy (CAS) outcome based on the achievement of outcome indicators in the results matrix annexed to a CAS program. IEG has been rating the overall outcome of a country program through an aggregation of the outcome ratings, based on the outcomes targeted by the CAS and country partnership strategy (CPS) and the World Bank Group's contribution to the achievement of the outcomes.

In November 2013, IEG and Operations Policy and Country Services jointly issued a guidance note, "Assessing Country Partnership Strategies: A Shared Approach," which includes a revised harmonized methodology for both the self-evaluation of the CAS and CPS by country teams and the review of the CAS and CPS Completion Reports by IEG. The country-based model of Bank Group interventions is undergoing change, but country teams and IEG would be able to apply this common approach in assessing the performance of CASs and CPSs graduating over the next four to five years.

Under the revised approach, management and IEG have agreed on a common method to rate the outcomes of a CPS program based on the CPS results framework as updated in the most recent CPS progress report, and on the indicators provided in the results matrix. For each objective, both the Bank Group self-evaluations and the IEG validations will examine the results chains from the Bank Group interventions through the CPS outcome(s) to those country development goal(s) that the objectives were designed to support. To this end, both will assess both the extent to which the targeted results for outcome indicators have been met, and how well the indicators measure the achievement of the CPS objectives. The objective in establishing a shared approach is greater transparency and clarity of methodology.

Source: IEG.

Three factors affect country program outcomes across the income scale and need addressing. RAP 2013 links unsatisfactory levels and trends for country programs partly to three factors: insufficient country ownership of the Bank strategies, inadequate results frameworks, and lack of realism of the strategies. These factors were identified in the matrix evaluation (IEG 2012a). Ownership is highest for IBRD programs, where it improved the most compared with the matrix evaluation, while results frameworks fall short for all Bank client groups. Simple regression analyses indicate that ownership and results frameworks are always significant explanatory variables, while realism may be relatively less important.

The results of World Bank projects (both for investment and development policy) are a contributing factor for country program outcomes. Thus in the analyzed cohort there is no case where the country performance declines and portfolio performance improves.

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The CASs themselves have had weaknesses. At times, they have been too cluttered, overambitious, and without hierarchies of objectives, with weak results chains including in several cases for analytic and advisory activities (AAA).

Results frameworks were found satisfactory in only 28 percent of the country programs, with some modest improvement during the evaluated period. Often, the results frameworks had not developed well the links between the interventions and intended outcomes; suffered from poor monitoring systems with weak chains relating strategy outcomes to broader country goals; and focused on inputs and outputs rather than outcomes. One of the most common weaknesses of results frameworks is that outcomes are too broadly defined or are too optimistic for the Bank interventions supporting them.

The Bank is moving to a new country partnership framework (see Box 4.2). In implementing this new framework, it would be important to encourage more focused and coherent partnership strategies, with a stronger emphasis on results frameworks and program monitoring and evaluability, and to enforce more regular and useful mid-term reviews. Finally, it would be useful to see a reduced use of Interim Strategy Notes, which contrary to CASs are not subject to evaluation.

Box 4.2 The New Country Partnership Framework

The new model envisages:

- A new systematic country diagnostic (SCD) as a separate document to identify critical constraints and opportunities for a country to achieve the poverty and prosperity goals in a sustainable manner. Joint SCDs will be prepared with involvement by the World Bank, International Finance Corporation, and Multilateral Investment Guarantee Agency based on the business case.
- A new and shorter country partnership framework together with supporting and coordinating processes to align Bank Group and country engagements based on SCD, Bank Group comparative advantage, resource availability, and country ownership.
- Every two years, a Performance and Learning Review in place of the Country Assistance Strategy Progress Report to provide an instrument for learning lessons at mid-term, enhance focus, make corrections and recalibrate expected results.
At the end of the program period, a Completion and Learning Review, instead of the CASCR, will hold the Bank Group accountable by taking stock of program performance and draw lessons to enhance the selectivity design of future partnership frameworks.

Source: World Bank Group (2014).

Effectiveness in Portfolio Management

Development policy operation (DPO) outcomes are holding up well. Management's most recent DPO retrospective in 2012 (World Bank 2012a) drew on IEG and Implementation Completion and Results report (ICR) findings. It concluded, as confirmed by IEG's review (chapter 2), that DPOs have been relatively successful in achieving targeted development outcomes, and quality appears to be holding up well despite increased lending volumes, although with variations by Region and client segments. Programmatic DPOs tend to perform better than stand-alone DPOs. However, there is room for further strengthening of results frameworks and M&E and improving the clarity, consistency, and rigor with which risks are assessed in DPOs.

The declining trend for investment projects is largely due to factors within the Bank's control. RAP 2013 shows a declining trend for investment projects. This is related to the issues in quality of design and lack of correction of deficiencies during implementation. Important measurable aspects are quality at entry, quality of supervision, quality of M&E, and within that the quality of results frameworks.

Quality at entry remains an issue. The RAP corroborates and extends the findings of Bank management from its extensive assessment of significant issues with quality at entry, including over-ambitiousness and complexity of projects; weaknesses in political and institutional assessments; inadequate financial, economic, and technical analyses; deficient assessment and management of risk; and lack of readiness for implementation. There have been modifications over the past few years in the corporate processing steps, the results of which for project quality cannot be assessed as yet. However, the existence of many problems of quality at entry underlines the importance of keeping this dimension under regular observation and could indicate a need for a fresh consideration of all of the Bank processes for project identification and approval.

The depletion of staff skills can affect Bank judgments and technical design issues in some sectors. Agriculture and infrastructure offer cautionary tales. The World Bank nearly exited the agriculture sector only to scramble to ramp up in response to the food crises and global food security concerns (IEG 2013b). The Bank's engagement in infrastructure plummeted some years ago on the assumption that private sector solutions could fill the gap, only to be reinvigorated later. As the Bank Group Strategy document has stated to the Board, it is important for the Bank to maintain capacity across multiple technical areas; withdrawing from entire sectors is not an option (World Bank Group 2014).

