IEG WORLD BANK | IFC | MIGA
INDEPENDENT EVALUATION GROUP

IEG Annual Report 2011: Results and Performance of the World Bank Group

Volume 3: Management Action Record

The World Bank Group
1818 H Street NW
Washington DC 20433
Telephone: 202-458-4497
Internet: http://www.worldbank.org/ieg/
E-mail: ieg@worldbank.org

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Independent Evaluation Group
Strategy, Communication, and Learning (IEGCS)
E-mail: ieg@worldbank.org
Telephone: 202-458-4497
Facsimile: 202-522-3125

Contents

WB MANAGEMENT ACTION RECORD 2011

1. PUBLIC SECTOR REFORM: WHAT WORKS AND WHY? – AN EVALUATION OF WORLD BANK SUPPORT 8

2. DOING BUSINESS: AN INDEPENDENT EVALUATION – TAKING THE MEASURE OF THE WORLD BANK-IFC DOING BUSINESS INDICATORS 13

3. THE WORLD BANK GROUP GUARANTEE INSTRUMENTS 1990–2007 23

4. DECENTRALIZATION IN CLIENT COUNTRIES: AN EVALUATION OF WORLD BANK SUPPORT 1990-2007....28

5. ENVIRONMENTAL SUSTAINABILITY – AN EVALUATION OF WORLD BANK GROUP SUPPORT 33

6. CLIMATE CHANGE AND THE WORLD BANK GROUP PHASE I—AN EVALUATION OF WORLD BANK WIN-WIN ENERGY POLICY REFORMS 39

7. USING KNOWLEDGE TO IMPROVE DEVELOPMENT EFFECTIVENESS – AN EVALUATION OF WORLD BANK ECONOMIC AND SECTOR WORK AND TECHNICAL ASSISTANCE, 2000-2006....44

8. THE WORLD BANK'S COUNTRY POLICY AND INSTITUTIONAL ASSESSMENT (CPIA)....49

9. HOW EFFECTIVE HAVE POVERTY AND SOCIAL IMPACT ANALYSES BEEN? AN IEG STUDY OF WORLD BANK SUPPORT TO PSIAS....51

10. IMPROVING EFFECTIVENESS AND OUTCOMES FOR THE POOR IN HEALTH, NUTRITION, AND POPULATION - AN EVALUATION OFF WORLD BANK GROUP SUPPORT SINCE 1997 55

11. GENDER AND DEVELOPMENT: AN EVALUATION OF WORLD BANK SUPPORT, 2002–08....74

12. WATER AND DEVELOPMENT: WORLD BANK SUPPORT, 1997–2007 78

13. POVERTY REDUCTION SUPPORT CREDITS: AN EVALUATION OF WORLD BANK SUPPORT ...83

WB IMPLEMENTATION REPORT 2011

14. COUNTRY FINANCIAL ACCOUNTABILITY ASSESSMENTS AND COUNTRY PROCUREMENT ASSESSMENT REPORTS: HOW EFFECTIVE ARE WORLD BANK FIDUCIARY DIAGNOSTICS? 90

15. A DECADE OF ACTION IN TRANSPORT: AN EVALUATION OF WORLD BANK ASSISTANCE TO THE TRANSPORT SECTOR, 1995-2005 93

16. WORLD BANK ASSISTANCE TO AGRICULTURE IN SUB-SAHARAN AFRICA 96

17. THE DEVELOPMENT POTENTIAL OF REGIONAL PROGRAMS: AN EVALUATION OF WORLD BANK SUPPORT OF MULTICOUNTRY OPERATIONS 100

18. DEVELOPMENT RESULTS IN MIDDLE-INCOME COUNTRIES: AN EVALUATION OF THE WORLD BANK'S SUPPORT 106

IFC MANAGEMENT ACTION RECORD 2011

19. IFC IN PAKISTAN 111

20. IEDR 2007 113

21. MSME-FI - 2007 119

22. PEP-ECA 2007 123

23. INDONESIA 2007 125

24. IEDR 2008 129

25. GUARANTEES 2008 131

26. ESHS 2008 134

27. NIGERIA 2008 137

28. BROE 2008 140

29. IEDR 2009 142

30. IMPROVING EFFECTIVENESS AND OUTCOMES FOR THE POOR IN HEALTH, NUTRITION, AND POPULATION - AN EVALUATION OFF WORLD BANK GROUP SUPPORT SINCE 1997 144

MIGA MANAGEMENT ACTION RECORD 2011

32. 2009 IER....153

33. 2008 IEG-MIGA ANNUAL REPORT....156

34. 2006 IEG-MIGA ANNUAL REPORT....158

35. 2007 IEG-MIGA ANNUAL REPORT....159

36. 2003 REPORT ON OPERATIONS EVALUATION IN MIGA....161

37. 2008 WORLD BANK GROUP GUARANTEE INSTRUMENTS....162

WORLD BANK MANAGEMENT ACTION RECORD 2011

1. PUBLIC SECTOR REFORM: WHAT WORKS AND WHY? – AN EVALUATION OF WORLD BANK SUPPORT

LIST OF RECOMMENDATIONS

1.1 Design PSR projects and allocate Bank resources to them with recognition that PSR has especially complex political and sequencing issues.

- Be realistic about the time it takes to get significant results, understand the political context, identify prerequisites to achieve the objectives, and focus first on the basic reforms that a country needs in its initial situation.
- Reconsider the balance between development policy and investment lending, because institutional change usually needs the sustained support of investment projects, although development policy lending can help secure the enabling policy changes.

1.2 Within country PSR strategies, set priorities for anticorruption efforts based on assessments of which types of corruption are most harmful to poverty reduction and growth.

- Only when the country has both strong political will and an adequate judiciary system should the Bank put primary emphasis on support for anticorruption laws and commissions. Given that reducing corruption will be a long-term effort, the Bank should emphasize (i) building country systems that reduce the opportunities for corruption that is most costly to development and (ii) making information public in ways that stimulate popular demand for more efficient and less corrupt service delivery.
- Provide operational clarification to the country team about how the Bank's anticorruption efforts fit within the overall country strategy.

1.3 Strengthen the CSA components of PSR, providing them with a better framework and indicator set, and give more attention to the budget execution phases of financial management.

- This will require PEFA-like actionable indicators for civil service and administrative performance and more linkage between the implementation of reforms for civil service and for financial management.

