2. Recent Results and Performance of World Bank Group Operations

Highlights

- The performance of World Bank projects completed during FY12–14, measured by commitment, already exceeded FY17 corporate targets; measured by number, overall project performance holds steady, but below the FY17 corporate target
- International Finance Corporation (IFC) Advisory Services and Multilateral Investment Guarantee (MIGA) guarantee projects continue to perform in line with previous years, but the downward trend for IFC investment projects, reported since 2013, continues
- Initial commitment size is not a key element of success for World Bank projects, but the change in commitments during a project (such as cancellation or additional financing) significantly correlated with project outcome rating
- Quality at entry and supervision continue to be the key factors explaining project outcomes
- Size matters for IFC real sector projects, but not to the same extent as other risk factors (for example, management quality, market conditions, investment climate, and work quality).

World Bank Group commitments rise after the post–financial crisis decline

World Bank Group commitments rose for two consecutive years and reached $60 billion in FY15 (Figure 2.1).[1]

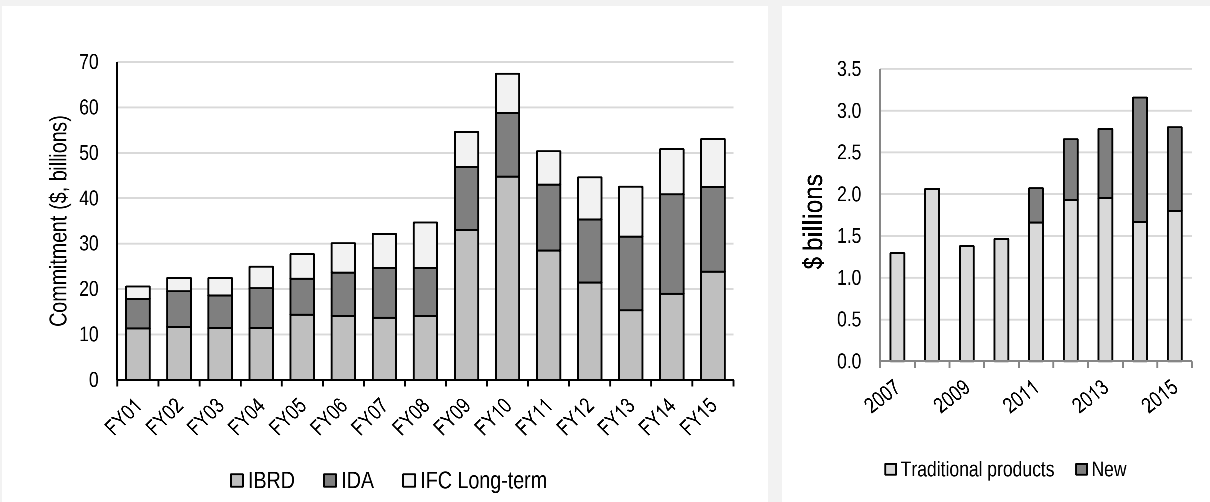
International Bank for Reconstruction and Development (IBRD) lending increased from $19 billion in FY14 to $24 billion in FY15, while International Development Association (IDA) commitments fell from an all-time high of $22 billion in FY14 to $19 billion in FY15. Investment project financing (IPF) increased from $28.6 billion in FY14 to $30.5 billion in FY15. During the same period, commitments for development policy financing (DPF) declined from $10.5 billion to $9.2 billion, and commitments for the relatively new Program for Results instrument introduced in FY12 continued a steady increase from $1.7 billion in FY14 and to $2.2 billion in FY15.[2]

In FY15 the World Bank Group organized its Global Practices (GPs) into three clusters. Commitments were greatest for the Sustainable Development cluster at $22 billion (52 percent of total commitments), followed by the Economic Growth, Finance, and Institutions cluster at $11 billion, and the Human Development cluster at $9.3 billion.

The Bank provides advisory services and analytics support to clients as freestanding services or as a complement to lending programs. In FY14 the Bank delivered 981 advisory services and analytics products amounting to $248 million.

Figure 2.1. Overall World Bank Group Commitments Continue to Increase

A. BANK AND IFC COMMITMENTS ($, BILLION) B. MIGA GUARANTEES ($,BILLION)



Source: World Bank Business Intelligence; IFC and MIGA databases.
Note: Commitments for IFC exclude mobilization. In FY15 IFC began reporting average outstanding short-term commitments (not total commitments) and no longer aggregates short-term commitments with long-term commitments.

IFC long-term commitments ($10.5 billion) were up about 6 percent over the previous year. The largest increase was in the Financial Institutions Group (about 45 percent of total commitments), which increased most in the East Asia and Pacific Region, where IFC supported a large Indonesian Bank to help it better serve microenterprises. Commitments fell sharply in the Europe and Central Asia Region, where ongoing regional tensions and economic contraction affected business volumes. IFC long-term commitments and net income fell sharply in FY16 first-quarter commitments compared with the same quarter in FY15.[3] IFC's report attributes changes in net income and portfolio performance partly to "a number of factors," including volatile equity markets, currency depreciation, lower commodity prices, and some adverse project-specific developments. This report highlights other factors that affected performance, including a continued downward trend in IFC work quality.

IFC, in addition to commitments for its own account, mobilizes funds from other institutions. IFC's core mobilization increased in FY15 by about $2 billion to $7.1 billion, driven mostly by syndicated loans. Asset Management Company (IFC's fund management business) share of core mobilization remained modest at 11 percent. IEG has not independently evaluated Asset Management Company's operations; IFC's average outstanding balance of short-term finance declined over the same period.[4] IFC restructured its Advisory Services operations in FY14. IFC expenditure on advisory work in FY15 decreased 15 percent (to $202 million) compared with a year earlier, and the number of active advisory projects fell from 719 to 600. The proportion of all IFC advisory work undertaken in IDA and fragile or conflict-affected states (65 percent) remained unchanged.

MIGA issued 40 guarantees for $2.8 billion in FY15 compared with 24 guarantees for $3.2 billion in FY14, when MIGA supported two large guarantees of $500 million and more. Guarantees in FY15 included six for non-honoring of financial obligations[5] that, in addition to financial sector projects, supported transportation projects, which helped MIGA diversify its business that was dominated by banking and financial services projects before FY10.

World Bank project performance stabilizes

After a declining trend, the overall performance of World Bank projects with project outcomes rated as moderately satisfactory and above (MS+) stabilized at 70 percent, but was below the corporate target of 75 percent by FY17 (based on 93 percent of IEG's FY14 validation).[6] However, when weighting the percentage of MS+ projects by net commitment,[7] Bank projects' performance exceeded the FY17 corporate target of 80 percent, with a success rate of 81 percent for the period FY12–14.[8]

Performance of IPF projects—the largest instrument type in number and commitment—mirrored overall World Bank performance during FY12–14 at 69 percent. About 78 percent of DPF projects had MS+ outcome ratings (Figure 2.2). It is notable that policy-based loans are inherently different from investment lending projects,[9] and comparing the two is not necessarily meaningful. Furthermore, it is inappropriate to compare rating achievements across instruments because of differences in assessment methodologies.[10] DPF performance, measured by the percentage of projects rated MS+, improved during FY09–15 (Box 2.1);[11] however, when weighted by net commitment, there is a slight decline caused by some large operations rated moderately unsatisfactory or below (MS–).

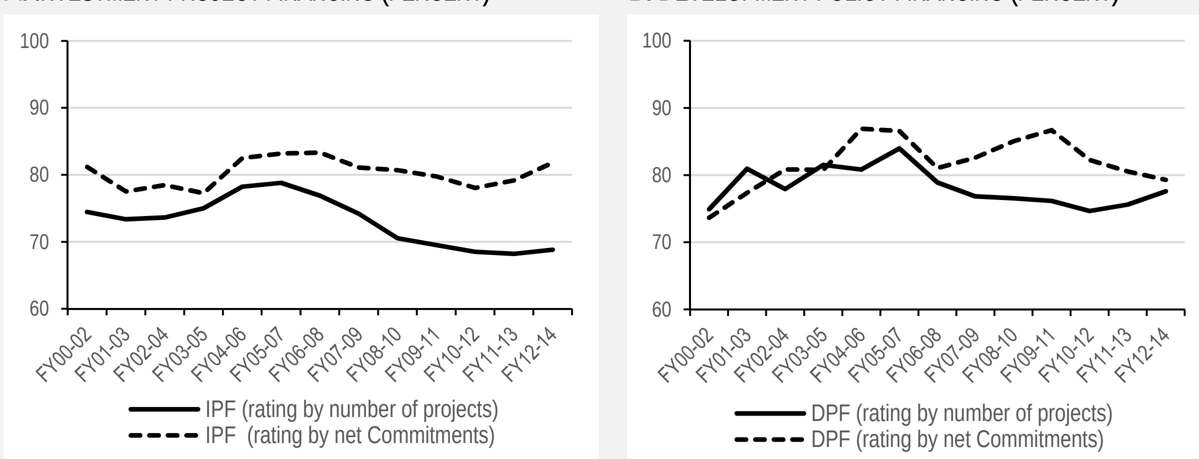
Box 2.1. Recent Performance Trends of Development Policy Financing Projects

According to IEG's review, within the group of MS+ projects, there has been a shift toward the "moderate" side of satisfactory—that is, the proportion of operations with moderately satisfactory outcome rating has increased, the proportion of satisfactory projects has decreased. The growing share of moderately satisfactory projects in DPFs is driven by an increase in the share of DPFs with weak design (rated "modest" or below). While the proportion of operations with weak design was 33 percent in 2009–11, in 2012–14 it was 44 percent. But this increase is not necessarily an indication of weakening quality—other factors, such as streamlining of self-evaluation, validation, and evaluation standards might have also contributed to the trend.

Evaluative evidence from IEG's project-level validation and evaluation suggests that several key factors affect design quality in DPFs. These include weaknesses in the results chain underpinning the programs (due to poor links between policy actions and expected outcomes), weak relevance of policy actions supported by DPFs to the stated objectives, and mismatch between choice of the instrument and the reforms' ambitions (mostly in cases of stand-alone operations with a short time horizon).

Figure 2.2. Percentage of Projects Rated Moderately Satisfactory or Above by IEG

A. INVESTMENT PROJECT FINANCING (PERCENT) B. DEVELOPMENT POLICY FINANCING (PERCENT)

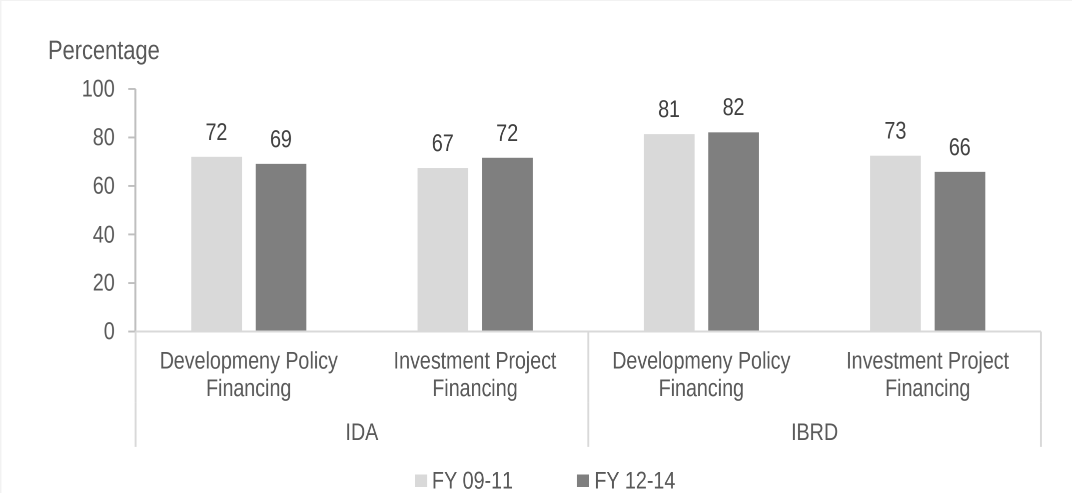


Source: World Bank Business Intelligence.
Notes: IEG rated 769 IPF projects and 116 DPF projects in FY12–14. DPF = development policy financing; IPF = investment project financing.