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The analysis shows limited targeted support and guidance for task teams. IEG's earlier evaluation of the matrix system found that Bank quality assurance systems had focused on fiduciary and safeguards risks at the cost of other aspects of quality. A recently published study has found that country-level variables, most notably the Country Policy and Institutional Assessment measure of policy and institutional quality, are "robust partial correlates of country-level variation in project performance" (Denizer et al. 2013). Therefore, projects taking place in countries with weaker policy and institutional contexts may be more susceptible to performance issues. Another finding from the same study is "task team leader characteristics are significantly correlated with project outcomes" in that task team leader quality (measured as the weighted average outcomes of the projects that is managed) is significantly correlated with project outcomes. Although both of these findings deal with correlations and not causality, they suggest that in countries, sectors, and projects with weaker policy and institutional contexts, where professional judgment can be critical, the quality of the project team and in particular the task team leader may be especially important. Selective additional engagement of managers might yield considerable benefits, and the Bank has now introduced an accreditation program for new task team leaders with limited time in the Bank.

One important area of improvement has been the FCS, in part due to more resources and greater management attention. FCS countries have become an important focus of World Bank Group assistance in recent years as recognition of the linkages between fragility, conflict, violence, and poverty has grown. IEG evaluated Bank Group performance in 33 fragile and conflict-affected IDA countries against that of 31 IDA-only countries that have never been on the FCS list (i.e., Never FCS). The 33 countries included 21 that have always been on the Bank Group's FCS list (i.e., Always FCS), and 12 that were on the list for part of the review period (i.e., Partial FCS). Since FY09, the World Bank's portfolio in FCS has had better outcome ratings than other IDA countries. FCS ratings are now comparable with Bank-wide ratings (IEG 2014).

The relative improvement for FCS holds true both for project numbers and commitment volumes and is due to an improvement in the FCS ratings and to the decline for other categories. The FCS improvement comes from increased support through budget resources and more international staff deployed in FCS country offices. In real terms, preparation and supervision expenditures per project have increased since FY07 in the Always FCS. Projects in these countries have received 9 percent more on average in real terms for project preparation and 19 percent more for supervision than projects in IDA countries that were Never FCS. The improvement also can be traced to the effect of development policy lending that has increased in quantity as well as in quality. Overall, Bank support for FCS AAA has

increased substantially, with significant increases in spending on TA to build institutional capacity within FCS.

Learning in Bank operations is not yet analyzed systematically. The improvement in project performance in FCS is an example of successful learning and adaptation by the Bank and other development partners. The degree of learning that takes place in Bank operations is an important issue, but it is not yet systematically analyzed. Box 4.3 shows an example of a prolonged absence of learning followed by a positive learning process.

Box 4.3. Learning from the Past: Health Systems in Nigeria

The Bank helped prepare the Nigeria Second Health System Project when the country was emerging from years under a military regime. The project addressed health needs across all 35 states, with a focus on maternal and child health and improved effectiveness of delivery by public health services. Originally put on a priority fast track, preparation was then delayed. The political situation significantly limited the ability of the Bank to reach agreement with the borrower on simplifying and prioritizing project activities. Design was fatally flawed by having to work through 36 different project agencies in the 35 states and the Federal Capital Territory. Implementation was constrained by weak capacity and coordination between central and state levels.

Project supervision was hampered by the flawed structure of design; limited human and financial resources for supervision needs; and the reporting of activities rather than results. Opportunities to restructure and reduce scope to a manageable level for broader impact were not used in 2002 and 2008. Monitoring and evaluation (M&E) was defective. Notwithstanding the problems, additional financing was approved, yet M&E did not improve. The project neither demonstrated improvements nor evaluated the link between improved capacity and results or impact for the beneficiary population at an aggregate level beyond the specific project sites.

Notwithstanding the difficulties of implementation, the project contributed to increases, some very substantial, from 2004 to 2010 in outpatient visits in 35 states; the number of births attended by skilled personnel; the number of pregnant women attending antenatal clinics; the national rate of tuberculosis detection; the accreditation share for medical technology schools although the share of accredited nursing and midwifery schools declined; and the number of inpatient visits despite annual fluctuations.

Building on this project's experience, the Bank approved a \$170 million results-based financing project in April 2012. It finances measurable results rather than inputs. Health facilities receive funding based on the quantity and quality of services provided. The project includes robust M&E measures; focuses on three states with substantial external assistance to facilitate implementation; provides limited amounts per state, which cannot overspend without restructuring; and finances operating costs through performance-based payments made directly to participating facilities.

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The quality of supervision needs improvement. Across the range of ICR reviews for projects with less than moderately satisfactory outcomes, flawed design and weak quality at entry were often not corrected during implementation. Inadequate supervision resulted from rapid turnover of task team leaders and infrequent supervision; lack of follow-up by staff and managers to resolve problems; and lack of candor in identifying and reporting problems. In borrower agencies, common issues were weak implementation capacity that was insufficiently recognized or addressed in design, and low ownership by government and counterpart agencies. The existence of weaknesses in the quality of supervision can also be noted from the risk analysis that finds that project risk ratings are seldom adjusted during project implementation, and from the fact that the rating disconnect between ICRs and ICR reviews is too high and has not declined.

A particular issue to be addressed is how to raise the quality of M&E and results frameworks in investment projects. Results frameworks are one aspect of a comprehensive M&E system. They need to be realistic and coherent. M&E is crucial for drawing conclusions on whether projects are reaching their objectives and are likely to deliver development results. It is more difficult to measure performance against results or provide evidence of project achievements when databases and institutional arrangements for collecting, monitoring, and reporting data are deficient, indicators are not well chosen or focused, and little attention is paid to using indicators for course correction.