STATUS OF IMPLEMENTATION

Recommendations	Level of Adoption	
	Mgmt	IEG
1.1 Design PSR projects and allocate Bank resources to them with recognition that PSR has especially complex political and sequencing issues.	**Substantial**	**Medium**
1.2 Within country PSR strategies, set priorities for anticorruption efforts based on assessments of which types of corruption are most harmful to poverty reduction and growth.	**Substantial**	**Medium**
1.3 18.3 Strengthen the CSA components of PSR, providing them with a better framework and indicator set, and give more attention to the budget execution phases of financial management.	**Medium**	**Medium**

MANAGEMENT RESPONSE 2011

Original Response:

1.1 Ongoing/Agreed. Bank management agrees in principle with this recommendation, noting that it points to the importance of intensifying AAA upstream of PSR operations— which can have significant budget implications. How the recommendation can best be implemented will require learning by doing and will depend on country context. To implement the GAC strategy, the Bank's regional Vice Presidential units have identified 26 countries that currently are initiating country-specific country GAC strategy processes—including, in some of these countries, intensified governance assessments that aim to, among others, identify political obstacles to reform and feasible approaches to sequencing. At the conclusion of this learning process, Bank management is committed to reporting to the Board whether and how it intends to systematize and scale up its GAC work, including AAA. Reporting on the agreed actions will be done in the context of overall GAC reporting.

1.2 Mostly agreed. Management agrees with the recommendation that the most effective way in which PSR can support anticorruption efforts is by giving priority to work on country systems and on information flows to the public. As the recommendation suggests, the more complex challenge (which goes beyond the scope of PSR operational work) has to do with the relationship between country strategies and operations more broadly and anticorruption efforts. Management's response to this broader challenge has been laid out in the strategy, "Strengthening World Bank Group Engagement on Governance and Anti-corruption" (World Bank 2007c). Three ways in which GAC strategy implementation addresses this broader challenge are (i) by signaling that GAC is not only a PSR concern but "is everybody's business"; (ii) by intensifying efforts to manage fiduciary and other GAC risks in Bank operations; and (iii) by underscoring that approaches to addressing GAC are country specific and should be derived from poverty-reduction priorities. With regard to IEG's request for operational clarification, this last point implies that attention to GAC issues generally will be most intensive in those sectors that are given priority for poverty reduction in country strategies. The GAC implementation progress report to the Board, to be presented in 2008, will report on experience.

1.3 Ongoing/Agreed. Bank management agrees with the recommendation that a better framework is needed for the civil service and administrative components of PSR work. A strategic staffing exercise, being undertaken as part of GAC strategy implementation, will help implement this recommendation. The Poverty Reduction and Economic Management anchor already has begun recruiting to strengthen its staffing on civil service and administrative reform. Under the GAC strategy and implementation plan, intensified work is under way within that anchor to develop a new generation of "actionable indicators," with indicators for civil service and administrative a top priority. However, as is evident from the seven-year experience of developing the PEFA indicators—cited as a success in the IEG evaluation—the development of new and better indicators is a challenging task that will take time. For the budget execution phases of financial management, Bank management notes that both the PEFA indicators and the CFAAs give them strong attention. An earlier, narrower focus on budget formulation has already has been incorporated in the Bank's operational work. Management will monitor and report on progress on these actions in reports to Executive Directors on the implementation of the GAC initiative.

MAR 2011: Following the endorsement of the GAC Strategy in March 2007 management has taken a series of steps to mainstream the governance agenda in the Bank and ensure greater aid effectiveness. Public sector governance initiatives have been central in this effort. In particular, the Bank has focused on (i) leading by example and mainstreaming the GAC approach in Bank's operations; (ii) strengthening country system and building capacity at the local level, (iii) monitoring progress and results; and (iv) promoting global cooperation and knowledge sharing.

There have been steady gains in both the development of GAC tools and their mainstreaming in the work of the WBG – from upstream CAS strategies to downstream design and implementation of lending operations and technical assistance initiatives. A central focus of the first two years of implementation of the WBG's Governance and Anticorruption Strategy implementation has been on enhancing development effectiveness and poverty reduction while managing risk (responding to the poverty focus of governance and anticorruption work recommended by IEG). From July 1, 2010, the Bank required all investment lending projects to incorporate the new *Operational Risk Assessment Framework* (ORAF) that systematically looks at stakeholder, implementation and overall risks and how these risks are directly linked to a project's development outcomes. Further, Management has undertaken a review of the entire PSG portfolio, including focused attention on 27 specific problem projects, implementation of (almost) quarterly reviews of the PSG portfolio, decentralization of some senior technical staff to country offices as 'mini-hubs' to better implement PSG projects, and reviewed the skill mix of PSG staff. Management is currently preparing a Public Sector Management strategy as part of the overall GAC Phase II Strategy and as part of this work is completing analysis of PSR components of all Bank financed projects, both DPL and IL, to better assess the qualitative assessments of instrument mix to support PSG interventions. Finally, Management established a new Preventive Services Unit within the Department of Institutional Integrity that proactively works with Bank's teams to identify and address risks of corruption ex ante.

At the country level, this approach has translated in promoting a deeper understanding of local challenges and incorporating into CASs and operations the governance, institutional and political drivers of decision making in specific country settings—recognizing the complex political sequencing and time frame issues raised by IEG . The Bank has increasingly focused on improving core country systems, including through strengthening country procurement systems and helping build country capacity and investing more systematically in public sector reform approaches tailored to different types of countries. Since the spring of 2009, the Governance Partnership Facility (GPF) has supported country-level governance programs in 18 countries. Innovative initiatives, such as building capacity to manage Ghana's oil resources by involving civil society, have been implemented through the GPF work. A GAC Portal was launched to all staff in mid-May that brings together GAC knowledge, learning and guidance from all the regions and networks and provides access to online GAC Essentials and Ethics training courses that had deep participation levels.

Further, the Bank has supported the integration of political economy analysis in Bank operations and programs to ensure greater impact and sustainability of the reform process. This has been especially relevant for the Bank's work in the areas of public financial management and anticorruption. In particular, with the support of the GPF, the Bank has made significant resources available to country, sector and selected anchor teams to undertake governance and political economy analyses. Currently, the Bank is maintaining an ongoing list of political economy analytic work that is being undertaken. The list includes about 50 pieces of such work across regions and sectors as of Q2 FY11.