PERFORMANCE OF BANK PROJECTS WAS STRONGEST IN THE SOUTH ASIA REGION, DECLINED IN EAST ASIA AND PACIFIC REGION, AND WAS LOWEST IN THE MIDDLE EAST AND NORTH AFRICA REGION

World Bank project performance in IDA countries improved from 68 percent in FY09–11 to 73 percent FY12–14,[12] but performance in fragile and conflict-affected states remained unchanged at about 68 percent. MS+ ratings for projects in IBRD countries declined from 73 to 66 percent in the same period, which is statistically significant (Figure 2.3). (Unless otherwise noted, statistical significance of comparisons in this chapter is at the 10 percent level.)

Figure 2.3. Percentage of Projects Rated Moderately Satisfactory or Above, by IBRD and IDA and by Lending Instrument

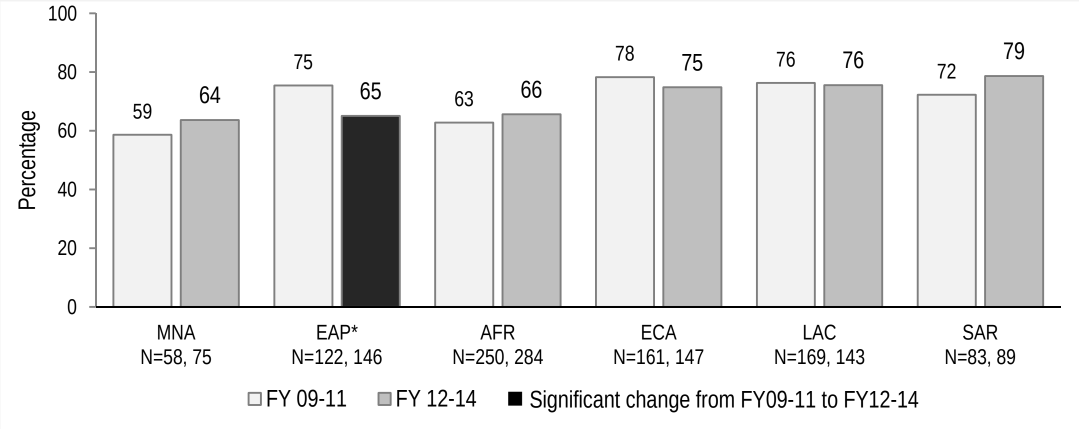


Source: IEG data.
Note: IDA = International Development Association; IBRD = International Bank for Reconstruction and Development.

At the regional level, the World Bank performance was strongest in the South Asia Region (79 percent MS+). East Asia and Pacific Region showed the sharpest decline, from 75 to 65 percent MS+ between FY09–11 and FY12–14 (statistically significant at the 10 percent level). Although slightly improved from FY09–11, performance in the Middle East and North Africa Region (64 percent MS+) is the lowest among all Regions (Figure 2.4). IEG's Region Updates provide more information based on Project Performance Assessment Reports (see attachment).

The performance decline in East Asia and Pacific Region was partly due to a drop in well-performing projects in IBRD countries (67 percent of evaluated projects) and blend countries (18 percent of evaluated projects) from 72 percent to 58 percent and 86 percent to 68 percent, respectively. Project performance in three countries—accounting for 50 percent of evaluated projects—drove this decline. The project performance rate declined from 91 percent to 73 percent in China and from 86 percent to 77 percent in Vietnam. The already low performance of projects in the Philippines further deteriorated from 38 percent to 23 percent, and Indonesia's low performance remained at 58 percent and 59 percent.

Figure 2.4. Outcome Rating Moderately Satisfactory and Above by Region



Source: IEG data.
Note: 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.
*Difference is statistically significant at 10 percent.

PERFORMANCE WAS PARTICULARLY STRONG IN THE SOCIAL PROTECTION AND LABOR, AND AGRICULTURE GLOBAL PRACTICES

Performance by Global Practices has been assessed based on the mapping of the projects which was conducted bank-wide in 2014 when the Global Practices were instituted. The Social Protection and Labor GP performed the best out of the 14 GPs, with 91 percent of 32 projects rated MS+ during FY12–14 compared with 74 percent of 38 projects rated MS+ during FY09–11 (which is statistically significant at the 10 percent level). Portfolio reviews and interviews with sector specialists indicate that four factors help explain this strong performance. First, many Social Protection and Labor GP projects are strongly evidence-based and have relatively high ratings for quality at entry (76 percent of projects rated MS+), which is a key correlate for positive project outcome. Second, supervision quality is also highly rated, with 89 percent of projects rated MS+. Third, evaluation is often built into project design, which led to steady improvement in the monitoring and evaluation (M&E) frameworks for relevant projects (59 percent are rated substantial or better on M&E in FY12–14 compared with 41 percent between FY09–11 and with an overall Bank average of 30 percent). Fourth, IEG found that among GPs, Social Protection and Labor produced the third largest share (7 percent) of impact evaluations (according to an IEG follow-up analysis on its 2012 evaluation of the relevance of World Bank Group impact evaluations). IEG found the Social Protection and Labor GP effectively implemented recommendations from IEG's evaluation of social safety nets (IEG 2011c), including increasing support to strengthen institutional capacity.

Project performance in the Agriculture GP also improved significantly during the two periods, from 51 percent to 74 percent (statistically significant at the 5 percent level). The mix or typology of projects did not change noticeably during this period. A document review assessed whether project development objectives (PDOs) fell into one of two categories: clear-cut and straightforward, or multi-faceted and long-duration,[13] and found an increase in the share of clear-cut and straightforward PDOs in FY12–14 (44 to 61 percent). Challenging land and forestry reform projects, as well as environment-focused projects in watershed and sustainable land management, performed at similarly poor levels during both periods, though community-driven development projects and those responding to the global food crisis performed exceptionally well during both periods.

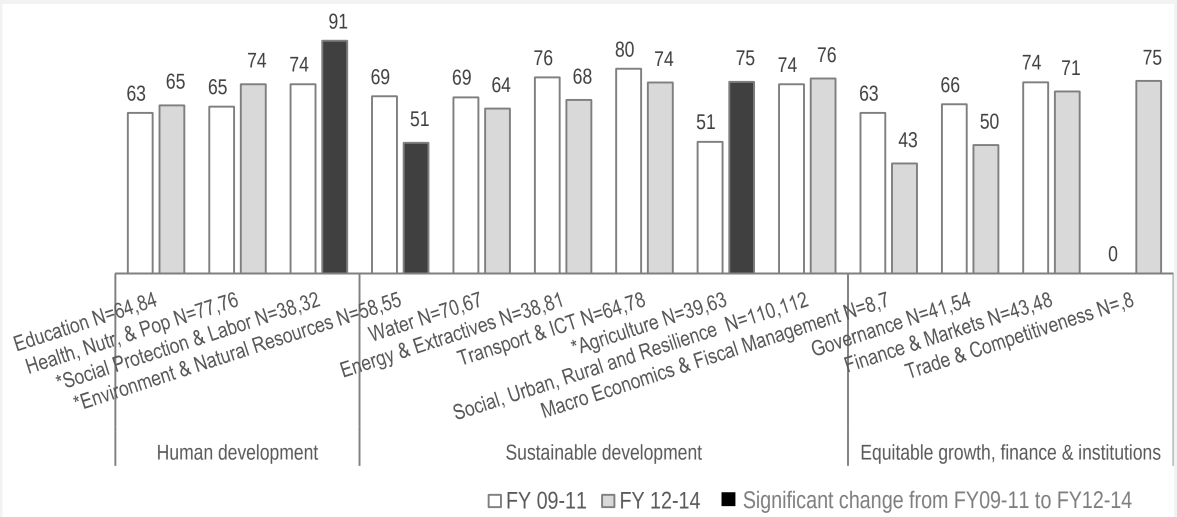
DECLINE IN PERFORMANCE WAS OBSERVED FOR THE ENVIRONMENT AND NATURAL RESOURCES GP

Among the 14 GPs, the Environment and Natural Resources GP showed the only statistically significant decline in performance between FY09–11 and FY12–14—performance fell from 69 percent to 51 percent MS+ for 58 projects evaluated in FY09–11 and 55 in FY12–14. Within this portfolio, IDA projects rated MS+ dropped by 35 percent, Global Environment Facility (GEF) projects dropped by 21 percent, and IBRD projects by 10 percent.[14] GEF projects seemed to be the largest contributor to the poor performance because of their large number, which is about four to six times the number of IBRD and IDA projects. By Region, Sub-Saharan Africa was the worst performer in the Environment and Natural Resources GP, where no GEF projects were rated MS+ during FY12–14 compared with 60 percent during FY09–11 (Figure 2.5). IEG reviewed the Implementation Completion and Results Reviews (ICRRs) for GEF projects rated moderately unsatisfactory or below and found three key reasons for low ratings: (a) negligible or modest achievements of outputs and outcomes; (b) little or no evidence to support claimed results, usually accompanied by poor M&E; and (c) negligible or modest efficiency due to serious administrative inefficiencies and long delays, low rates of return, or wrong calculation methodology for economic rate of return.

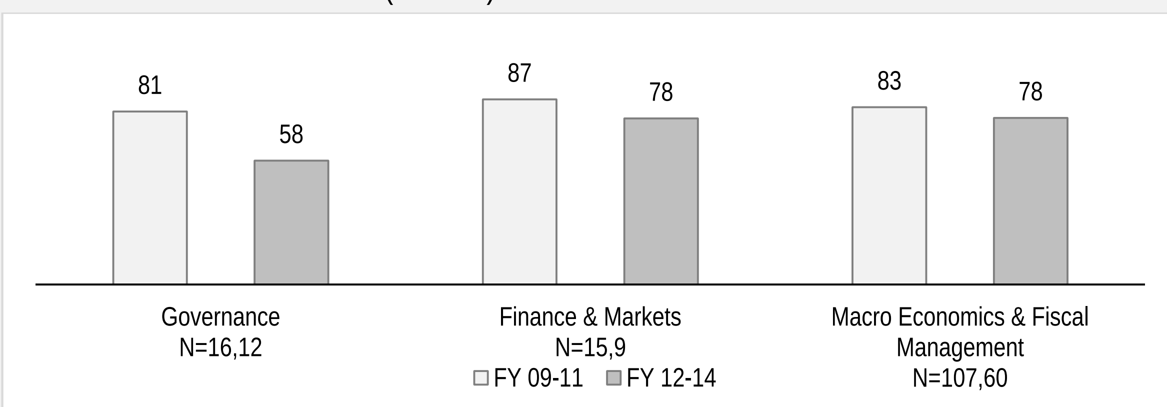
Development policy financing is concentrated in three GPs: Governance, Macroeconomics and Fiscal Management, and Finance and Markets. DPF showed no significant change in performance over time.[15] However, at 58 percent MS+, the Governance GP—for which 12 projects were rated during FY12–14—was the lowest performer.