Motivated by the declining investment lending (IL) ratings, management has initiated an important program for portfolio oversight. The declining trend in IL outcome ratings represents an important issue for the Bank. In response, a Bank-wide working group was established in January 2012 with the mandate to develop measures to improve the quality of Bank-financed operations. The December 2012 paper, also benefiting from an IAD audit, set out measures endorsed by Bank management. The paper focused on IL operations since DPOs had demonstrated a consistent strong performance over the years, but the resulting measures address the entire portfolio.

Overall, the paper presented a detailed and useful analysis, concluding that “the quality of the portfolio continues to be deficient and without additional action on several fronts, the problem of quality will persist.” Management set out measures to address this problem in three areas:

- Clarified and harmonized management attention and accountability to strengthen the core decision-making process for investment lending in the Regions. To supplement the consolidation and clarification of

the IL operation and Bank policies (OP/BP) and processing steps, quality processes and practices would be clarified and harmonized across regions.

- Improved technical support to teams for them to receive timely and relevant technical support through both improved peer review systems and better access to relevant and up-to-date sector knowledge. The network anchors would be accountable for developing stronger peer review processes and making sector knowledge easily retrievable. This step is in abeyance pending the reforms toward global practices.
- Better reporting to senior management. There will be two avenues to report to senior management and provide timely feedback to staff: a Quarterly Quality Monitoring Report to present trends and early warning indicators for discussion during regular meetings of the managing director and regional vice president as well as timely follow-up; and an Annual Portfolio Quality Review, including the outcomes of a desk review for a sample of projects, focused on selected quality-related topics. Several quarterly reports have been circulated, and the first annual report is under preparation.

The management program is well thought out, within some limits. The program does not address possible issues of resource allocation or incentives. It seeks to ensure management attention to portfolio quality issues and is providing substantial updated information in that regard, except that there is not yet a clear way for the Bank to assess realistically quality at entry around the time of entry. Such a mechanism would be important since self-assessments are likely to be uniformly optimistic at that stage, and early corrective actions will often be easier and have greater potential effect than later during implementation. Management decided to put its measures in place in a sequenced way over about a year, beginning early in FY13. IEG understands that early implementation steps have been firm and that the information provided in the quarterly reports has been used actively by senior management. However, some aspects of the implementation program – those pertaining to the role of the networks – have been delayed due to the ongoing organizational reforms.

Monitoring and Evaluation in IFC and MIGA

IFC and MIGA are adapting their M&E systems. As the World Bank Group undergoes rapid change to adapt to new circumstances and increase its

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effectiveness, it also aims to sharpen its focus on impacts and results by incorporating citizens' engagement in its work and strengthening results frameworks and monitoring tools that are aligned with strategy and work across the Bank Group. Thus, IFC is considering changes in its monitoring system. But details of the planned changes and the relevance and usefulness of indicators have yet to emerge. MIGA has mainstreamed a self-evaluation system, which has been effective in fostering staff learning about development effectiveness, and has started to gather standard development indicators on its projects (IEG 2013c).

IFC's project level monitoring system for investments has substantial room for improvement. The Development Outcome Tracking System aims to record the development expectations and results of all investments throughout the project cycle. It is a tool for IFC's corporate decision making and the backbone of its annual reporting on development results. It also allows the annual aggregation of various "reach" indicators, such as the number of customers reached and people employed by client companies, and their comparison across regions and industries. However, the system has had weaknesses in terms of systematic data verification and the attribution of such results to IFC's support.

In adapting its results framework, IFC could build and improve on the existing one. In particular, change is needed to align it with the Bank Group's two goals: to assess performance across the Bank Group, and to monitor and evaluate complex projects and joint Bank Group projects. In considering these challenges, the evolving framework needs to take into account the requirements of all IFC stakeholders and be consistent with IFC's development mandate. Finally, the monitoring system would need to be aligned with and connect to the evolving Bank Group results framework, and better capture IFC's contributions to desired development outcomes.

IFC's project self-evaluation system for investments provides key information on the results of investments and its work quality. The self-evaluations of its investments, the Expanded Project Supervision Reports (XPSRs), offer detailed assessments of project performance across dimensions related to development impact, profitability, and IFC's work quality and additionality. IEG independently reviews and validates all XPSRs. In aggregation, they form the building blocks for higher-level evaluations of IFC's operations and subportfolios, and for deriving lessons applicable to future operations. Conducting XPSRs also provides learning opportunities for the IFC staff involved.

The quality of IFC's self-evaluations for investment projects has traditionally been high but has deteriorated significantly over the past two years. The disconnect

between XPSR self-ratings and IEG's independent ratings has increased, the learning potential is not fully utilized, and lessons may not be adequately considered in project approval documents after recent format changes. In addition, despite some improvements, the quality of project completion reports for IFC Advisory Services (AS) continues to fall short—in particular with respect to the attribution of results and the provision of sufficient evidence to support the ratings. In this regard, IFC and IEG are in the process of revising guidelines for project completion reports with a view of strengthening the self-evaluation of AS.

MIGA's development data gathering is constrained by its business model. This is based on an arms-length relationship with the project companies where access to project information is not automatic. Nevertheless, new activities indicate a more active role in measuring development results. In 2011 MIGA adopted a monitoring strategy for tracking compliance with MIGA's environmental and social performance standards. In the same year, MIGA also introduced its Development Effectiveness Indicator System to collect sector-specific indicators and six standard development impacts indicators for each project, but IEG has not yet evaluated the effectiveness of the system since it is still in its early stages.

In 2010, MIGA began self-evaluations with an emphasis on learning. This program has been useful, giving staff a better understanding of projects' development impacts and knowledge of MIGA's policies and procedures. However, there is still scope to improve the design of the self-evaluation system in order to increase knowledge about results and derive lessons. In addition, the program's coverage is not sufficient to assess accurately MIGA's overall performance, and IEG has recommended that MIGA scale up the coverage of its evaluated projects.