In the areas of Public Financial Management (PFM) activities and the reforms for civil service, the Bank is taking action to strengthen the empirical basis of its work, for instance, as reflected in the creation of Financial Management Information System (FMIS) Database.[1] The FMIS database has supported a review of all completed and active FMIS projects since 1984. The report is expected to be publicly available in Q1 2011. The FMIS Report identifies project characteristics, scope and cost of systems, information and communication technology solutions, project preparation approaches, regional differences in the design and implementation of FMIS solutions, and importantly the operational status of the information systems, in addition to the duration, cost and performance ratings. Based on the findings of the report, 80% of the completed FMIS projects were extended and 82% were completed within budget and resulted in a sustainable and useful solution as a basis for further PFM reforms. Among 55 completed projects, 49 systems (89%) are fully or partially operational, which suggests that from the perspective of obtaining results and sustainability, many of these projects achieved their technical and operational targets. The Report also presents the trends in the design and implementation of FMIS solutions since 1984, and shares observed/reported achievements, challenges and lessons learned with interested parties to assist in improving the performance of related PFM reform programs, and where applicable, human resource management reforms. In fact, HRMIS solutions were visible as an additional component of FMISs in 17 out of 55 completed projects (14 of these HRMIS solutions were fully or partially operational). There seems to be a growing interest in the inclusion of HRMIS modules as a part of integrated FMIS solutions in new projects; this has implications for the ongoing advice and operational streams in the Bank.

The Bank is also supporting the strengthening of institutions of accountability at the country level, focusing on access to information and transparency. As part of this work, the Bank has launched an initiative to build capacity and promote effectiveness of anti-corruption authorities (ACAs) in collaboration with UNODC, the US State Dept. and the European Commission. To this end, the Bank organized a Workshop with heads of ACAs in March 2010. The Workshop highlighted a set of factors that influence the effectiveness of ACAs. As a follow up the Bank is gathering detailed information from ACAs around the world on lessons learnt, and is creating a web portal to share the results of this effort. In addition, the Bank has launched in 2008 the Public Accountability Mechanisms (PAM) Initiative. This initiative is a part of the Actionable Governance Indicators (AGI) work described below and brings forward detailed and regularly updated data on countries' efforts to enhance transparency and the accountability of public officials (income & asset disclosure, conflict of interest, freedom of information/right to information, immunity protections, ethics training), and has been applied in a total of 87 countries.

Measuring progress and impact of the governance and anti-corruption agenda on the ground has also been a critical component in the strategy moving forward. In October 2009, the Bank formally launched the *Actionable Governance Indicators (AGI) Portal* that includes data from 13 separate sources (including Global Integrity Index, Public Expenditure and Financial Accountability (PEFA), CPIA, Afrobarometer, Governance in Social Sectors, Open Budget Index, International Budget Practices and Procedures Survey, Polity IV Project, Press Freedom Index, Public Accountability Mechanisms, Statistical Capacity, Enterprise Surveys, and Doing Business). The data Portal, publicly accessible and regularly updated, provides data and tools on different areas of public sector governance reform.

Over 200 PEFA Performance Measurement Framework assessments (led by a range of donor partners and countries) have been

[1] The World Bank FMIS Database (1984-2010) includes 94 projects (55 completed + 32 active + 7 pipeline) from 51 countries as of August 2010. http://connectprem.worldbank.org/psg/pf/fmis

completed in over 110 countries and some 40 are completed annually. These assessments cover all phases of the budget process, from budget formulation, through execution and reporting. In addition, the Bank has been promoting the use of AGIs at the country level supporting the development of local initiatives, such as the "Data Tracking Mechanism" in Uganda. Here, by using existing data, and at no direct cost to the government, the Bank in collaboration with other donors has supported the Government to identify a set of corruption performance data that could be used to systematically monitor progress. In this case, the Ugandan Government has taken ownership and is moving forward to monitor corruption performance on an ongoing basis.

In light of the IEG's highlighting the need for PEFA-like actionable indicators for Human Resource Management (HRM), the Bank has developed an instrument for capturing systematic evidence on the design, implementation and performance of HRM systems in client countries – the HRM AGI Instrument. The instrument has been applied in eleven pilot countries. Moreover, in an effort to establish an "industry standard" for capturing such evidence, the Bank has met with and achieved agreement on the HRM system performance indicators from a number of donors active in supporting civil service reforms (OECD, European Commission, DFID). In addition, the Bank has developed or is now in the process of developing a number of sector-specific instruments for AGIs (Health, Education, and Forestry) which have been piloted in several countries. The challenge moving forward is to ensure widespread use of such instruments in our support for institutional and governance reforms addressing HRM issues in our client countries.

In parallel to the AGI Data Portal development and launch, the Bank has continued to support the implementation of detailed Governance and Anti-corruption Diagnostic Surveys aimed at identifying priorities for anti-corruption efforts. Since 2007 the Bank has carried out country specific initiatives in several countries in Africa and MENA (Mauritania, Cameroon, Senegal, Cote d'Ivoire, Yemen, Morocco, among the others).

Finally, the Bank has focused on promoting global cooperation and knowledge sharing. The Bank has actively supported new initiatives that are emerging at the global level, including through partnerships among donor agencies, civil society groups, and governments for better development outcomes – such as the Extractive Industries Transparency Initiative (EITI), and the Construction Sector Transparency Initiative (CoST). A key global effort for the Bank has been the Stolen Assets Recovery (StAR) initiative, launched in partnership with the United Nations Office on Drugs and Crime. StAR which supports international efforts to deter illicit flows of the proceeds of corruption and facilitate asset recovery. In addition, the Bank has focused on promoting knowledge management and sharing on these key issues. This has led to the creation of the new GAC web-portal, which includes good practice cases, a good practice framework, e-learning module and other useful information -- and the establishment of the Bank's Political Economy Community of Practice ('PE CoP'), which first convened in October 2009.

IEG RESPONSE 2011

Over the past year, significant resources and time have been devoted to the implementation of the wide-ranging Governance and Anti-Corruption strategy. These include several of the initiatives noted above including the launch of the Operational Risk Assessment Framework as well as various global GAC efforts such as StAR, CoST, and EITI. However, the key issue is whether these activities are impacting the Bank's public sector reform portfolio. As noted in IEG's comments to the MAR2010, Management's response and ratings should distinguish between (i) Bank-wide GAC efforts and those that have specific relevance to the PSR portfolio; and (ii) Network guidance and analytical activities (such as reviews, guidance notes, Communities of Practice, etc.) and their actual impact on PSR operations.

Comments on the specific IEG recommendations and management responses are provided below:

1.1 Management does not provide any evidence that PSR operations benefitted from additional resources and more intensive upstream analysis. Rather, it references the more generic CGACs (launched in Year 1 of GAC implementation), which were focused on cross-cutting country level strategies rather than the design of *specific PSR operations*. Incidentally, an internal review, conducted in 2010, found that only 7 of the 26 CGACs were successful in improving selectivity of Bank engagement but did not comment on their impact on PSR in particular. Similarly, the Management response to IEG recommendations (on political economy analysis) notes that almost 50 such analytical pieces were supported by the GPF. Yet, here too, Management does not clarify whether these were PEAs were linked to the design of PSR operations *per se*; the latest tally suggests that many of these analyses focused on sectoral issues. Management could usefully provide an update of the 2009 QAG Benchmarking GAC Survey to demonstrate whether PSR operations continued to fare better-than-average in terms of its use of PE analysis. It could also explain whether PREM public sector units in Regions have increased their AAA, lending, and supervision budgets relative to the past.