Figure 2.5. Outcome Rating Moderately Satisfactory and Above by Global Practice

A. INVESTMENT PROJECT FINANCING (PERCENT)



B. DEVELOPMENT POLICY FINANCING (PERCENT)



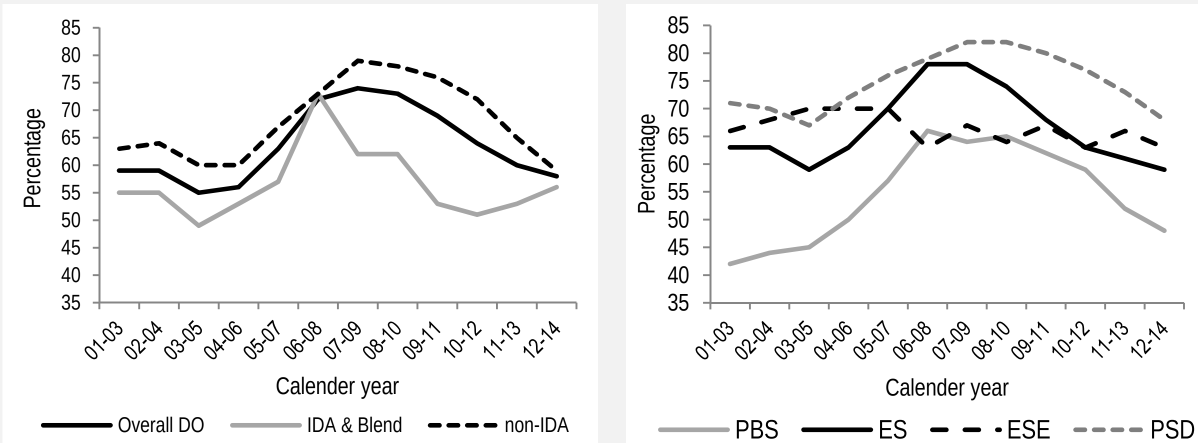
Source: IEG Data.
Note: *Statistically significant at 10 percent.

Development outcomes for IFC investment projects continue to decline

The downward trend reported by IEG in development outcome ratings for IFC-supported investment projects since 2013 continues. Fifty-eight percent of the 225 mature investment operations evaluated in 2012–14[16] had development outcome ratings of mostly successful or higher compared with 68 percent of projects evaluated 2009–11 (Figure 2.6).[17] Projects that fail to achieve a mostly successful rating tend to fall short of IFC's established financial, economic, environmental, and social performance benchmarks, and do not contribute more broadly to private sector development in the local economies in which they operate (Box 2.2).[18]

Figure 2.6. IFC Development Success Rate for Investment Projects, CY01–14

A. OVERALL DEVELOPMENT OUTCOME (PERCENT) B. BY SUB-INDICATOR (PERCENT)



Source: IEG data.
Notes: DO = development objective; ES = economic sustainability; ESE = environmental and social effects; IDA = International Development Association; PBS = project business success; PSD = private sector development. IFC development outcome is a synthesis rating of project business success, economic sustainability, environmental and social effects, and private sector development success ratings.

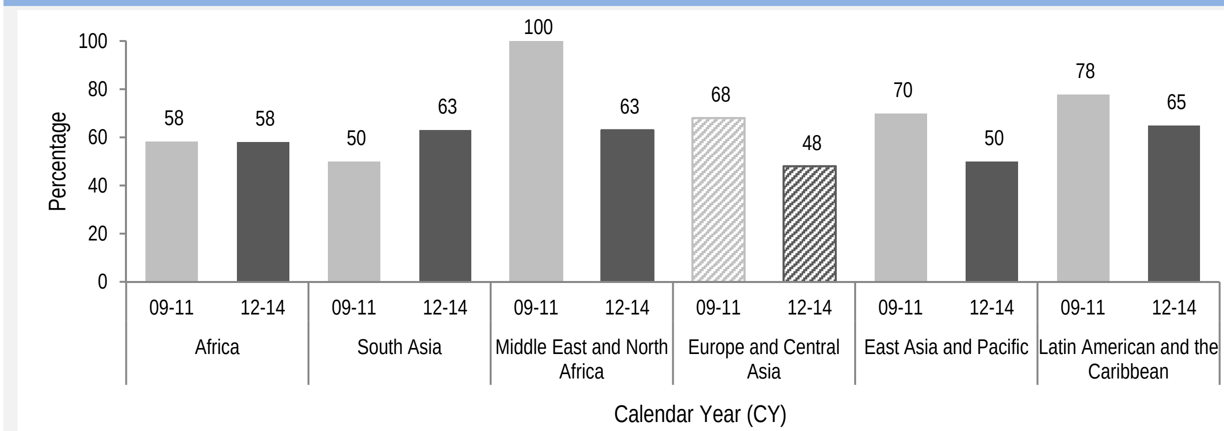
Box 2.2. Evaluation of Investment Projects at IFC

IFC evaluates projects based on three dimensions and nine indicators that together address a project's contribution to IFC's purpose and mission, the impact of the investment on IFC's financial sustainability, and IFC's work quality. Evaluations measure development outcome across four indicators: project business success, economic sustainability, environmental and social effects, and private sector development success ratings (Figure 2.6). IFC's investment outcome assesses the extent to which IFC is likely to realize the loan or equity returns expected at approval. Work quality addresses IFC's screening, appraisal, and structuring; supervision and administration; and role and contribution. A stratified random sample of IFC projects that have reached early operating maturity are evaluated.

Falling equity success rates moved investment success rates lower, continuing a trend that began in 2009–11. Equity investments are inherently riskier than loans, and IFC should expect lower equity success rates, but higher overall equity returns to compensate for the added risk. Recent equity success rates of 23 percent are lower than the historical rate of 35 percent. The current low success level is partly due to negative effects from the global financial crisis that variously affected projects: currency devaluations reduced equity values in dollar terms; funds were slower to invest; manufacturers saw product demand fall; and weakened management and sponsors found it difficult to cope. Puts or convertible equity was in many cases insufficient to remedy low equity valuations. In 2015 IFC's net income suffered from relatively low realized equity returns.

IFC operations in non-IDA countries saw a significant, steep decline in performance since CY07–09, while operations in IDA and blend countries improved during the last two reporting periods. Statistically significant declines in investment outcomes and work quality were also observed in non-IDA countries. All development sub-indicators except for environmental and social effects and project supervision were also down significantly. In IDA and blend countries, IEG observed improving private sector development ratings and role and contribution. A closer look at the portfolio shows that recently evaluated projects in manufacturing and services performed poorly, as did projects in the Europe and Central Asia and East Asia and Pacific Regions (Figure 2.7).

Figure 2.7. IFC Development Performance by Region (percent)

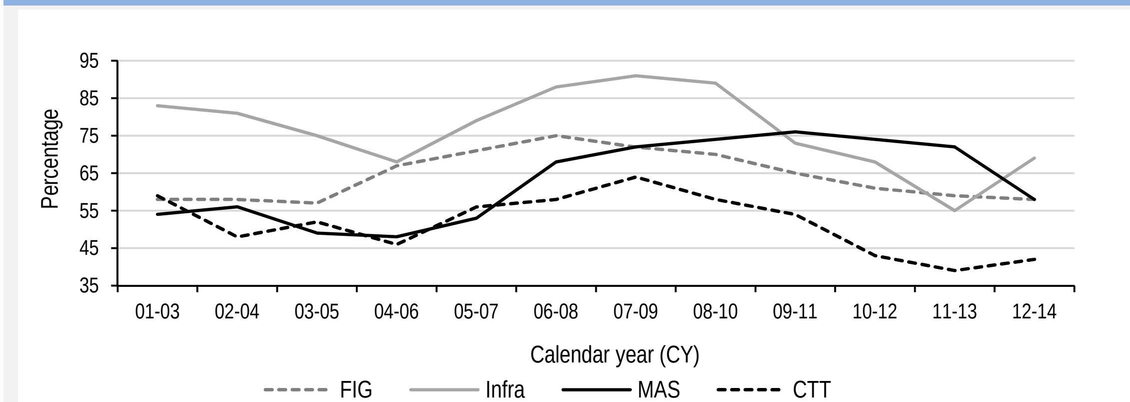


Source: IEG data.

Performance dropped significantly in the Europe and Central Asia and East Asia and Pacific Regions. The performance decline in Europe and Central Asia was partly associated with low ratings for evaluated projects in Ukraine. In East Asia and Pacific, most of the projects evaluated in China during the CY12–14 period (manufacturing and technology sector projects most severely affected by the downturn) were rated low. IFC also supported seven regional projects—five in Europe and Central Asia and two in East Asia and Pacific. Five of the seven projects invested in funds, none of which were rated successful or better for development. All rated low for work quality, and only one project provided IFC with a return commensurate with risk. Overall, funds performed worse than the portfolio of evaluated projects. Reasons for the decline include misaligned incentives, difficulties in exiting funds during tough economic times, standardized approaches across Regions to assess and structure IFC investments in funds, and mismatched expertise in IFC industry team–originated funds (versus IFC funds teams).

Project performance in IFC industry group was relatively stable except in the manufacturing, agribusiness and services, where a significant decline was recorded. A review of relevant projects shows that the global financial crisis affected some projects, making it more difficult to secure funding or attract customers (tourism projects, for example). IFC project evaluations also noted other problems that affected recent services projects, including a lack of commitment, expertise, or implementation discipline among sponsors, and poor IFC work quality. A number of innovative or greenfield projects also failed (Figure 2.8).

Figure 2.8. Development Success Rates by Industry Group (percent)



Source: IFC data.
Notes: FIG = Financial Institutions Group; Infra = Infrastructure and Natural Resources; MAS = Manufacturing, Agribusiness, and Services; CTT = Telecom, Media, Technology, and Venture Capital. IFC added CTT as an industry group this fiscal year. Current projects were remapped.

IFC work quality continues to need attention, while it showed some minor but statistically insignificant improvement in year-on-year results (comparing CY13 with CY14), overall work quality ratings continued their decline to 67 percent. *Results and Performance of the World Bank Group 2014* (IEG 2014d) analyzed work quality components such as risk identification and mitigation as strong contributors to screening, appraisal, and structuring (up-front work quality) ratings—a strong driver of project success. A decline in the quality of Expanded Project Supervision Reports (XPSRs), or self-evaluation documents, were consistent with the decline in work quality. Measured as a proportion of all XPSRs, more than 40 percent were considered good practice between 2001–2007 compared with fewer than 25 percent in recent years. The quality of lessons written in XPSRs varied.[19]

IFC additionality (IFC's benefit or value addition that a client would not otherwise receive) is the main justification for IFC involvement in a project. Through its additionality IFC can strengthen a project by, for instance, mitigating risks or improving a client's capacity, and ultimately improving a project's chances to succeed and enhance its development impact. IEG found better development results when additionality was present, and that there was no clear trade-off between additionality and IFC's profitability.

IFC achieved higher development impact when it delivered combinations of funding and knowledge-based additionality together, particularly to high-risk projects (for example, in IDA countries and for high-risk sponsors). However, delivering such combinations of funding and knowledge-based additionality is more challenging compared to funding or knowledge-based additionality alone. This is due mainly to the difficulty of delivering knowledge-based additionality, which depends heavily on IFC's ability to deploy support to the client or project over the length of the entire project life cycle. IEG has also found that there is scope to enhance the use of additionality to position IFC strategically in different country and client contexts.

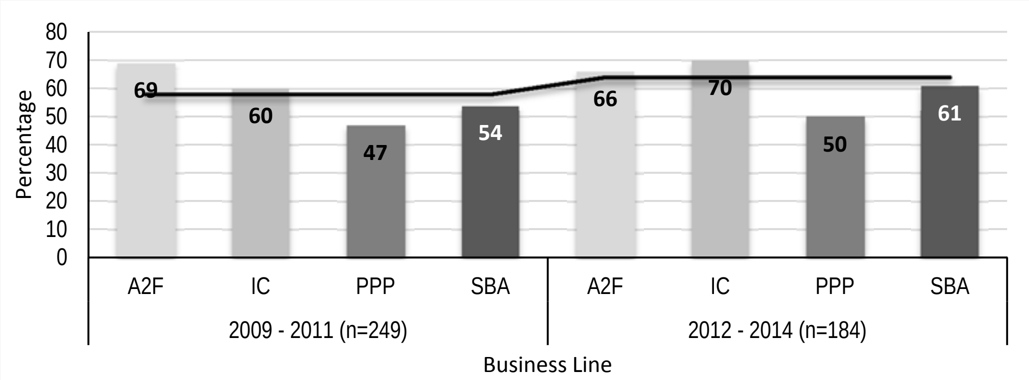
IFC's additionality is an integral part of IFC's overall role and contribution, which is assessed under the work quality dimension.