Institutional Effectiveness of Using Knowledge Products

IEG's knowledge evaluation found that World Bank country programs have shifted toward more intensive delivery of knowledge services, accompanied by a growth in the budgetary resources allocated for these services (IEG 2013c). This shift is associated with higher-income levels in client countries. As a number of emerging market economies rely less on World Bank financing, opportunities have declined for knowledge transfers to clients through lending.

The findings of the 2013 evaluation adhere well with the earlier IEG knowledge evaluation (IEG 2008). It found that the majority of economic and sector work (ESW) and TA projects met their objectives at least to an average extent; the technical quality of ESW and TA influenced their effectiveness; close collaboration with clients

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was important; sustained follow-up, not just dissemination, after completion was important for effectiveness; and the presence of relevant ESW was statistically associated with better loan design. It also noted that ESW products of higher quality cost more. The importance of the Bank's knowledge products was reinforced in the recent IEG FCS evaluation, which found that Bank support for FCS AAA has increased substantially, with huge increases in TA spending to build institutional capacity within FCS, which may also have contributed to improved project outcomes (IEG 2014).

Bank knowledge services have so far not been monitored and evaluated with any consistency. This was pointed out in IEG's 2013 knowledge evaluation. Bank management has begun to address this gap in its M&E framework and is putting in place a new framework with processing steps and guidelines to support the monitoring and quality control of knowledge services. The self-assessment process, which has existed on paper but in the past proved to be a weak instrument, has been strengthened with more management oversight, and a client feedback instrument is now in operation. The next step is for the Bank to draw lessons from these steps to inform the automation of the process of monitoring and quality control of knowledge services. The Bank also plans to put in place an approach for the ex-post self-assessments of knowledge work, and is working with IEG to develop a framework for the evaluation of knowledge work that would cover the full group of knowledge products, particularly ESW and TA.

Institutional Effectiveness of Partnership Programs and Trust Funds

The new Bank Group strategy is clear that deepening partnership across the development spectrum is a key ingredient in ending extreme poverty and promoting shared prosperity in a sustainable manner. This is true for global and regional challenges such as sustaining global commons, managing international waters, and mitigating the spread of communicable diseases that no single agency or country can address alone. To this end, the Bank Group has recently launched the latest phase of its trust fund reform and developed the Management Framework for World Bank Partnership Programs and Financial Intermediary Funds (World Bank 2013b) in direct response to two IEG evaluations – one on global partnerships and one on trust funds (IEG 2011a,b).

Since completing these two evaluations, IEG has reviewed seven more Global and Regional Partnership Programs (GRPPs), with a particular focus on their linkages to the Bank's country operations,² and two trust-funded programs in the context of its

evaluation of *World Bank Group Assistance to Low-Income Fragile and Conflict-Affected States* (IEG 2014).³

The Bank has also presented a new management framework for partnership programs. IEG generally agrees with many aspects of this framework that was presented to the Bank's Board on July 9, 2013, including combining the partnership programs and Financial Intermediary Funds (FIFs) management frameworks into one framework document; turning the framework into a management directive with required procedures and corresponding guidelines to facilitate implementation; adopting a principles-based approach to selectivity; and in most cases, submitting Bank involvement in a new partnership program supported by a FIF to executive directors for approval.

However, this framework is only "the first phase of a longer-term work program to support stronger Bank engagement in partnership programs and FIFs" (World Bank 2013). Many details are still to be worked out during the implementation phase, which will determine the effectiveness and the impact of the new approach. Management has identified among its future directions the need for selectivity and strategic alignment with the new World Bank Group strategy, and has proposed a more structured and disciplined approach to the mobilization and deployment of trust funds, combined with an increased focus on results.

The Bank needs to improve its systems for tracking partnership programs and trust funds. The Bank's strategic engagement, oversight, and management of partnership programs and trust funds still suffer from a lack of clear, workable definitions, and an accurate, searchable database of such programs. IEG identified 117 GRPPs with shared governance in its 2011 evaluation, of which 71 had been or were being supported by the Development Grant Facility and 70 were being supported by Bank-administered trust funds (IEG 2011b). Bank management identified 186 partnership programs of global or regional scope, based on a survey of task team leaders at the end of FY11, which included more than 60 multi- and single-donor trust funded programs without shared governance, but missed more than 20 programs on IEG's list (World Bank 2012b). Bank management has since put together a searchable database of trust-funded programs, including partnership programs and single-recipient-country trust funds, which currently lists 225 active programs and still omits some programs on IEG's list. Bank management will need to sort out which of the requirements and procedures in the new management framework will apply to which programs, since these cannot logically apply equally to all programs.

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Bank management has embraced the three-pillar approach to IBRD and IDA trust funds that IEG recommended in its evaluation (IEG 2011a). This consists of country-specific trust funds, GRPPs, and umbrella facilities. Bank management has recently reached a consensus with trust fund donors on a set of organizing principles for umbrella trust fund facilities and established four pilot umbrella facilities.⁴

Trust funds are important resources for the Bank. Bank-executed trust funds represent 22 percent of net administrative spending and reimbursables, and recipient-executed trust funds represent 10 percent of loan and grant disbursements. However, the Bank's information systems do not readily reveal how much of these trust fund disbursements are associated with GRPPs or with FCS (where trust funds are key).

GRPPs and trust-funded programs are highly relevant but with design weaknesses. Both of IEG's 2011 evaluations found that the objectives of GRPPs and trust-funded programs are highly relevant in terms of collectively addressing important global and regional issues, but many programs had design weaknesses, and few of them had well-articulated results frameworks (IEG 2011a,b). The sustainability of a number of programs and the benefits they fostered was threatened by weak resource mobilization strategies, failure to keep up with the changing global and regional contexts, and difficulties in demonstrating results at the outcome level. Few programs had a well-articulated theory of change indicating how their strategies and priority activities were expected to lead to the achievement of their objectives.