As in the MAR2010, Management's response does not cover the second element of IEG's recommendation, i.e., striking the right balance between DPLs and investment lending in support for PSRs. Aggregate data on the share of DPL and IL-based commitments alone may not help in evaluating the instrument mix for PSR in part due to the increased use of DPLs in middle income countries as part of the Bank's crisis response. Experience suggests that some of these operations tend to be tagged as supporting "law and public administration" even when their reform content is more specific to other sectors. Therefore, country-specific data on the mix of instruments supporting PSG would be necessary to monitor progress in implementation IEG's recommendation. Also, Management should clarify whether the Results Based Investment Lending instrument would address issues raised by IEG (i.e., the need for an instrument that accommodates the longer time horizon of complex public sector reforms).

Since recommendation 18.1 relates to actual impact on Bank PSR operations (rather than the provision of guidance), *IEG rates the current level of adoption as* ***medium****.*

1.2 Overall, there has been significant effort to provide guidance on how the Bank's anticorruption efforts fit within country strategies. The bulk of these efforts relate to anticorruption efforts on Bank projects, as reflected in guidelines issued by LEG in 2006 and recently updated in 2011. Other GAC-in-projects guidance on preventing fraud and corruption risks as well as the use of demand-side measures (such as complaints handling, third party monitoring, and transparency) have been provided by OPCS, INT, and Network Anchors. There is some anecdotal evidence that these efforts have raised awareness of fiduciary risks in Bank operations, however, Management has not provided an update of the results of the 2009 QAG Benchmarking Survey on incorporation of F&C safeguards in projects.

More generally, it is not clear whether GAC-in-projects efforts have contributed to a more coherent approach to building anti-corruption capacities within countries. The ACA initiative as well as the global efforts to prevent corruption (for instance, StAR, AML, EITI, COsT, etc.) bode well for the Bank's objectives if it can fit global initiatives to country needs. In its response, Management should provide more evidence of how these corporative initiatives are being adopted at the country level, and *whether they are helping the Bank and its clients avoid the pitfalls of earlier approaches to strengthening ACAs* (which was the spirit of IEG's recommendation). In particular, it is not clear whether the role of the judiciary and other enforcement mechanisms are being considered.

An area that continues to be of concern is the lack of progress on *the use of country systems (UCS).* Over the past year, reports to the Board indicate that the Bank has fallen far short of its goals in piloting of UCS, particularly in the area of procurement. This seems at odds with the Management's response in the MAR2011. In the coming year, it remains to be seen whether attempts to build a more graduated approach in step with improvements in country capacity show more promise. Benchmarking of UCS (of FM and procurement systems) at the country level should be collected by Management in its GAC Phase II report.

Compared with MAR2010, the rating for level of adoption for 1.2 does not warrant change and should be ***medium****.*

1.3 Management has invested considerable resources in the launch of the AGI platform, and in particular, indicators on HR systems. Progress on sectoral AGIs also bode well for Bank efforts to ensure that cross cutting reforms begin to positively impact sectoral performance. *The Management response (and the upcoming Public Sector Reform Strategy update) could usefully include a stocktaking of Bank operations that incorporate HRM AGIs into their results frameworks.* This evidence is critical to determining level of adoption going forward. Progress on the second round of PEFA assessments, with particular focus on budget execution, is noteworthy.

IEG agrees with Management that recommendation 18.3 should be rated as ***medium*** *for level of adoption.*

2. DOING BUSINESS: AN INDEPENDENT EVALUATION – TAKING THE MEASURE OF THE WORLD BANK-IFC DOING BUSINESS INDICATORS

LIST OF RECOMMENDATIONS

2.1 To improve the credibility and quality of the rankings, the DB team should:

(a) Take a strategic approach to selecting and increasing the number of informants:

– Establish and disclose selection criteria for informants.
– Focus on the indicators with fewest informants and countries with the least reliable information.
– Formalize the contributions of the supplemental informants by having them fill out the questionnaire.
– Involve Bank Group staff more actively to help identify informants.

(b) Be more transparent on the following issues of process:

– *Informant base*: Disclose the number of informants for each indicator at the country level, differentiating between those who complete questionnaires and those who provide "supplemental" information.
– *Changes in data*: Disclose all data corrections and changes as they are made. Explain their effect on the rankings, and, to facilitate research, make available all previously published data sets.
– *Use of the indicators*: Be clear about the limitations in the use of the indicators for a broader policy dialogue on a country's development priorities.

(c) Revise the *paying taxes* indicator to include only measures of administrative burden. Since the tax rate is an important part of the business climate, DB should continue to collect and present simple information on corporate tax rates, but exclude it from the rankings (as it does for information on non-wage labor costs in the *employing workers* indicator). A wider range of informants should also be engaged for the *paying taxes* indicator.

2.2 To make its reform analysis more meaningful, the DB team should:

(a) Make clear that DB measures improvements to regulatory costs and burdens, which is only one dimension of any overall reform of the investment climate.

(b) Trace the impact of DB reforms at the country level. The DB team should work with country units to analyze the effects of implementing the reforms measured by the DB indicators (such as revised legislation or streamlined process) on: (i) firm performance, (ii) perceptions of businessmen on related regulatory burdens, and (iii) the efficiency of the regulatory environment in the country.

2.3 To plan future additions to or modifications of the indicators, the DB team should:

(a) Use Bank analyses to drive the choice of DB indicators. Business Enterprise Surveys, Investment Climate Assessments, and other work can help determine stakeholders' priorities for domestic private sector growth. The DB team should use such analyses to determine the choice of new indicators, and periodically assess its current set of indicators.

(b) Pilot and stabilize the methodology before including new indicators in rankings. Frequent changes in methodology make comparison across time less meaningful. New indicators should be piloted (that is, data collected and published for comment, but not factored into the rankings) until the methodology is validated and stabilized.