There has been a decline in IFC's role and contribution success rates since 2008. A qualitative review of the evaluated portfolio suggests that role and contribution fares better when IFC sets realistic expectations at approval by focusing on the additionalities it can best deliver; gathers resources needed to realize such additionalities; and ensures that client understanding, readiness, and commitment are present. Overall, IEG found that role and contribution ranked second to front-end work quality in contributing to development outcome.

IFC integrated client-facing Advisory and Investment Services after reorganizing in 2014, with the goal of sharpening additionality and enhancing overall development impact. Almost all of the CY12–14 Access to Finance private sector projects to build client capacity had links to IFC financial clients in some form, and half of all Sustainable Business Advisory projects had links to IFC investments.

IFC's Advisory Services' performance was steady. IEG found that IFC's Advisory Services performed well, with overall development effectiveness reaching 63 percent for FY12–14 compared with 58 percent for CY09–11 (Figure 2.9). IEG also found that Advisory Services benefitted IFC's financial sector clients. They enhanced development results by engaging with IFC investment clients in the financial sector, achieving a 70 percent development success rate. Government-facing engagements achieved success rates comparable to those of private client-facing projects (65 and 64 percent, respectively). Public-private partnership success rates were in line with the previous period, reflecting the high-risk nature of the business.

Figure 2.9. IFC Advisory Services' Development Effectiveness Success by Business Line (Percent)



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

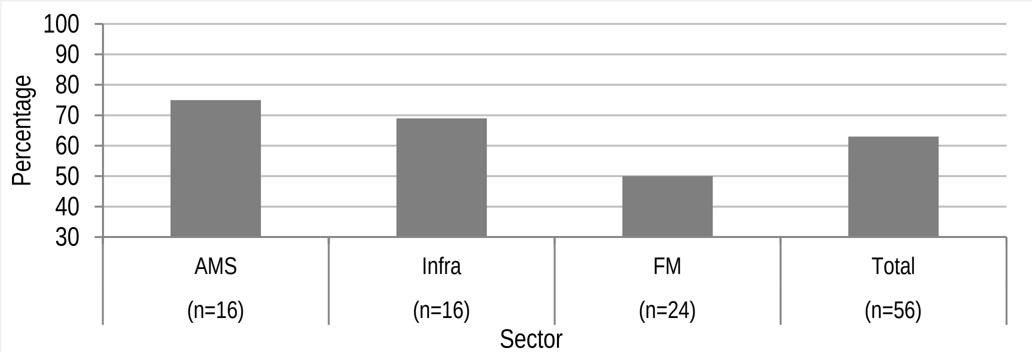
IFC's work quality on Advisory Services projects was a crucial driver of success, with project preparation and customization to client and local conditions key. Rolling out standard products and customizing them during project inception was often unsuccessful, especially in higher risk projects. However, tailoring the project design using deep knowledge of the client and the local market improved the chances for success. Project scope was another factor that influenced project success. Advisory projects that were well and narrowly defined produced better results than wide-ranging projects. A measured, phased approach, coupled with a focus on priority areas, activities sequenced with client and market needs, and delivering advice to a single client, were often contributors to project success. Assessing client capacity early in the project was also important to achieving success, as was investment in building client capacity to address weaknesses.

Performance of MIGA guarantees stable with some weaknesses

IEG rated 63 percent of the 56 MIGA guarantee projects evaluated in FY09–14 satisfactory or above for development outcome (Figure 2.10). Projects in the agribusiness, manufacturing, and services sectors had the highest success rate (75 percent), although the small number of evaluated agribusiness projects within this group performed poorly. The poor performance (50 percent) for financial markets projects (most of which are in the Europe and Central Asia Region), including generally low environmental and social effects ratings,[20] is a reversal of recently reported results. Projects were unsuccessful because of:

- Poor financial performance due to increased macroeconomic instability caused by the financial crisis and specific characteristics of the financial institutions
- Loan portfolio contraction in some institutions instead of an expected expansion
- High leverage in some projects.

Figure 2.10. MIGA Development Success Rate by Sector, FY09–14 (Percent)



Source: IEG data.
Notes: AMS = agribusiness, manufacturing and services; Infra =infrastructure; FM = financial markets. n= number of evaluated projects.

IEG conducted the first evaluation of an active non-honoring of financial obligations (NHFO) guarantee in FY15 and found that MIGA's NHFO products can play a valuable counter-cyclical role in helping fundamentally sound projects access financial markets during times of crisis. The evaluation also suggests that MIGA strengthen its monitoring systems for NHFO guarantees since these products directly take the credit risk of the sovereign, sub-sovereign, or state-owned enterprise (depending on the NHFO guarantee) and carry a higher risk level compared with traditional political risk insurance coverage.

For World Bank projects, some country and project factors matter more than initial size

This report intends to provide insight on recent World Bank results and performance. Questions of interest include how effective the projects were in delivering development results, key factors associated with performance, and lessons learned for incorporating into the design and implementation of future projects. Considering the Board discussions on the findings of RAP 2014 (IEG 2014d), this analysis looks at possible differences in performance of World Bank investment lending projects based on project size of the project and other factors related to project and country context.[21]

In this report, as in previous years, the main measure of World Bank project results is the IEG-validated outcome rating from ICRRs, consisting of relevance, efficacy, and efficiency. IEG also validates other ratings in ICRs such as Bank performance (quality at entry and supervision) and borrower performance (government and implementing agencies), and rates the quality of the project's M&E.[22] The structure of this reporting and rating system enables logically sound comparison across projects. However, projects also have complexities that might not fit easily into the current reporting structures, including important contextual factors such as a country's economic situation, institutional capacity, and political economy considerations, among others. Indicators such as the World Governance Indicators, the Gender Inequality Index, and Country Policy and Institutional Assessment (CPIA), which is a measure of institutional capacity in the country, can shed some light on country context. Project performance also varies on factors internal to an operation, such as performance of the task team leader and team, or time and resources devoted to problem solving. This analysis does not explain success in projects, but rather looks at what can be learned from data such as the number of task team leaders assigned to a project and the project supervision cost.

Analysis of data on IPF projects[23] closed in FY09–FY14 finds that project performance is highly correlated with quality at entry, quality of supervision, M&E quality, and, to a much lesser extent, project size (see appendix B for correlations).[24] The discussion of project size arises in part from attention to the World Bank's Corporate Scorecard, which shows higher performance of larger projects because it reports on performance in two ways: a simple percentage of projects rated MS+, and a volume-weighted percentage.[25] Investigation beyond the Corporate Scorecard, however, shows that project size also correlates with a number of other factors. Project size positively correlates with ICRR ratings for quality at entry, quality of supervision, and quality of M&E; project restructuring; population of the country; CPIA; public opinion about effectiveness of the Bank's work in the country; government effectiveness; and rule of law ratings (from the World Governance Indicators). Project size negatively correlates with the country's fragile and conflict status, and gender equality as measured by the Gender Inequality Index (selected for use because of the theme of this report). Project size and project outcome ratings also vary across Regions and GPs.

IEG developed a regression model to look further into project size, and to understand the many other factors that also correlate with outcomes.[26] Two important elements—quality at entry and quality at supervision—were not included in the model because these ratings are assigned at the same time and by the same evaluator as the outcome rating (in the ICRR, after the project is completed). If quality at entry was systematically rated at appraisal or at the first Implementation Status and Results (ISR) report, the rating would likely be extremely useful for predicting project performance. However, there is no systematic practice of assessing quality at entry early in Bank projects, and therefore there are no data.

The model explained about 28 percent of the variation in outcome, and project size explained half of that (14 percent). There are two implications: first, that the additional variables explained about as much variation in outcome as did project size; second, that the current data do *not* explain more than two-thirds of the variation in outcome. A systematic measure of ex-ante quality at entry would likely help explain the missing two-thirds of the variation.

Within the 14 percent of variation explained by factors other than size in the current model, however, two factors related to country and project context merit discussing.

COUNTRY CAPACITY MATTERS

Country populations and CPIA ratings were significant among the country factors that helped explain performance, likely because large projects tend to have higher public sector management and institutional capacity, better social inclusion, and equity. Related analysis suggests that projects in countries with greater gender equality, more effective government functions, or more stable rule of law are also associated with higher outcome ratings.[27]

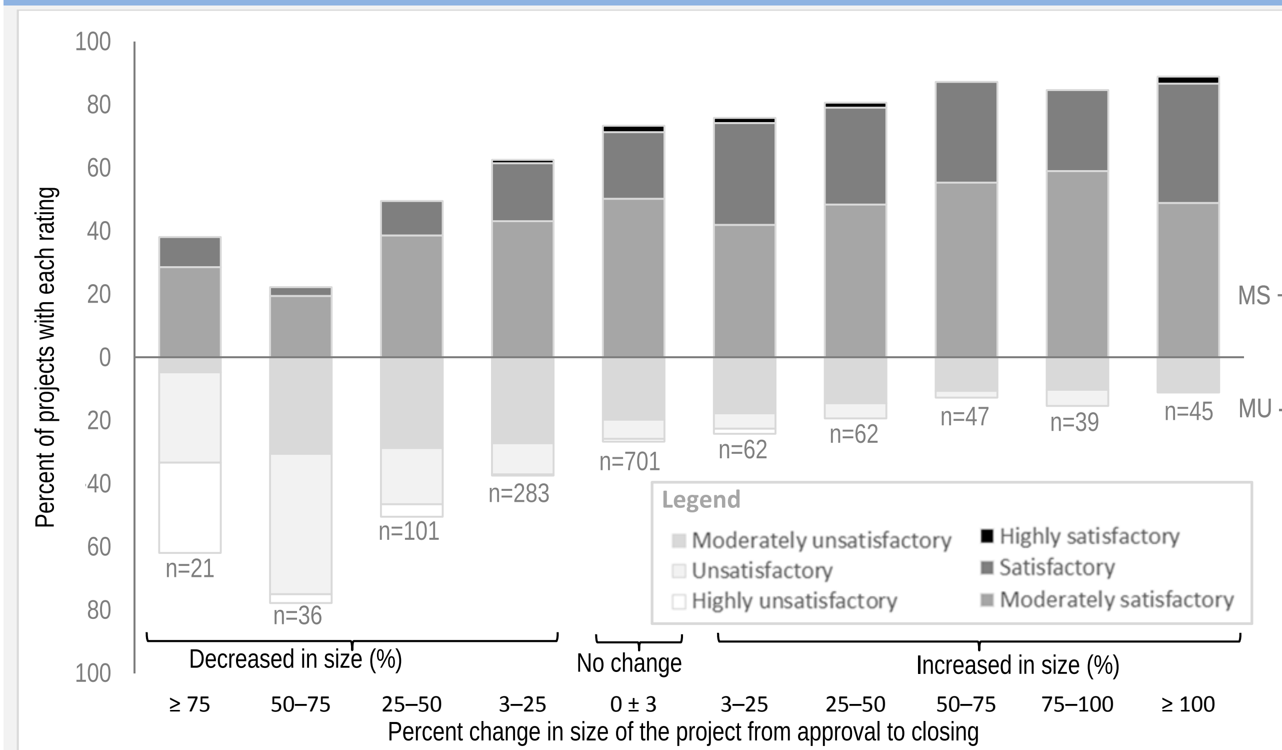
Larger country population was also associated with higher outcome ratings. However, outcome ratings for projects in India and China drove this association; population sizes in these countries make them outliers. When projects in India and China are excluded from the regression analysis using the same model, the coefficient is no longer significant. Without India and China, 89 percent of the World Bank IPF portfolio (by lending volume) was rated moderately satisfactory or above. Outcome ratings for projects in India and China are not statistically different from each other—by volume, the percent of projects rated moderately satisfactory or above was 84 percent for India and 85 percent for China. The coefficients for other country factors used as control variables (gross domestic product per capita, fragile and conflict status) were not significant.