Programs often have weak monitoring and evaluation. Good results frameworks are central to the design of partnership programs. However, results frameworks are only one aspect of a comprehensive M&E system. Other aspects include clear and coherent objectives and strategies; measurable indicators that meet the monitoring and reporting needs of program governance and management; systematic and regular processes for collecting and managing data; and feedback loops from M&E to decision making. IEG has found that few programs have established an effective M&E system until after their first independent evaluation (four to five years after start-up), comprising their ability to produce good evaluations and jeopardizing the programs' credibility with donors.

Policies for GRPP evaluations need to be operationalized. The Bank has been a leader in promoting periodic evaluations of GRPPs, and Bank policies require such evaluations for programs supported by the Development Grant Facility (BP8.45) or Bank-administered trust funds (BP14.40). However, there are still no Bank-wide standards for conducting independent evaluations of GRPPs, among other things to ensure their independence, or to ensure that the evaluations are publicly disclosed

on the programs' websites along with a formal management response. Only 14 of the 22 evaluations that IEG has reviewed in-depth (in IEG's global program reviews) were effectively independent at all stages of the evaluation process. Only about 35 of the 90 programs that have had evaluations have posted these on their websites, and only 15 have posted a formal management response to the evaluations. Task team leaders are not generally forwarding completed evaluations either to IEG or the Concessional Finance and Partnerships Vice-Presidency. Procedures also need to be put in place for the growing number of multi-donor trust funds (MDTFs) that are supporting Bank-implemented programs that do not have a governing body to commission evaluations.

IEG evaluations consistently find that GRPPs show at best variable linkages to country programs. A consistent theme in the World Bank's strategic documents since 2001 has been the desirability of effective linkages between partnership programs and the Bank's own country programs. But the Bank has not yet specified what kinds of linkages it expects for different kinds of partnership programs, although it has presented proposals for trust fund and partnership program reforms that also aim at better facilitating such linkages. Therefore, IEG's last four global program reviews have focused on this issue, and IEG has developed a framework for assessing the effectiveness of different types of linkages – strategic, operational, financial, and institutional – between partnership programs and the Bank's country programs (Box 4.4).

Box 4.4. A Framework for Linkages between Partnership Programs and Bank Country Programs

Strategic linkages refer to the degree of harmonization and alignment of strategies and policies between the partnership programs and the Bank. These would normally not be 100 percent aligned since partnership programs are expected to be incubators of innovative approaches to development which, if deemed successful, may be mainstreamed into the Bank's regular programs.

Financial linkages refer to the partnership program financing of Bank-implemented activities in client countries and vice versa.

Operational linkages refer to partnership program and Bank staff working together at the operational level to achieve mutual objectives. While most partnership programs have financial linkages with the Bank, not all programs (particularly knowledge networks located outside the Bank) are designed to have operational linkages with the Bank's country programs.

Institutional linkages are arrangements of a nonoperational character between the partnership program and the Bank, such as Bank representation on the partnership's governing body, that also contribute to the achievement of mutually shared objectives.

MDTFs have grown in importance as a modality of support for FCS and are essential in the funding of critical recovery activities. IEG's recent evaluation of *World Bank Group Assistance to Low-Income Fragile and Conflict-Affected States* found that MDTFs work best when they are central to the Bank's country strategy and are linked to the Bank's portfolio (IEG 2014). MDTFs have played a complementary role in the Bank's portfolio, and in Afghanistan and Liberia have successfully established links between IDA allocations and trust funds. In Liberia, IDA funds were used to design and prepare initial project proposals while the trust fund was being set up. In Afghanistan, IDA funds were used to pilot programs, which the trust fund helped to scale up. In Timor-Leste trust funds were used to prepare for a longer-term IDA program.

A structure with clear governance protocols and demarcated responsibilities has been central to successful MDTF arrangements. Where the decision-making process was straightforward and coordinated by a limited-sized management committee, projects were complementary to MDTF goals, relevant, and better prepared. Where the trust funds worked with multiple reporting lines, various committees, and constant requests from donors, progress was slower.

But MDTF implementation delays can cause frustration and affect the Bank's reputation. In many cases, such issues have resulted from unrealistic expectations about what can be delivered and the speed with which structures and systems can be built. This was particularly apparent in South Sudan where the broad mandate and unrealistic requests stifled the long-term success of MDTF projects. The Bank was criticized for overpromising and under-delivering, and Bank procedures were identified as a factor causing the delays. The Bank needs to be more explicit about the time it takes to become operational, and donors need to be more realistic in their expectations of results and impact.

Coordination and Collaboration across the World Bank Group

The Bank Group's new strategy emphasizes the need to operate as One World Bank Group in partnership with the public and private sectors. The strategy's vision – "economic growth that creates good jobs requires action to strengthen both the private and public sectors" – provides the rationale for increased coordination and collaboration of Bank Group entities (World Bank Group 2014). Scaled-up collaboration is expected to increase synergies, eliminate overlaps, and facilitate messaging with respect to the appropriate mix of private and public provision of services. Nonetheless, the strategy recognizes that realizing the full potential of the One World Bank Group will take time and require concerted efforts. In parallel to

the new strategy, the Bank Group has begun initiatives intended to support closer collaboration such as a reorganization into Global Practices and Cross-Cutting Solution Areas and the introduction of a systematic country diagnostic and country partnership frameworks.

Currently, despite joint sector and country strategies, delivery of Bank, IFC, and MIGA programs is largely separate. Over the past decade and a half, the Bank Group has increasingly used joint or integrated strategies at the sector and country levels that involved IBRD and IDA, IFC, and to a lesser degree MIGA. As the Bank Group strategy notes, in spite of these efforts, collaboration at the project and program level has remained low. The strategy document notes that out of 400 IFC investments annually, about 20 are joint, or about 1 percent of Bank lending. The share of AS projects that are implemented jointly with the Bank is higher, at 15–20 percent.