STATUS OF IMPLEMENTATION

Recommendations	Level of Adoption	
	Mgmt	IEG
2.1 To improve the credibility and quality of the rankings.	**High**	**Medium**
2.2 To make its reform analysis more meaningful.	**Substantial**	**Medium**
2.3 To plan future additions to or modifications of the indicators.	**High**	**High**

MANAGEMENT RESPONSE 2011

2.1 To improve the credibility and quality of the rankings, the DB team should:

2.1.a. Take a strategic approach to selecting and increasing the number of contributors:

Increase the overall number of contributors for DB2011: Management continued to increase the respondent pool with each new report. The number of contributors was increased from 5,540 in the DB08 report (published September 07), to 6,773 in the DB09 report (September 08), and to 8,040 in the DB2010 report (September 09). This year, the DB2011 report counted on the participation of 8,201 contributors.
The number of contributors per topic have also increased significantly since the IEG evaluation:

	DB08	DB11 (excluding new countries added*)	% increase	DB11 (including new countries added*)	% increase
Starting a Business	968	1379	42%	1406	45%
Dealing with Construction Permits	492	580	18%	605	23%
Registering Property	749	1107	48%	1128	51%
Getting Credit	701	1111	58%	1127	61%
Protecting Investors	486	856	76%	874	80%
Paying taxes	708	859	21%	891	26%
Trading across borders	913	1266	39%	1279	40%
Enforcing contracts	687	975	42%	984	43%
Closing a business	661	845	28%	852	29%
Employing workers	663	854	29%	862	30%

*Note: From DB08 to DB11 the sample of countries increased from 178 to 183 economies.

The Doing Business team appointed a staff member to focus on contributor management who, in collaboration with other units in the World Bank Group, has worked to increase the number of contributors. To ensure contributor selection and participation in particularly hard to reach countries, the team travels to a selected group each year. In 2010, the Doing Business team traveled to 33 countries to verify information, collect relevant laws and recruit new contributors. Contributors are selected based on their expertise in the topic. For Doing Business 2011, the contributor base was expanded and further diversified by including municipalities, company and collateral registries in the relevant areas. The Doing Business team also continues to collect relevant laws and regulations underlying the indicators. Doing Business 2011 also benefited from input received during the June 2010 update review in collaboration with WBG country offices and Executive Directors' offices regarding changes in business regulations or institutions that impact the indicators. The team received updates from 65 governments and additional input related to 80 economies through WBG colleagues.

Given the finite pool of possible recruits, several actions have been taken to improve retention rates of contributors. A periodic newsletter is sent out regularly, keeping contributors up-to-date on the latest project news. New online surveys were introduced for the Doing Business 2011 cycle to facilitate the collaboration of the contributors. Over 25% of responses received were completed online. A Client Relationship Management system was introduced to accurately manage the contact database. Contributors are also invited to participate in project related events. Among others, contributors participated at events in Afghanistan, Chile, Georgia, Kazakhstan and Vietnam.

***Establish and disclose selection criteria for contributors*:** To ensure accurate interpretation of regulations and reliable time estimates, Doing Business works with local experts who routinely administer or advise on legal and regulatory requirements. Given the nature of the DB methodology, the objective is to find the most knowledgeable and experienced contributors in each area of business regulation. DB targets professionals in various areas of expertise in line with the topics covered by DB and ensures that they are fully familiar with DB methodology and relevant case study assumptions. Accordingly, DB contributors are selected based on specific criteria such as their area of expertise and practice specialty in the case of lawyers. DB encourages stakeholders including governments to nominate local contributors and invites local experts to contribute to the project through its website. Once nominations are received, selection is finalized once this criterion is ascertained to the best of the team's ability and available information. The selection criteria and profile of contributors are the following:

- Commercial Lawyers
- Notaries
- Judges
- Architects
- Trade logistics specialists
- Accountants
- Electricians

In addition, government agencies or institutions directly related to an area covered by Doing Business are also selected and invited as contributors (e.g. company registrars, public credit registries, private credit bureaus, land registry officials, tax authority officials, utility companies)

The selection criteria and method to nominate contributors are included on the website: http://www.doingbusiness.org/contributors/doing-business/become-partner
***Focus on economies and indicators with fewest contributors*:**

Special efforts and attention continue to be accorded to economies and indicators with the lowest numbers of contributors. Contributor recruitment and data collection missions were conducted in 33 countries for DB2011.

New contributors were recruited in all countries visited in 2010, including in economies in which contributor recruitment was a challenge, such as Bhutan, Chad, Congo (Rep), Dem. Rep. of Congo, Fiji, Kiribati, Lesotho, Papua New Guinea, Samoa, Swaziland, Vanuatu, Venezuela and Zimbabwe.

The number of contributors per indicator in DB2011 ranged from 852 globally (for Closing a Business) to 1,406 globally (for Starting a Business). For the Registering property indicator, for example, the number of contributors increased from 1,010 in DB10 to 1,128 in DB2011, or about a 12 percent increase. The contributor base for the Paying Taxes indicator was further diversified. In DB2011 the number of economies with contributors other than PricewaterhouseCoopers for the Paying Taxes indicator increased to 142. On average, each indicator increased its contributor base by 43% compared to DB08 (as presented in the contributors table above).

***Formalize contributions of supplemental contributors*:** Management maintains a database of contributor responses in the form of self-filled surveys for the great majority of contributors. On relatively limited occasions, these surveys are elaborated or supplemented by team-filled surveys after conference calls and country visits, usually because of language barriers or technological constraints (such as lack of access to computers or facsimile machines). Moreover, DB consults contributors who have knowledge or expertise in a particular area of a survey and thus offer partial survey responses, for example consulting utility companies to respond to the relevant section of the "dealing with construction permits" survey. In these cases, DB maintains either the self-filled relevant portion of the survey or other formal documentation of the interaction. All people who provide a substantial contribution are included and recognized in the contributor list, both in the published report and on the DB website: http://www.doingbusiness.org/contributors/doing-business.

Involve Bank Group staff to help identify contributors: For DB2011, the DB team and its Management have continued to consistently invite World Bank Group staff, as well as Executive Directors and their staff, to nominate contributors. Special effort has been made to encourage staff (both WB and IFC) based in country offices to nominate contributors. These invitations and efforts have continued to be made in meetings, country visits, and other communications, and they continue to be a source of new contributors. As a result, for the DB 2011 report, country staff in Algeria, Belarus, Bhutan, Cameroon, Chad, Rep. of Congo, Japan, Laos, Mali, Malawi, Montenegro, Nepal, Nigeria, Saudi Arabia, Trinidad and Tobago, and Uzbekistan have assisted the DB team in identifying new contributors.