MID-COURSE CORRECTIONS CAN ENHANCE OUTCOMES OF WORLD BANK PROJECTS

Among the project factors that helped explain outcomes, change in commitment was significant and positively correlated with outcome, while initial commitment was less significant. This comparison suggests that project performance relates more to what happens during project implementation—such as cancelling funds for projects that are not working or additional financing for successful projects—than to the initial commitment size of the project.

Although size and ratings correlate, improved performance associated with the difference in commitment amount at appraisal and at project closure may be due to the practice of directing more resources to projects that are performing well during implementation and discontinuing those that are not.[28] Further analysis suggests that the correlation between cancellation of funds and low outcome ratings is stronger than the correlation between additional financing and high outcome ratings. Figure 2.11 plots the pattern in outcome ratings by the percentage increase (or decrease) in size during the life of the project. It illustrates that projects that shrank by 50 percent or more had lower outcome ratings than projects that completed at the planned size; projects that grew by 50 percent or more did about as well as projects with no change in size.[29]

Figure 2.11. Lower Outcome Ratings in IPF Projects that Decreased in Size Due to Cancellation of Funds



Source: World Bank Business Intelligence
Note: IPF = investment project financing: MS+= moderately satisfactory or above; MU– = moderately unsatisfactory or below.

IEG's recent report on additional financing in transport projects (IEG 2015f) found that projects with additional financing had relatively better overall outcome ratings compared with the rest of the portfolio. The analysis also found that providing more resources is no guarantee of success—13 percent of projects receiving additional resources were rated moderately unsatisfactory or below for overall outcomes at project closure. The report, however, notes that a large number of projects received additional financing to cover cost overruns. Therefore, it is highly important to ensure good quality at entry by focusing on preparing realistic engineering designs to avoid substantial cost overruns in the first place. It may be worth noting that additional financing allows Bank project teams to refine the project results framework.

Two other project factors correlated negatively with outcome: the number of task team leaders during the life of the project, and whether the project was ever labeled as problem project.

Projects in the analysis group averaged 2.8 team leaders across the life of the project. Projects did not differ discernibly across Regions, but the seven projects in the Trade and Competitiveness GP averaged 4.86 team leaders, while the Social Protection GP averaged 2.47 team leaders per project. Overall, more than half of projects in the analysis were labeled as problem projects at some point. There was so much variation within GPs that comparison of the different GPs is not informative, but some difference was discernible across Regions. The percentage of projects that at some point were labeled as problem projects was 67 percent in the Middle East and North Africa Region on the high end and 45 percent in East Asia and Pacific Region on the low end (see appendix C for more details on Regions and GPs).

The strong correlation between high team leader turnover and low project outcome is better understood when considering a review of highly satisfactory and unsatisfactory projects conducted for IEG's evaluation of learning and results in World Bank operations (IEG 2015e). The review found that because so much operational and technical knowledge is in the minds of practitioners and is not documented, the gaps in handover between project team leaders is an important source of learning discontinuity. Several team leaders interviewed for the study said there is little overlap of leaders at the time of handover. Handover missions are not conducted systematically, and it is left to team leaders to make time to find staff who worked earlier on in the operation.

In the regression, supervision cost negatively correlated with project outcome ratings, which may indicate that projects experiencing implementation challenges receive greater supervision attention. Supervision costs tended to be higher in the South Asia Region (averaging $910,000) and Africa Region (averaging $867,000), and lower in East Asia and Pacific (averaging $608,000). Preparation cost was not significant for the regression, but East Asia and Pacific had a relatively high average preparation cost ($434,000 per project), while Latin America and the Caribbean had the lowest average preparation cost at $282,000 per project. Box 2.3 draws comparisons with the findings of other research, and appendix C gives further details.

The finding that projects that were ever designated a problem project perform worse than those that were never so designated suggests that early and candid assessment of project implementation performance is important. In-depth portfolio analysis also found that projects that were not restructured in a timely manner were rated moderately unsatisfactory or below. IEG's learning evaluation (2015a) found that the information entered into the Bank's ISR is not candid enough, and therefore restructuring does not always take place when it should. This evaluation found no trend to restructure earlier during the project cycle even after introducing the split ratings. In the pre-reform period, the average span between effectiveness and completion was 7.8 years, and the average period between effectiveness and PDO revision was four years. For the post-reform period, the numbers were 7.5 years and 4.4 years, respectively. This suggests that although the split rating rewards early restructuring, introduction of the policy may not have changed the behavior of task team leaders.

To offer a different perspective and an element of triangulation, two analyses of opportunistic data provided examples of project implementation factors associated with outcome ratings. The first analysis (which comes with a caveat because it is based on a particularly small convenience sample of projects) looked at projects reviewed at the Regional Operations Committee or Operations Committee[30] and found higher project ratings for projects that received greater management attention.[31] A second analysis found higher quality at entry in projects that reported baseline data early on.[32]

Box 2.3. Findings from the Regression Are Consistent with Related Working Papers and Literature

Deinzer, Kaufmann, and Kraay (2011) examined country factors and found that Country Policy and Institutional Assessment (CPIA), a measure of a country's strength in in relation to policies and institutional capacity, correlated with outcome. However, within-country variation pointed to the need to focus on project-level factors such as project size, task manager quality, and early warning signs such as whether the project was labeled as a problem project early on. They also found no evidence that disbursement delays correlated with outcomes.

Geli, Kraay, and Nobakht (2014) analyzed a project's outcomes data to identify project characteristics that might be used to predict project outcomes; they found that CPIA and the task team leaders' track record had greater predictive power than Implementation Status and Results Report ratings, and that initial project size did not correlate with outcomes.

RAP 2014 (IEG 2014d) used text analysis of quality at entry and quality of supervision sections of 203 field-based project assessments completed between FY08 and FY13; the analysis found that elements associated with higher outcome ratings were application of past lessons, effective risk mitigation, and well-articulated project objectives and results frameworks. This analysis also highlighted that World Bank team problem-solving abilities, regularity of missions, and attention to corrective actions were frequently mentioned when explaining positive quality of supervision ratings.

Quality at entry and project supervision are key to project outcomes

Building on analysis undertaken in RAP 2014 (IEG 2014d), IEG conducted an in-depth portfolio review to identify key factors associated with project outcomes.[33]

The review found that poor quality at entry was a key factor associated with poor outcomes; however, there were no significant differences between small and large projects. Poor quality at entry was associated with the following weaknesses:

- Overambitious or complex project design in the context of insufficient implementing agency capacity (59 percent)
- Poor M&E and results framework (52 percent)
- Unrealistic cost estimation, lessons not incorporated, inadequate safeguards identification and other design problems (48 percent)
- Inadequate risk identification and mitigation measures (39 percent).

A number of design issues were identified. For example, about 60 percent of projects had inappropriate indicators, 28 percent lacked baseline data or targets, and 32 percent reported institutional capacity insufficient to operationalize the M&E system.

The IEG electricity access evaluation found that the most important factors for implementation delays were borrower institutional capacity and the Bank's quality at entry, followed by the government's commitment to the project, and areas of shared responsibility (mainly procurement matters). Shortcomings in institutional capacity affected low- and medium-access countries more than they affected high- and universal-access countries (42 percent versus 10 percent). Quality at entry contributed more often to implementation delays in low- and medium-access countries than in high- and universal-access countries (35 percent versus 19 percent). By contrast, no significant shortcomings were observed in institutional capacity for projects that closed on time, and the Bank's quality at entry was inadequate in only one of 30 projects (IEG 2015i).

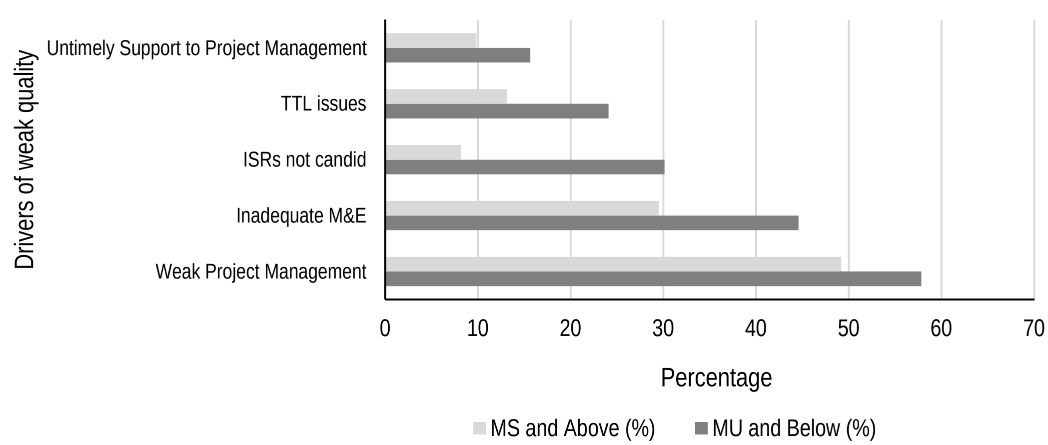
Quality of M&E is also an important finding from the forthcoming IEG report on self-evaluation systems. This analysis finds that M&E has a role beyond "mere measurement of results," since M&E quality is a "strong determinant of satisfactory project ratings." In particular, the analysis found a "rather large and significant effect of quality of monitoring and evaluation on project outcome, accounting for an increase of between 0.13 and 0.40 points in the outcome rating."[34] The study suggests there may be a tipping point—that is, a minimum level of M&E quality needed to make a difference in project ratings since the relationship between M&E quality and project outcomes is not proportional. The findings suggest that improving the quality of M&E in World Bank projects can help the organization achieve targets for project outcome ratings.

Weak project management was a key factor influencing low quality of supervision ratings in the portfolio analysis, including weak fiduciary management, low safeguards compliance, inadequate attention to technical issues and M&E, and so on (Figure 2.12). The analysis found that project teams in these cases were not proactive in revising PDOs or restructuring the project. Untimely support provided by the Bank team to the implementing agency during project implementation relates to weak project management. This can include lack of timely implementation, inadequate and untimely advice to the client, delays in processing documents, and lack of timely follow-up on issues.

The portfolio review also found that ISR ratings were not candid, they were overly optimistic and failed to reflect the severity of the problems and possibly delayed a more proactive response by the Bank. Analysis undertaken for IEG's learning evaluation found the proportion of projects with below-the-line ratings during implementation was lower than the proportion of projects for which objectives were formally revised, suggesting a lack of candor in ISR ratings—the supervision record understates the number of projects in need of fixing (IEG 2015e).

In poorly supervised projects, task team issues such as expertise, frequent changes in team leadership, untimely succession, and coordination issues within the Bank team were raised. This is consistent with Geli, Kray, and Nobakht (2014), who found that the record of the team leader significantly correlated with project outcome.

Figure 2.12. Drivers of Weak Quality-of-Supervision Ratings



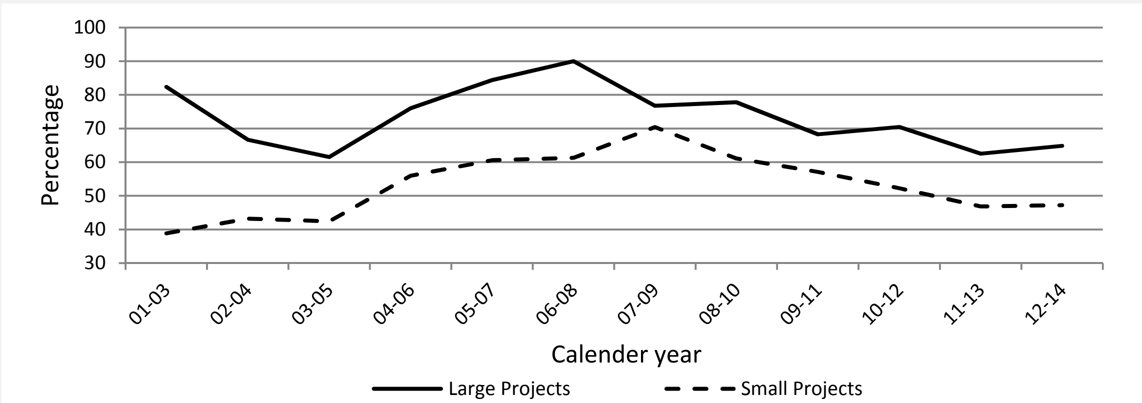
Source: World Bank Business Intelligence.