Previous IEG work points to three main conclusions about Bank Group cooperation. First, effective cooperation can translate into improved results, especially in areas where synergies between policies and transactions are strong. Second, lack of cooperation can reduce the benefits to clients, and duplication can add to operating costs. Third, cooperation is not always worthwhile, as costs may outweigh benefits. IEG noted that the incentives framework has not rewarded staff for achieving Bank Group outcomes, and it has identified possible institutional biases against cooperation or coordination (IEG 2010).

A major factor is that the country assistance strategy process is not the key determinant of IFC and MIGA engagement in countries. Although IFC and MIGA have increasingly contributed to formulating CASs, the country strategy process is not well adapted to MIGA's and IFC's business models because their engagements are largely driven by the existence of capable and interested project sponsors. Even so, the experience in a few instances where strategic collaboration across Bank Group institutions has taken place, suggests that synergies can benefit project outcomes (IEG 2014). More recently, the Bank Group has piloted the use of joint business plans, which appear to be a useful mechanism to foster more collaborative approaches.

In addition, little systematic information is available on sequential collaboration, which is when different projects with a shared objective occur in sequence, such as Bank support for sector reform, and IFC or MIGA support for private operators. Although such collaboration likely occurs through consultations among task teams, and even across institutions, it is not well documented, and in many cases consists of

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informal exchanges. Some examples of such collaboration, or lack thereof, have been documented in recent IEG evaluations and are highlighted in this chapter.

There are also limits to comparability of results across the three institutions, given their different business models, focus of activities and results frameworks. IFC and MIGA projects are evaluated using private sector relevant metrics such as for financial or economic sustainability. The Bank works almost exclusively with governments, and its projects are evaluated using an objectives-based approach. The ongoing work on a Bank Group results framework will need to retain sufficient granularity to reflect the operational differences, while at the same time enhancing the capturing of results at the Bank Group level and for joint operations.

Good examples of the potential for complementarity of World Bank, IFC, and MIGA activities can be found in country and sector contexts. In Afghanistan the Bank played a significant and influential role in the information and communications technology sector in assisting the government to restructure and liberalize the sector and make it attractive for private investment. An IFC investment and MIGA guarantees supported the entry and expansion of a third cellular operator to increase competition and expand coverage from 50 percent to 80 percent of the population. In microfinance, the Bank focused on the Microfinance Investment Support Facility for Afghanistan, an apex institution to increase and improve the sustainability of microfinance funding. IFC investment and technical assistance supported the establishment of a new microfinance bank, which provided an additional mechanism for mobilizing funds and delivering microfinance services (IEG 2012b, 2014). Collaborative approaches at the project level have been implemented more recently in the power sector, such as in Côte d'Ivoire, where the Bank and IMF are addressing issues financial sustainability issues related to the power sector that paved way to IFC and MIGA-supported private investments in power.

On the other hand, the lack of a strategic framework and of synergies across Bank Group institutions hampered the effectiveness of support for private sector development, growth, and employment in FCS. The FCS evaluation concluded that the Bank Group lacks a strategic and effective framework. The support for long-term employment has focused on investment climate reforms, which are necessary but not sufficient for private sector development. Synergies across the Bank Group were lacking to address holistically private sector constraints, and fragmented interventions reduced the potential effect on long-term employment generation.

IEG's transport evaluation found that the World Bank Group has leveraged the complementary roles of the three institutions in sustaining transport to some extent,

but more can be done (IEG 2013d). The Bank's efforts in creating an enabling environment to sustain private sector participation through the Public-Private Infrastructure Advisory Facility and other AAA and lending activities have a complementary character to IFC's investments, including the policy and regulatory frameworks conducive for private sector participation. At the project level, coordination was found between IFC AS and the Bank. In a few cases, IFC's due diligence for investments built on Bank expertise. Beyond these cases, however, little evidence was found that IFC liaised at the project level with the Bank on a regular basis.

Coordination of Bank knowledge services and IFC AS has improved more at the strategy than the implementation levels. IEG's recent evaluation of knowledge based country programs found that these knowledge activities generally complemented one another in contributing to results, despite some gaps. In a few cases there were well-defined programs of joint World Bank and IFC knowledge activities, which helped achieve results (IEG 2013e).

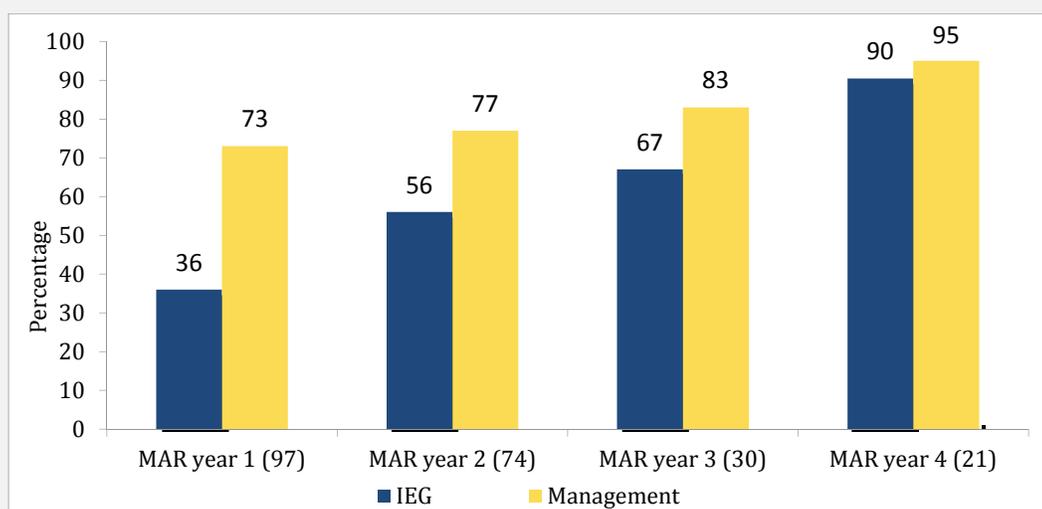
Overall, the experience with coordination between World Bank and IFC has been mixed. In spite of some encouraging examples, synergies among and within Bank Group institutions do not seem to be exploited systematically. A key factor supporting the synergies of the institutions in achieving results can be the quality of the results framework in the country partnership strategy. In some cases, the articulation of strategic outcomes and clarity of links between the Bank Group's programs, projects, and instruments with expected outcomes reinforced joint work. Another factor was in some cases the existence of core ESW – such as investment climate assessments and financial sector assessments – which underpinned the strategy and helped identify priorities for improving the investment climate and developing the financial sector.