2.1 Original Response: Mostly Agreed. Bank Group management mostly agrees with this recommendation, noting that it primarily points to the importance of intensifying the rigor of recruiting and maintaining a large pool of expert respondents.
– To implement the first part (point a) of this recommendation, management has hired a respondents' manager on the DB team. The task of the respondents' manager is to select and increase the number of respondents, focusing in particular on the poorest countries and other economies with the fewest number of respondents. In addition, management commits to increase the involvement of Bank Group staff in recruiting respondents and to conduct annual data collection visits to the 50 economies with the fewest number of respondents. Thirdly, management will expand the piloted practice of giving out awards to the respondents who have contributed high-quality data over a sustained period of time. Such awards serve to express gratitude for the respondents' efforts and to maintain the pool of respondents.
– To implement the second part (point b) of this recommendation, management commits to disclosing the number of respondents for each indicator at the country level, starting with the launch of *Doing Business 2009*. Management is also making available details on data corrections/changes and methodology changes that have been made in the year following the launch of the previous report. Lastly, management commits to expanding the discussion on the limitations in the use of the DB indicators in the "Methodology" section of the report and on the Web site. However, management disagrees with the recommendation to make available all previously published data sets, not corrected for errors and methodology changes. This practice is unorthodox and is not followed by other major primary data providers. The data used in the background research for DB are already published on the "Research" page of the DB Web site. The full time series of DB data, corrected for errors and methodology changes, is also available at the "Get Full Data" page of the DB Web site. These two data sources have been widely used by researchers, with more than 800 academic papers utilizing the DB data.
– Management mostly disagrees with the last point (point c) of the recommendation. The tax rate is often identified as a major constraint to business activity in the World Bank Enterprise Surveys. Including a measure of overall tax burden Management Action Record Recommendation Management Response in the DB indicators provides a complete treatment for the topic of *paying taxes*. Focusing only on the administrative burden of *paying taxes* will take the DB methodology away from covering a broader spectrum of areas relevant to small domestic businesses. However, management commits to expand the range of respondents on the *paying taxes*' survey by recruiting a larger set of accounting and tax experts.

MAR 2011:
2.1.b. Be more transparent on the following issues of process:

Informant base: Contributor lists are published in DB reports and on the website. (Contributors are only excluded from this list upon their own request.) Management makes available on the DB website the number of contributors by indicator at the country level. This information is available by selecting any country at: http://www.doingbusiness.org/contributors/doing-business. An electronic law library with links to relevant laws and legislations is also accessible at: http://www.doingbusiness.org/law-library,

***Changes in data*:** Data correction rates are published annually, and, for DB11, are found on page 111. The approach to methodology changes and data corrections are described in the "About Doing Business" section of the DB 2011 report. In addition, a "Data challenges and revisions" section is included in the 'Data Notes', which complements that information.

In 2010, Management implemented a modernization of the DB website, enhancing the overall access to information. Following IEG recommendations, particular emphasis was put on the availability of information on methodology and revisions, and making the pages more user-friendly. A full page on 'Methodology' (http://www.doingbusiness.org/methodology) is now accessible from the main menu on the DB home page. In addition, a large 'More Information' box is included on that page with direct links to the following:

1) Changes to methodology this year (http://www.doingbusiness.org/Methodology/Methodology-Note)
2) Changes to methodology of previous years (http://www.doingbusiness.org/Methodology/Changes-to-the-Methodology)
3) Common misconceptions about Doing Business (http://www.doingbusiness.org/methodology/common-misconceptions)
4) Data Corrections to DB10 data (which includes both published and corrected data) http://www.doingbusiness.org/~/media/FPDKM/Doing%20Business/Documents/Methodology/Others/DB11-corrections.xlsx
5) Data Corrections to DB09 data (which includes both published and corrected data) http://www.doingbusiness.org/~/media/fpdkm/doing%20business/documents/methodology/others/db10-corrections.pdf
6) Economy characteristics that were used by the DB report http://www.doingbusiness.org/data/exploreeconomies/economycharacteristics
7) A link to the Doing Business IEG report: http://go.worldbank.org/CYH45V15G0

In response to follow-up discussions with IEG during 2010 regarding the Data Corrections file referenced in point 4 above, Management has now published a user-friendly Excel file (to replace the previous PDF file) which contains the details of corrections made to the last two years of Doing Business data. For example, the DB11 corrections sheet includes the DB10 corrected data, as well as the DB10 data as it was published. The DB10 corrections sheet which illustrates changes to DB09 data is also available on the website. Moving forward, the data corrections in in future years will be published in a similar fashion.

The publication of all historical data corrections beyond DB09 data remains a technical challenge due to the data-structure that was maintained in the past, which makes such visualization rather difficult. Further to the recommendations of the IEG and discussions that ensued, $1.8 million was obtained in an allocation from the WB IT Council to build a modern IT system to handle the continuous enlargement of DB database and will have the capacity to record and report on various elements, including corrections and methodology changes. The project is currently ongoing over FY11 and FY12, with an anticipated final delivery in FY13.

***Use of the indicators**:* The IEG evaluation noted that, while effective in catalyzing reform debates and dialogue, the Doing Business indicators did not appear to have distorted policy priorities or encouraged policy makers to make superficial changes to improve rankings. DB reports have consistently noted that DB measures only a subset of the broader business environment.

For DB2011, Management added a new 'Preface' to the report (page v). In the fifth paragraph, it is explicitly states that *"DB is limited in scope and does not consider the costs and benefits of regulation from the perspective of society as a whole. Nor does it measure all aspects of the business environment that matter to firms and investors or affect the competitiveness of an economy."* The new Preface also states that *"World Bank Group dialogue with governments on the investment climate is designed to encourage critical use of the data, sharpening judgment, avoiding a narrow focus on improving Doing Business rankings and encouraging broad-based reforms that enhance investment climate."*

The Executive Summary (page 1) in the DB 2011 report describes the limitations of the DB indicators in the fourth paragraph. In addition, the "About Doing Business" chapter introduced in DB09 was maintained and updated in DB10 and in DB 2011 (pp.12-17). The chapter transparently lays out for the user the scope and limitations of the project and clarifies the use of the indicators.

2.1.c. Revise the *paying taxes* indicator to include only measures of administrative burden

Management's difference of opinion on this recommendation was noted in our original Management Response. We note that the IEG recommendation to revise the paying taxes indicator to include only measures of administrative burden, and excluding taxes and other mandatory payments to government, is at odds with the separate recommendation (see 2.3.a) on the use of the other World Bank analyses to determine the priorities for regulatory reform. In the World Bank Enterprise Surveys (www.enterprisesurveys.org), for example, tax rates are considered a top obstacle in twice as many countries as tax administration. *Doing Business* records the time and cost related to paying taxes and mandatory contributions from the perspective of a local SME, for whom tax and mandatory payment burdens are an important consideration.