Note: ISR = Implementation Status and Results Report; M&E = monitoring and evaluation; MS = moderately satisfactory; MU = moderately unsatisfactory; TTL = task team leader.

For IFC projects, size is not the dominant risk factor

Similar to Bank projects, IFC investment project success depends on a mix of project characteristics. Overall, IFC investment project performance is better when measured by commitments instead of number of projects. Large projects perform better than small projects, sometimes much better—Figure 2.13 compares the performance of large and small projects.

Figure 2.13. IFC Performance of Large Versus Small IFC Investment Projects, FY01–14



Source: IFC data.
Note: Projects tagged as large had net commitments above the median in a given fiscal year. Those tagged as small had commitments equal to or lower than the mean.

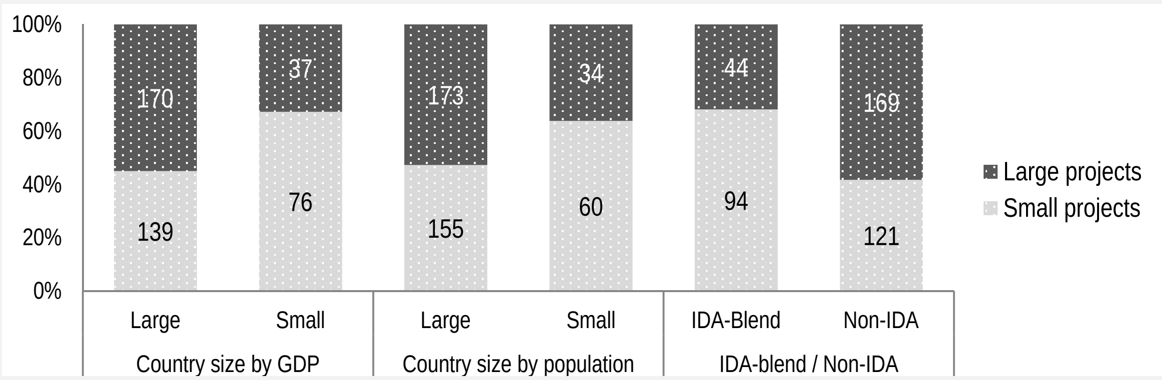
If size was all that mattered, it could make sense for IFC to focus on larger projects. Although many smaller projects are in large countries, a disproportionate share is in IDA and blend countries, and in smaller countries, as measured by gross domestic product and population (Figure 2.14).

IEG built on its FY13 analysis of internal and external risk factors to assess whether IFC's commitment size is a determinant of project development success. Using only IFC commitment size in its regression model (using 2009–14 evaluations), IEG found that size was a significant correlate of development results for real sector projects, but not for banking projects. However, for real sector projects, the association of commitment size with development success lessened when other risk factors were added to the model. For these projects, external project risks (such as management quality, market conditions, investment climate, and internal controllable risk factors) in IFC's work quality were more significantly correlated with development outcomes.

For financial sector projects, commitment size—together with other risk factors—was marginally but positively associated with project performance. A review of evaluation documents for both successful and unsuccessful financial markets projects reveals a number of benefits associated with size, including:

- **Reach:** Larger financial institutions with a larger geographical and client base are better able to pursue business where demand is highest. They may also be better able to target new client types while continuing to survive on their established markets and client bases, building on their name recognition.

Figure 2.14. Location of IFC Investment Projects (Excluding Regional Projects)



Source: World Developmant Indicators (database), World Bank, Washington, DC, http://data.worldbank.org/products/wdi
Notes: Project size is based on the median project size in a given year; small projects are below the median size, and large projects are above the median size. Analysis presented is for projects evaluated in FY09–14 that supported a project in a specific country (regional projects are excluded, for example). Large countries include the largest 40 and 50 countries by gross domestic product and population, respectively. GDP = gross domestic product.

- **Economies of scale:** Incremental cost of operations can be lower for larger institutions. They may also be better positioned to deploy superior technology and recruit experts, such as proven managers, environmental specialists, and credit officers.
- **Financial strength:** Larger financial institutions may have a better chance of surviving short-term shocks that affect their business, and may have lower cost local and international sources of capital.

To summarize, larger IFC commitments to financial sector clients may have some benefits over smaller commitments, but this should not diminish attention to corporate governance, sponsor quality, and IFC work quality which also drive project success. For real sector projects, internal and external risks drive success more than project size.

Recently committed IFC projects are likely to perform worse than recently evaluated projects, despite a great concentration in lower-risk countries. After identifying the factors associated with development outcomes, IEG analysis predicted how recently committed IFC projects are likely to perform compared with the projects that reached operational maturity and had been evaluated by IEG. Box 2.4 summarizes the results.

Box 2.4. Performance of Recently Committed IFC Projects Compared with Recently Evaluated Projects

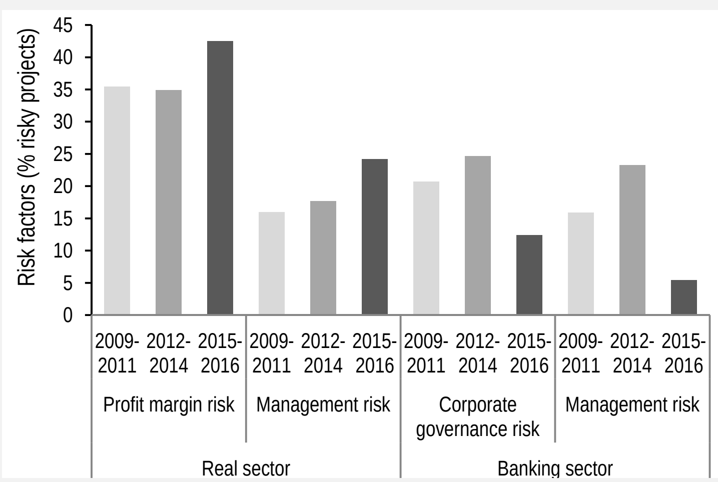
IEG evaluates IFC investment projects at early operating maturity based on their performance to date and projections. Projects that have not reached early operating maturity can be assessed on external risk factors that strongly influence their success, including changes in country risk, management quality, market conditions (real sector projects), corporate governance quality (financial and bank sector projects), and IFC work quality. IEG tested its model with historical data and found it provides a directionally accurate assessment of development outcomes for projects that have not reached early operating maturity.

IEG found that the external risk for younger real sector projects is slightly higher than for mature, evaluated projects, and the overall risks of younger banking projects is slightly lower (Figure 2.15, panel a). Management risk is moving lower for banking projects, but higher for real sector projects. Profit margin risk for real sector projects is higher. Corporate governance risk ratings for banking projects are lower. Country risk, measured by the change in the Institutional Investor Country Credit Risk rating, steadily improved so far. IFC's work quality, a strong mitigant of external risks, steadily declined. IFC's move to lower-risk banking sector projects may downwardly affect its additionality.

IEG's analysis showed that without significant improvements in IFC work quality, development outcomes are likely to decline moderately in 2015 and 2016 (Figure 2.15, panel b). The greatest risks to development outcomes are profit margin risks for real sector projects. IEG also found that high-quality work could mitigate external risks—that is, activities within IFC's control can increase the chances that a project will succeed. The quality of appraisal had the greatest impact.

Figure 2.15. Trends in IFC Development Outcome Performance

a. Risk Factor Trends



b. Portfolio Performance Calculations

Year	Gap between Calculated Success Rates and Actual
2009	0.3%
2010	-2.0%
2011	7.7%
2012	-1.8%
2013	2.7%
2014	1.5%

Success Rates for Projects to be Evaluated in 2015/16 Relative to 2012-14

Year	Real Sector	Banking Sector	Overall
2015	-1.3	-1.2	-1.2
2016	-3.6	0.1	-2.3

Source: IEG Data

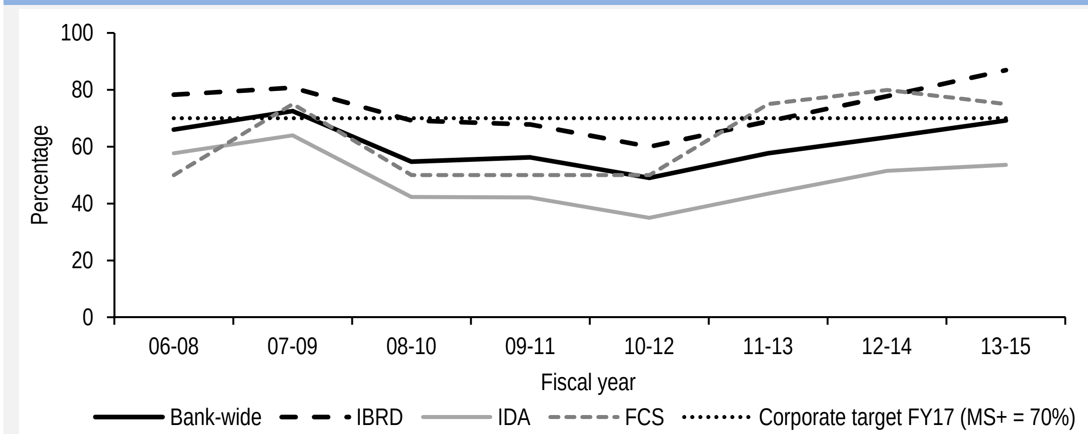
Source: IEG data.

IEG assessed the risk factors associated with non–funds projects in a specific country (not regional projects) approved in FY10–11, which will be sampled for evaluation in FY15 and FY16. Details are in annex D.

Results and Performance of the World Bank Group at Country Level

World Bank Group country program outcomes continue to improve. Figure 2.16 indicates that on a three-year rolling average basis, the success rate, measured as percentage of country program outcomes rated as MS or higher, improved from 63 percent in FY12–14 (n=60) to 69 percent in FY13–15 (n=52). This continues an upward trend, from a low of 49 percent in FY10-12 to near the corporate target of 70 percent. Country program outcomes improved in both IBRD and IDA countries. IBRD country program ratings increased from a 78 percent success rate in FY12–14 (n=26) to an 87 percent success rate in FY13–15 (n=23). Country program outcomes in IDA also improved from a 52 percent success rate in FY12–14 (n=33) to a 54 percent success rate in FY13–15 (n=28). For fragile and conflict- affected situation (FCS) countries, program outcomes deteriorated from 80 percent (n=5) in FY12-14 to 75 percent in FY13-15 (n=4).