Adoption and Implementation of Evaluation Recommendations

The Management Action Record is a tool for the Bank Group's accountability and learning. Evaluations prepared by IEG contain recommendations to Bank Group management intended to "help improve the development effectiveness of the Bank Group's programs and activities, and their responsiveness to member countries' needs and concerns."⁵ Bank Group institutions have taken significant strides to strengthen the systems and processes for focusing on results while improving the Bank Group's development effectiveness. Learning from best practices and knowledge gained from evaluations can help the Bank Group achieve this goal. To this end, the MAR tracks the adoption of IEG's recommendations.⁶

MAR reform introduces one common system across the Bank Group. IEG and Bank Group management continue to strengthen the MAR process by bringing clarity on expectations of what constitutes adoption and including actions and timelines for the implementation of each recommendation. As part of these improvements, they together led the effort to develop a user-friendly system for tracking the MAR recommendations for consistency across three institutions (i.e., World Bank, IFC, and MIGA). This tool was launched in April 2013 and was utilized in FY14 during the annual MAR exercise (Figure 4.2).

Figure 4.2. Bank Group Adoption of Management Action Record Recommendations (FY09–13)



IEG has been tracking management’s actions in response to its recommendations since the late 1990s in the case of the Bank, since 2003 for MIGA, and since 2004 for IFC. Between FY09 and FY13, IEG completed 23 evaluations with 97 recommendations that were tracked in the MAR, covering all three entities.

Adoption of IEG recommendations increases over time and by the fourth year, 90 percent are substantially adopted. The latest MAR, which covers 23 evaluations completed between FY09 and FY13, shows that adoption of IEG recommendations increases over time. On average, across a four year implementation period, 62 percent of all recommendations were substantially adopted.⁷ IEG rated over 35 percent of the recommendations as substantially adopted after one year and considered 90 percent substantially adopted by the fourth year. Bank Group managements’ self-assessment by the fourth year is 95 percent. This disconnect between IEG and Bank Group management decreases over time from about 29 percentage points in the first two years to about 5 percentage points in year four. The differences in the first two years often reflect disagreement on what constitutes adoption of a recommendation. This is being addressed through the MAR reform.

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CHAPTER 4

INSTITUTIONAL EFFECTIVENESS

¹ The ongoing Bank Group reform process seeks to address some of these identified issues, perhaps most prominently the tendency for silo structures.

² Global Fund to Fight AIDS, Tuberculosis, and Malaria; the Global Environment Facility; the Global Facility for Disaster Reduction and Recovery; the Forest Carbon Partnership Facility; and three statistical capacity building programs – the Marrakech Action Plan for Statistics, Partnership in Statistics for Development in the 21st Century, and Trust Fund for Statistical Capacity Building.

³ The Statebuilding and Peacebuilding Fund and the Transitional Demobilization and Reintegration Program.

⁴ The Umbrella Facility for Gender Equality, Multi-Donor Umbrella Facility for Capacity Development, the Umbrella Facility for Trade and Development, and the Systems Approach for Better Education Results Umbrella Facility.

⁵ From the mandate for the director general of the Independent Evaluation Group (IEG).

⁶ IEG does not track the recommendations of country evaluations in the Management Action Record (MAR); their adoption is reflected in the subsequent country assistance strategy.

⁷ Management has disagreed with IEG on nine recommendations that are currently tracked in the MAR.

5. Conclusions and Areas for Attention

Developing countries have made impressive gains on growth and poverty reduction since the start of the new millennium and weathered major crises in food, fuel, and financial markets. But the way ahead is filled with risks and uncertainties – both for them and for their development partners. In adapting to this changing environment, the World Bank Group has adopted a new strategy geared toward eliminating absolute poverty around the world and promoting shared prosperity, focused on helping the countries in the most fragile situations. In implementing this strategy, the Bank Group will need to draw on the lessons learned from all sources, including evaluation. Against this background, this chapter sets out the most relevant conclusions and areas for attention identified in the 2013 Results and Performance (RAP) report, with a view to highlighting the areas where Bank Group performance might be improved as an input into the pursuit of the new strategy.

Client Focus and Country Ownership Remain Key

The lessons from evaluations suggest that as management revamps the Bank Group's country assistance strategy framework, emphasis should be placed on ramping up country ownership of Bank strategies – as well as their strategic selectivity and realism – and the quality of their underlying results frameworks. Country program performance has been deteriorating for some time, reflecting declining Bank portfolio performance, the effects of the food, fuel, and financial crises and weaknesses in country assistance strategy (CAS) results frameworks. Positive examples, such as Turkey and Brazil, demonstrate the importance of adaptability to changing country conditions. The deterioration in country program outcomes has been the most marked in International Development Association (IDA)-eligible countries, while fragile and conflict-affected states (FCS) have benefited from special attention from management and supplemental resources that more than compensated for their extra riskiness – and they have also on average had better results frameworks than for other IDA countries. Going forward, this suggests the need for redoubled attention to a broader set of IDA-eligible countries, applying the lessons learned from the successful application of more intensive support to FCS.