In recognition of divergent perspectives on this point, and as part of its commitment to engage with key stakeholder groups, the DB team has been engaged in a consultation process with the International Tax Dialogue (ITD), which includes the OECD, IMF, IDB, EC and World Bank Group, for the last 2 years. As a result, several questions were added to the DB11 Paying Taxes surveys regarding tax administration to expand the data collected and inform the indicators. The new questions look into the time firms spend on post-filing interactions with the tax authorities as well as time spent on taxes other than consumption, labor and profit taxes (the current time sub-indicator only measures time spent on these 3 types of taxes). The survey also added more detailed questions on employment taxes and social security contributions paid by employees in addition to the employer to inform research on the labor tax wedge and see how many countries are affected by a greater burden placed on the employee versus the firm. For the *Doing Business 2012* data collection cycle, the team will expand the consultative process beyond the ITD to include:

- Internal consultations with colleagues working on taxation within the World Bank and IFC
- Networks such as the OECD Informal Task Force on Tax and Development, International Centre for Taxation and Development (ICTD), and African Tax Administration Forum which consist of developing countries, non-governmental organizations, and other civil society organizations.

Consultations will focus on suggestions to improve the methodology of the Paying Taxes indicator, Upon completion of these consultations, management will decide whether additional modifications to this indicator are warranted.

2.2. Original Response: Agreed. Bank Group management agrees with this recommendation and will strive to make it even clearer in future DB reports and presentations that DB covers only some dimensions of the overall reform of the investment climate. Management also commits to a measurement and evaluation agenda, in partnership with WB country units and IFC regional facilities, to document the effect of DB reforms on a set of economic and social indicators. The World Bank Enterprise Surveys in particular will be used for this work.

MAR 2011:

2.2 To make its reform analysis more meaningful:

2.2.a Make clear what DB measures and what it does not:

DB reports have consistently noted that DB measures only a subset of the broader business environment.

In DB2011, Management included a new 'Preface' to the report (page v) providing background on the project. In the fifth paragraph, it is clearly stated that

- *"DB is limited in scope and does not consider the costs and benefits of regulation from the perspective of society as a whole. Nor does it measure all aspects of the business environment that matter to firms and investors or affect the competitiveness of an economy."*

The Executive Summary (page 1) in the DB 2011 report also describes the limitations of the DB indicators in the fourth paragraph.

- "*Doing Business does not cover all factors relevant for business. For example, it does not evaluate macroeconomic conditions, infrastructure, workforce skills or security. Nor does it assess market regulation or the strength of financial systems, both key factors in understanding some of the causes of the financial crises.*"

In addition, the "About Doing Business" section introduced in DB09 was maintained in DB10 and again in DB 2011 emphasizes that "*World Bank Group dialogue with governments on the investment climate is designed to encourage critical use of the data, sharpening judgment, avoiding a narrow focus on improving Doing Business rankings and encouraging broad-based reforms that enhance investment climate*."

In response to follow-up discussions with IEG during 2010, in the DB2011 publication, additional changes were introduced to ensure precise use of language. For example, the previously named "Top 10 Reformers" are now described as "the 10 economies that improved the most in the ease of doing business". Precise language is also used to describe and refer to changes in business regulations or institutions that are recorded through the indicators and reported on in the report (e.g. "introduction of a one-stop shop", "passing of a new company law", or "improvements in the area of starting a business").

Appropriate phrasing was adopted in all relevant press materials supporting the launch of DB11.

2.2.b. Trace the impact of DB reforms at the country level:

A key aim of the DB project is to inform business regulatory policy decisions and policy advice where appropriate. Doing Business tracks and reports annually on regulatory changes implemented in the areas which it covers. A number of efforts have been undertaken to track the direct impact of such changes, and to trace the linkages to desired economic outcomes. They include statistical data obtained directly from governments, research from within the WBG, as well as external findings. For DB2011, the DB team established communication with governments that had improved their business regulations as measured by DB to impact data such as number of users of new registries. In particular, the governments of Burkina Faso, Colombia, the Arab Republic of Egypt, the Republic of Korea, the former Yugoslav Republic of Macedonia, Mexico, Portugal and Rwanda provided such information, which was presented in the DB11 report.

To show longitudinal change in business regulation over time and at the country level, a new metric was introduced in DB11 which illustrates improvements in business regulations as measured by the DB indicators-- such as a reduction in the time to start a business thanks to a one-stop shop or an increase in the strength of investor protection index thanks to new stock exchange rules that tighten disclosure requirements for related-party transactions--over a period of 5 years. This measure of cumulative improvement allows economies to measure their progress relative to where they started---rather than to the performance of other economies. The findings are encouraging: in about 85% of the 174 economies, doing business is now easier for local firms (see figure below):

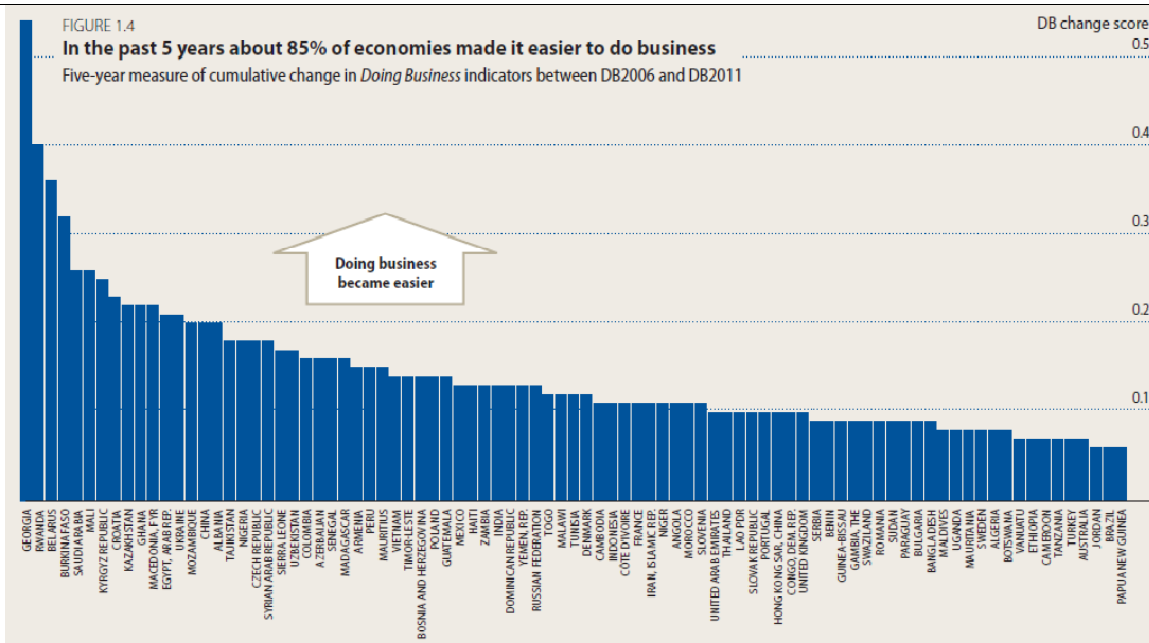

FIGURE 1.4
In the past 5 years about 85% of economies made it easier to do business
Five-year measure of cumulative change in *Doing Business* indicators between DB2006 and DB2011