Figure 2.16. World Bank Group Country Program Outcome, Moderately Satisfactory or Higher

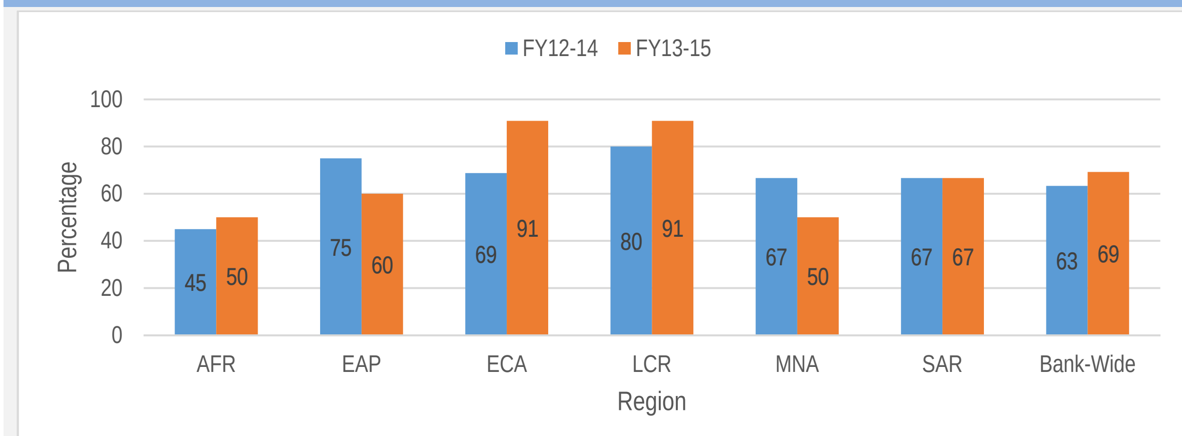


Source: IEG data.
Note: FCS = fragile and conflict state; IDA includes blend countries, all of which received more resources from IDA than from IBRD.

On an individual year basis, the success rate of country program outcomes improved during the last three fiscal years from 53 percent in FY13 (n=19) to 83 percent in FY15 (n=12), surpassing the Corporate Scorecard target of 70 percent. Among institutions, IBRD's success rate improved from 83 percent in FY13 (n=6) to 88 percent in FY15 (n=8). In the same period, IDA improved from 38 percent (n=13) to 67 percent (n=3). The success rate for FCS country programs was 67 percent in FY13 (n=3). None of the Completion and Learning Reviews for FCS countries went to the Board in FY15.

The improved performance of World-Bank country programs in FY13-15 is driven by Europe and Central Asia and Latin America and the Caribbean (figure 2.17). For the period FY13-15, the Bank-wide success rate was 69 percent (n=52) up from 63 percent in the period FY12-14 (n=60).[35] The success rates for country programs in the Europe and Central Asia and Latin America and the Caribbean improved significantly to 91 percent (n=11 respectively).[36] These performances are much above the World Bank Group average and the 70 percent corporate target. The success rates for country programs in the Africa Region improved to 50 percent (n=20) in the period FY13-15 while it deteriorated for country programs in Middle East and North Africa to 50 percent (n=2). The performance of country programs in South Asia remained stable at 67 percent (n=3) or just below the corporate target. Finally, performance of country programs in the East Asia and Pacific Region deteriorated to 60 percent (n=5), below the Bank-wide average and corporate target. It should be noted that even considering a three year average, the numbers of country programs by Region for which a Completion and Learning Review was submitted to the board are small. In addition, in FY15 there was no Completion and Learning Review submitted to the Board by the East Asia and Pacific Region and Middle East and North Africa Region.

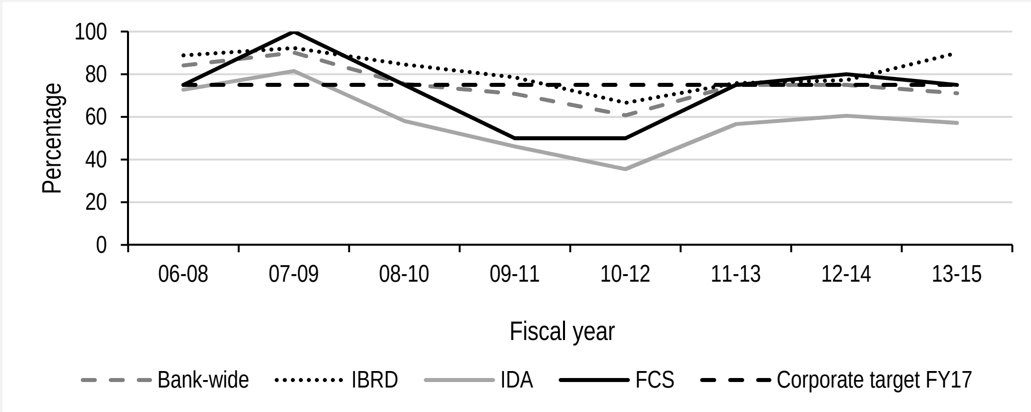
Figure 2.17. Country Program Outcomes, Moderately Satisfactory or Higher by Region, FY13-15.



Source: IEG data.
Note: 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; WBG = World Bank Group.

World Bank Group performance deteriorated slightly (figure 2.18) between FY12–14 (75 percent, n=60) and FY13–FY15 (71 percent, n=52), which is below the corporate target of 75 percent. Performance in IBRD countries improved on a three-year rolling average basis from a 77 percent success rate in FY12–14 (n=26) to a 90 percent success rate in FY13–15 (n=23). Performance in IDA and FCS countries deteriorated from 61 (n=33) and 80 percent (n=5) respectively in FY12-14 to 57 (n=28) and 75 (n=4) percent in FY13-15).

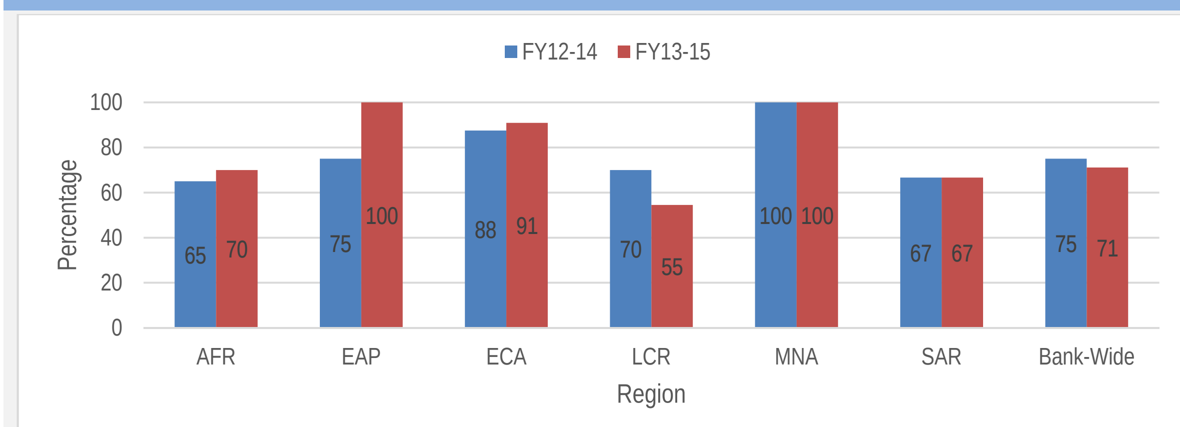
Figure 2.18. World Bank Group Performance Remains Stable



Source: IEG data.
Note: FCS = fragile and conflict state; IDA includes blend countries, all of which received more resources from IDA than from IBRD.

On a regional basis, the overall slight deterioration of World Bank Group performance for country strategies in the period FY13-15 was driven by the stark deterioration in Latin America and Caribbean[37] (figure 2.19). It improved in all other regions including Africa or remained stable. In the same period, World Bank Group performance remained below the 75 percent corporate target for the Africa Region (70 percent, n=20), Latin America and Caribbean (55 percent, n=11) and South Asia (67 percent, n=3).

Figure 2.19. World Bank Performance for country strategies Good or Better by Region, FY13-15



Source: IEG data.
Note: 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; WBG = World Bank Group.

Closer Bank–IFC cooperation has the potential to maximize World Bank Group development impact. The World Bank Group's client needs have been changing. The private sector is increasingly becoming the engine of growth, and government attention is shifting from public sector projects to public policies designed to promote private sector-led growth, including regulations, and establishing partnerships with, and/or transferring certain economic activities. This is happening in the context of a growing gap between decreasing official development assistance and growing development finance needs. Private sector investment in development is most needed. In this new landscape, the best way to maximize the World Bank Group's development impact is to foster full use of its private sector instruments and maximize synergies between the Bank and IFC at the country level.

A recent IEG review, *Past and Future: Bank–IFC Cooperation at the Country Strategy Level*, found that despite some encouraging examples, coordination between the Bank and IFC at the country strategy level has been mixed, and synergies within the World Bank Group do not seem to have been explored systematically (IEG 2014c).[38]

Five key findings emerged from the review:

- Despite the increase in the number of joint Country Assistance Strategies (CASs), the extent of cooperation between the Bank and IFC varied significantly across countries, with the majority of country strategies failing to include specific implementation plans for World Bank Group cooperation. References to cooperation, most often, were perfunctory and absent in related results frameworks. This was identified through Country Assistance Strategy Completion Report Reviews.
- Structural constraints exist for the low levels of cooperation at the country strategy level: Market demand determines IFC's business, which inherently makes planning difficult; conflicts of interest are a concern; IFC's strategist and economist resources are extremely limited; and staff incentives may need tailoring to encourage and support cooperation.
- Selective World Bank–IFC cooperation can potentially improve the effectiveness and efficiency of World Bank Group operations and improve its development impact in client countries. However, lack of cooperation can hinder or reduce potential benefits to clients, lead to duplication of activities, and ultimately raise operating costs.
- Genuinely joint CAS teams led to better coordination and helped clarify the respective roles of the two institutions. Professional relationships between Bank and IFC staff facilitated knowledge exchange and readiness to work together; however, World Bank–IFC cooperation was ad hoc under the CAS framework.
- Cooperation between the Bank and IFC is not always necessary or productive for every sector in a country. World Bank–IFC cooperation should remain an instrument. Elevating Bank–IFC cooperation to a goal in itself may generate

unnecessary processes and inefficiency. The benefits of cooperation depend on the sector and the stage of its development in a country. The cost of cooperation may sometimes outweigh the benefits, warranting careful cost-benefit analysis of Bank–IFC cooperation at the early stage of new World Bank Group country strategy formation.

Through the new Systematic Country Diagnostics and Country Partnership Framework, the Bank and IFC expect to work more closely together, from diagnosis to strategy formulation, solutions design, execution, evaluation, and learning at the country level. Systematic Country Diagnostics offers the potential to build upon the current CAS process by increasing World Bank–IFC dialogue and information sharing at the initial stage of the Country Partnership Framework. It could also pave the way for a more systematic analysis of private sector development issues by joint Bank–IFC teams, which has historically been missing from the majority of CASs. This process may provide a consistent framework to define and enable potential synergies generated by the Bank–IFC cooperation in relevant, selective areas of engagement.

The review (IEG 2014c) identified a number of factors that help drive cooperation between the Bank and IFC, including:

- Good, professional working relationships and knowledge sharing between Bank and IFC staff (in Kenya, Rwanda, and Uganda)
- Strong government leadership or ownership (in China, Egypt, and Russia) for Bank–IFC cooperation
- Senior management commitment to facilitating cooperation and/or well-developed working relationships between senior Bank and IFC managements (in East Asia and Pacific Region)
- Close communication (and co-location, where business conditions permit) between Bank and IFC country offices (in Egypt).[39]

To realize the potential of Bank–IFC cooperation, both the Bank and IFC need to provide explicit incentives. Under the new country engagement model, staff and manager performance reviews may include references to cooperation across World Bank Group institutions. This would provide incentives to the institutions' staff to learn and understand the methods of operation, strengths, and limitations of the other institution, and may eventually lead to effective cooperation. Another option is to encourage staff rotations between the Bank and IFC so that more World Bank Group staff can better understand the Bank or IFC operations.

Along with effective incentives, appropriate resources should be devoted to cooperation. In particular, full participation by IFC in the Country Partnership

Framework process would require a significant increase in the number of IFC regional strategists and economists. Providing incentives to Bank economists to work on private sector issues can partly alleviate the budget implications, and by incorporating IFC sector economists, results measurement specialists, and the Bank's sector specialists with private sector knowledge into the new Country Partnership Framework process.