In implementing these refinements, there is a clear need to deepen and broaden collaboration across and within World Bank Group institutions. There are frequent examples of the benefits of combining Bank instruments, such as knowledge activities supported by lending. Despite joint sector and country strategies, program delivery across the Bank Group is largely separate, whereas the new strategy

emphasizes the need to operate as one group spanning the public and private sectors. At the institutional level, coordination has improved, but collaboration on projects and programs – and country strategies – remains low, and potential synergies are not systematically exploited. One reason has been that the CAS is essentially a World Bank document geared to engagement with client governments, with little practical relevance to the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA) engagements with clients, although it has become more of an intersection point for the activities of the respective institutions.

Underpinned by Renewed Excellence in Product and Service Delivery

Improved results frameworks and Bank Group coordination will do little to improve country program outcomes if the underlying product quality remains weak – hence the critical importance of improving the quality of preparation and supervision throughout the institution. For the Bank, the investment lending portfolio performance has continued to decline in recent years, even as development policy outcomes have improved. The latter was driven by sharply rising borrower performance, as International Bank for Reconstruction and Development (IBRD) middle-income countries returned to the Bank during the crisis to borrow in record numbers. Several factors contributed to the deterioration of investment lending performance, including some that are largely under the Bank’s control. Most prominent here is the quality of appraisal and supervision, both of which have been declining in the face of a proliferation of accountability-diluting approval processes and review steps. Lack of realism is a frequent issue, and there are persistent cross-cutting weaknesses in monitoring and evaluation (M&E) including results frameworks that require attention – for country programs, investment projects, knowledge activities, and global and regional programs. Going forward, the need is for a back-to-basic approach that emphasizes quality assurance and accountability within the Bank, while bringing to IDA borrowers the kinds of resources and management attention that FCS portfolios have received in recent years with apparent success.

Development outcome ratings for IFC investments have also declined, albeit from historically high levels, just meeting IFC’s target for development outcomes. The decline reflects low performance of investments in IDA-eligible countries and a decline in outcome ratings for infrastructure cluster projects, both reflecting shortcomings in IFC’s work quality and higher risks associated with weak project sponsors. As with the Bank, the priority is to restore accountability for quality and

outcomes. IFC and MIGA also need to build on their M&E systems and ensure incentives for their use in managing quality by staff and managers.

IFC needs to address the implications of the trend in its long term finance products and a shift in its product mix toward wholesaling and short-term instruments. IFC's growth has been almost entirely driven by short term finance instruments, mainly trade finance guarantees, as traditional long term investments have leveled off since the beginning of the financial crisis in 2008. Its portfolio is increasingly concentrated in financial markets, providing support mainly by "wholesaling" through intermediaries, with attendant difficulties to assess IFC's impact on beneficiaries and its additionality. On the other hand, its direct support to real sector or infrastructure projects through long-term finance has been flat since FY08. To fully align with the new strategic priorities of the Bank Group, IFC needs to review the reasons for the stagnation of its long term finance commitments, and assess the appropriateness of the high concentration in the financial sector. With respect to its short-term portfolio, IFC should carefully monitor its additionality in lower-risk markets where it has been growing fastest, and assess its developmental contribution on a programmatic basis.

MIGA's recent portfolio growth and shift toward more complex projects and higher-risk markets require careful monitoring. MIGA guarantees have also grown to historically high levels, mainly driven by a new type of coverage against the risk of non-honoring of sovereign financial obligations. This poses challenges for MIGA's business model in assessing and monitoring obligor creditworthiness. Also, while the new coverage has helped MIGA diversify its portfolio into infrastructure and higher-risk markets, these areas have performed somewhat below average in the past, pointing to a need for attention to sound underwriting, assessment, and monitoring.

Attention to Informed Risk Management and Incentives

Effective risk management is central to the success of Bank Group development efforts. The Bank, IFC, and MIGA all need to enhance their knowledge of and focus on the relationship between their risk levels and their development results, strengthening their existing risk management tools and using them during implementation. The Bank Group's risk management architecture operates effectively across a range of financial and reputational risks, and risk failure appears to be relatively minor and contained. However, analysis carried out for this report has found that the Bank Group's risk and reward trade-offs are more complex than might be expected. In addition, weaknesses in operational outcomes suggest

growing risks at both the entity and project levels that need to be better managed—with the declining performance of investment projects suggesting that the risk of failure to deliver development results may be increasing. Perhaps more worrying, evidence from Bank’s Implementation Status and Results Reports suggests that risk management during implementation is weak—supporting the hypothesis that the problems in Bank Group quality are not due to the absence of risk management systems but rather to the lack of accountability and incentives for using them. For IFC, key risks include work quality, given its criticality to development effectiveness. For MIGA, the key risk remains the unknowns surrounding its new non-honoring of financial obligations instrument.

Adequate Financial Resources

Strong donor coordination around IDA and a strengthened IBRD financial structure are essential. In FY13, for the first time ever, IDA commitments exceeded IBRD commitments, which have returned to pre-crisis levels. To be sure, the new IDA and IBRD ranking is consistent with the Bank Group’s mandate and new strategy, sending a clear signal about the shift in focus. But lower revenues from IBRD lending could have adverse implications for the Bank Group’s revenues and business model. More important, the Bank Group’s success in rapidly scaling up IBRD lending in responding to the global economic crisis has reduced the IBRD’s equity-to-loan ratio and ability to take on riskier assets. A visible strength of Bank Group has long been based on IBRD’s robust capital position, shareholder support, and prudent financial policies and practices. The headroom situation is now stabilizing, as new IBRD lending commitments have been declining since FY10. But it warrants continuing attention with a view to preparedness for any future crisis situations and any scaling up of lending in higher-risk environments.