As planned under the new World Bank Group strategy, much progress has been done in implementing new instruments and mechanisms designed to substantially strengthen intra-agency cooperation both at the design and implementation levels. Guidelines for producing Systematic Country Diagnostics and Country Partnership Frameworks have been issued in CY14 and by end of December 2015, diagnostics and frameworks for 17 countries have been submitted to the Board. In addition, the World Bank Group has set up Joint Implementations Plans and Regional Coordination Mechanism and is expected to increase the number of joint projects.

Through reviews of CLRs, IEG will continue to evaluate the new World Bank Group country engagement model under the Country Partnership Framework to assess whether it is leading to improved cooperation and better development results at the country level. In addition, the ongoing process evaluation of Systematic Country Diagnostics and Country Partnership Frameworks, a real-time evaluation will provide evaluative input into the operationalization and rollout of the World Bank Group's new country engagement approach. Furthermore, IEG will evaluate joint implementation plans while they formally become part of the new Country Partnership Framework process to determine whether these management tools contribute to more effective cooperation at the country level. IEG is preparing a Learning Note on lessons from World Bank Group experience with joint projects to be delivered end FY16.

NOTES

[1] The $60 billion includes IBRD and IDA lending, IFC long-term financing, MIGA guarantees, and Recipient-Executed Trust Funds commitments of $3.9 billion. Reflecting current practice (World Bank Group Annual Report 2015), short-term finance or funds mobilized from other investors are not included in the calculation of overall commitments, as they were in the RAP 2014 (IEG 2014d).

[2] Any effects of the shift from the old sectors to Global Practices on project performance would not be expected to show up until 3 to 7 years in the future, since performance is assessed after projects close. Project completion reports are normally due six months after project closure, and IEG validation occurs only after that. This report covers commitment data through FY15, and performance data on projects closed in FY14 and earlier that have IEG-validated ratings.

[3] IFC 2015.

[4] IFC changed its reporting practices regarding short-term investment amounts beginning in FY15. The change better aligns IFC with the approach used by commercial banks, but it also makes it difficult to

compare IFC's FY15 commitment volume with that of previous years. IFC now reports its average outstanding short-term finance balance instead of total commitments. IEG welcomes the change.

[5] MIGA offers two kinds of guarantees in this category: Non-Honoring of a Sovereign Financial Obligation, and Non-Honoring of Financial Obligation by a State-Owned Enterprise. These guarantees do not require a final arbitral award or court decision as a condition for paying a claim. See http://www.miga.org/investment-guarantees for a description of MIGA's guarantee products.

[6] The cutoff date for the World Bank portfolio performance data used in this report is November 25, 2015.

[7] Net commitment is the final size of the project in US dollars. If some project funds were canceled during implementation, the net commitment is smaller than the initial commitment, which is the size of the project at approval. If funds were added through additional financing, the net commitment is larger than the initial commitment.

[8] In this report, as in its predecessors, success rate is defined as the share of projects whose outcome rating is moderately satisfactory, satisfactory, or highly satisfactory on a six-point scale used by IEG for Implementation Completion Report (ICR) reviews.

[9] As noted in Moll, Geli, and Saavedra (2015), "Policy-based loans are intended to support a set of policy and institutional reforms in a country. They do not directly finance physical infrastructure and are not earmarked as are investment projects. Policy-based loans are shorter in time span and all prior actions/conditions are met before the presentation of the loan to the World Bank Board of Executive Directors."

[10] Project efficiency is not rated for development policy financing projects.

[11] Because IEG has not yet validated any Program for Results projects as of October 2015, this instrument is not included in Figure 2.2.

[12] The IBRD classification for Bank projects is based on the type of agreement when the project is approved.

[13] Examples of clear-cut and straightforward project development objectives (PDOs) included access to services or enhancement of environmental services. Examples of multi-faceted and long-duration PDOs included crop diversification, increased productivity, and associated welfare outcomes.

[14] IEG rated six IBRD, 11 IDA, and 32 Global and Environment Facility projects in FY12–14.

[15] It is important to note significant variation in the number and type of projects in respective practices. The largest number of projects rated for a single Global Practice (GP) during FY12–14 is 53 for the Macroeconomics and Fiscal Management GP, compared with 11 for the Governance GP, and nine for the Finance and Markets GP.

[16] IEG validated 226 IFC investment projects in FY12-FY14. One of these projects could not be rated for development outcome. Accordingly, many of the tables in the document refer to 225 projects.

[17] IFC projects are selected for evaluation based on a stratified, random, statistically representative sample of net approved projects for each calendar year; including closed projects.

[18] See http://ieg.worldbankgroup.org/methodology for more details on IFC's rating methodology.

[19] More information on IFC's self-evaluation systems, including the quality of self-evaluation and lessons, are in IEG's forthcoming evaluation of the World Bank Group's self-evaluation systems.

[20] About 37 percent of the financial markets projects evaluated are rated category C and are expected to have minimal or no adverse environmental or social impacts. Category C projects are not rated for environmental and social effects. Of the projects that were categorized FI (investments that themselves have no adverse social or environmental impacts, but may finance subprojects with potential impacts), 67 percent were rated less than satisfactory for ESH or could not be rated because of insufficient

information, and 20 percent were rated satisfactory or above. IEG did not rate the remaining projects because they had minimal or no adverse impacts.

[21] A separate model for performance of IFC projects exists, developed over several years. Investment success is a key aspect of IFC project performance, and it is not applicable for World Bank projects. This analysis focuses on World Bank investment lending projects.

[22] Previous RAP reports included information on the difference (or "disconnect") between IEG's validation ratings and the self-evaluation ratings in ICRs. In the recent period, the disconnect narrowed for both World Bank and IFC projects, though less so for DPFs. The forthcoming IEG report on self-evaluation systems found that the strong focus on ratings and the disconnect with IEG are a distraction from learning. This report omits the discussion of disconnect to focus on elements that offer more insight and potential for learning.

[23] Consistent with previous RAP reports, this analysis excludes DPFs, which are fewer in number and larger in commitment size than investment project financing (IPF) projects. The method for arriving at outcome ratings also differs. Analysis by OPCS found no significant difference in project size between DPFs and IPFs (Moll, Geli, and Saavedra 2015).

[24] Among the IPF projects closed in FY09–FY14, the correlation coefficients with outcome rating were 0.67 for quality at entry, 0.66 for quality of supervision, and 0.54 for monitoring and evaluation (M&E) quality. In comparison, the correlation coefficients were 0.13 for initial commitment (log), 0.24 for net commitment (log), and 0.37 for the change in size between initial and net commitment (log).

[25] The Corporate Scorecard and other internal documents measure volume, or lending volume, by the size of net commitment (the difference between initial commitment and final project size). In the past decade, the volume-weighted percentage of successful projects was consistently higher than the unweighted percentage of successful projects (Figure 2.2). This observation indicates some relationship between project size and project outcome ratings; however, both project size and project ratings also correlated with other factors related to country context and project implementation.

[26] IEG developed the regression model for IBRD and IDA–funded Investment Financing Projects (IPFs) that closed during FY09–14. The analysis focuses on IPFs only because the evaluation methodology is different for DPFs and IPFs. IEG excluded grants because of inadequate data.

Data used in the ordered logistic regression included project outcome rating, initial commitment amount, and change in commitment amount between approval and closing. Appendix B lists additional variables used to assess their correlations with project outcome ratings.

The regression analysis was conducted with the caveat that the variables available likely do not capture performance during supervision, and especially mid-course correction. IEG relies on ex-post ratings of project quality, and an important limitation is the lack of a systematic assessment of quality at entry at project approval.

[27] The main regression analysis used Country Policy and Institutional Assessment (CPIA) as a measure of country context, but the Gender Inequality Index for the country would have been significant if substituted for CPIA in the model. The same would be true for World Governance Indicators for Government Effectiveness and Rule of Law. However, these indicators are highly correlated with CPIA, so the model used only CPIA. Operational strategies and the developmental mandate of World Bank Group institutions ensures that operations are undertaken in eligible countries based on multiple criteria.

[28] Among the IBRD and IDA funded IPF projects included in the regression analysis, 64 percent had lower net commitment than initial commitment (some funds were canceled or not disbursed). Twelve percent of projects had no cancellations or additions. Twenty-four percent of projects had higher net commitment than initial commitment (they had additional financing).

[29] Larger cancelation was associated with lower performance ratings when the regression model was run with only projects that had cancelations. Running the regression for only projects that had either no change or additional financing, the coefficient for the difference in project size was positive, but no longer significant.

[30] Most projects conduct a formal review of the Project Appraisal Document (PAD) at a meeting chaired by the Country Director. However, certain high-risk projects are discussed at the Regional Operations Committee (chaired by the Regional Vice-President) or at the Operations Committee, in which case the project often receives additional attention during preparation for these meetings. It may also receive additional attention during implementation.

[31] Between FY08 and FY13, the Regional Operations Committee reviewed 163 projects under preparation, and the Operations Committee reviewed 26 projects. (Data were based on an OPCS list of projects reviewed at the Regional Operations Committee or the Operations Committee during FY08–FY13.) Of these 189 projects, 22 closed by FY14 and had Implementation Completion and Results Review (ICRR) ratings. Nineteen of these 22 projects had ICRR ratings for overall project outcome, and 17 of the 19 (89 percent) were rated moderately satisfactory or above. In comparison, among the 664 IBRD and IDA projects closed in FY09–FY14 with ICRR ratings, 70 percent were rated moderately satisfactory or above. This difference was statistically significant at the 90 percent confidence level ($p < 0.1$). The Z score was 1.79. At the more commonly used 95 percent confidence level ($p < 0.05$), this difference was not significant.

[32] This analysis used a convenience sample of data produced by the OPCS review of first Implementation Status and Results (ISRs) for IDA projects, and found that in projects where baseline data were available for PDO indicators at the time of the first ISR, quality at entry ratings were higher than in projects where baseline data were available for only some indicators at the time of the first ISR. For reporting in the Corporate Scorecard, OPCS reviews the first ISRs produced for IDA projects. The review records the number of PDO indicators listed, and whether the ISR reports baseline data for all, some, or none of the indicators. The analysis is used on 346 IDA projects reviewed during FY07–FY14 that closed and had ICRR ratings. Among the projects in which the first ISR contained baseline data for all PDO indicators, 73 percent (155 out of 212) had quality at entry ratings of moderately satisfactory or above in the ICRR compared with 60 percent (49 out of 81) for projects that had baseline data for only some PDO indicators at first ISR. This difference was statistically significant.

[33] This analysis was used on a random sample drawn from investment projects that closed during FY12–14. The sample was at 90 percent confidence level. Moderately unsatisfactory projects were stratified by small and large (83 projects were selected), and 61 moderately satisfactory projects were selected. Small projects were those with net commitment of $25 million or less, and large projects had net commitment of more than $25 million.

[34] This increase is associated with a one-point increase in the M&E quality rating, using two types of project outcome ratings (from self-evaluation and from IEG validation). Note that the M&E quality rating is on a four-point scale, and the project outcome rating is on a six-point scale.

[35] For calculating the country program success rate, IEG considered only Completion and Learning Reviews with a country program rating.

[36] None of these success rates are statically significant at conventional levels.

[37] In FY15, 7 of the 12 Completion and Learning Reviews submitted to the Board were for countries in Latin America and Caribbean region and World Bank Performance was rated fair or below for 5 of those including Argentina, Costa-Rica, Dominican Republic, Panama and Paraguay.

[38] IEG reviewed Country Assistance Strategy Completion Report reviews completed during FY12–14 and other relevant work, including IEG 2010 Evaluation Brief: World Bank Group Cooperation-Evidence and

lessons from IEG valuation, IDA-IFC Secretariat 2009 Models of Joint Strategy Formulation and IEG 2007 IFC Cooperation with the World Bank in the Middle Income Countries, 1996–2006.

[39] The significance of communications between Bank and IFC country offices recently became crucial, since both the Bank and IFC succeeded in decentralizing their operations to regional hubs and countries. Consistent communications between the Bank and IFC, though seemingly elemental, is an important contributor to better understanding and cooperation between the two institutions at the country level.