The dataset has enabled a growing body of empirical research. DB2011 reports on findings from recent research. Management also introduced a new 'Research' section to the DB website in 2010: http://www.doingbusiness.org/research, which cites peer-reviewed articles published in the top 50 economic journals. This new section, which will be updated yearly, highlights relevant research on the linkages of business regulations with business activity and economic outcomes. The information is searchable by Doing Business topic, and abstracts are available for quick reference. To encourage new research and information diffusion, the website also provides a mechanism for submission of publications.

1.1 The DB team is collaborating with other WBG departments, including the Enterprise Analysis unit in GIA, DEC and CIC to better understand the impact of business regulation reforms, and to trace the linkages to desired economic outcomes. In DB2011, a new sub-section was included to each chapter: "What are some results?" DB2011 presents some initial findings from such research supplemented by information on short-term results such as cost savings for firms or number of beneficiaries, New initial results are presented on the relationship of regulatory changes to simplify business start-up, dealing with construction permits, registering property and trading across borders in East Europe and Central Asia, the region most active in implementing policy changes in those areas, and labor productivity. FPD is also currently mobilizing funding for further research using those datasets as well as the subnational Doing Business project datasets and census data where available, to expand the analysis of the impact of regulations on a wider range of firm performance measures. In addition, a research competition will be held in 2011 to stimulate external research as part of preparations for a planned research conference in 2012 which will focus on the impact of DB reforms. This research conference will mark the 10th anniversary of the Doing Business project. A mix of researchers and policymakers will present their research and experience regarding Doing Business.

2.2. Original Response: Agreed. Bank Group management agrees with this recommendation and will direct the DB team toward using other Bank Group analyses, and in particular the Enterprise Surveys and Investment Climate Assessments, for both determining the choice of new indicators and periodically assessing the existing set of DB indicators. Management also commits to publishing new sets of indicators in future DB reports for comment, while not factoring those in the rankings until their methodology is validated by academic research.

MAR 2011:

2.3 To plan future additions to or modifications of the indicators, the DB team should:

2.3.a. Use Bank analyses to drive the choice of DB indicators:

Management agrees with the recommendation to use other World Bank analyses, most importantly the Enterprise Surveys and Investment Climate Assessments, to inform the choice of topics in Doing Business and enrich the analysis in future reports. The current work on the pilot indicator on getting electricity was derived from the results of Enterprise Surveys. In DB2011, the sample of economies for this indicator has been expanded from 140 economies to 176.

Prior to the publication of DB2011, an extensive process of consultation within the World Bank Group was carried out by the Doing Business team on all of its indicators. This consultation process included the six regions of the World Bank Group and other VPU's. These consultations continued after the DB2011 publication, in particular with the Legal department. The result of these initial consultations will feed into the questionnaires for the DB2012 data collection process.

2.3.b. Pilot and stabilize the methodology before including new indicators in rankings:

For new indicators, Management's approach is to first publish new indicators for comment, not factoring them into rankings until their methodology is validated by academic research. The work on a new indicator on "getting electricity" illustrates this approach. In 2009, initial results and methodology of the pilot indicator on getting electricity were published in DB10, and further presented in a working paper. The results were again published in DB11, and management is now considering whether to incorporate the indicator into the rankings for DB12.

Management is also applying this approach to the revision of one of DB's existing indicators: the Employing Workers Index (EWI). The EWI is undergoing a review to improve the indicator to allow it to better measure labor regulation within internationally accepted worker protection standards. The World Bank Group has been working with a consultative group - including experts from the ILO, employers' and employees' representatives, OECD, civil society, labor lawyers, and private sector - to discuss the employing workers methodology, as well as suggest future areas of research. Until this consultation process is complete, the EWI indicator has been removed from the Doing Business rankings, while the report continues to publish extensive data on labor regulation in 183 economies.

Starting this Fiscal Year, the mandate of the recently appointed FPD Chief Economist has expanded to include quality assurance of the indicators produced within FDP. Consequently the Doing Business team has engaged with the FPD Chief Economist Office to consult on the existing DB indicators and potential future indicators.

IEG RESPONSE 2011

2.1 To improve the credibility and quality of the ratings

There has been progress since the evaluation in improving the credibility of ratings and we especially appreciate management's openness during this past year to consider, discuss and follow up on the recommendations. These include recent enhancements to the Doing Business Website improve implementation of IEG's recommendations in 2.1 (b) pertaining to transparency. The number of contributors to DB continues to increase gradually and is being disclosed, steps to stabilize the pool of contributors have been taken, and information on data changes is more accessible. Efforts have also been made to more transparently identify the limitations of what DB measures by adding a new preface to the report and relabeling the index to indicate it is not an index of overall reform.

However, there remain fundamental areas where the recommendations have not been implemented. The level of adoption is rated as 'medium' with respect to changes that have been made, but leaving clear IEG's basic concern on "the credibility and quality of the ratings" as elaborated below:

- To improve the credibility and transparency of country rankings IEG noted weaknesses in their use and construction that should at a minimum be transparently communicated to users. These include fundamentally the presumption for most of the indicators that less regulation is better, in a reform context, the difficulty of measuring confidence in indicator accuracy due to the small informant base, and the sensitivity of ranking to small changes in the indicators depending on where a country sits in the distribution. Clarity in communicating these weaknesses to users, particularly in understanding anomalies in the rankings, should be addressed.
- While data corrections are provided, as noted in the 2010 MAR the *reasons* for data changes are still not disclosed (e.g. new data, entry error, changes in methodology, etc.) making it difficult for users to clearly understand why country rankings may shift.
- As noted in the 2010 MAR, DB does not disclose its selection criteria for informants (other than occupational categories), as recommended in 2.1 (a). DB should explain its process for vetting prospective informants.

On the paying taxes indicator, IEG recommends that the indicator be revised to measure only administrative burden, and not the tax rate. The tax rate clearly has aspects that also contain social benefits. As in the 2010 MAR, management continues to report only an ongoing consultation process on this indicator. Management had indicated its disagreement with this portion of the recommendation in the original management response and the implementation on 2.1 (c) is therefore not rated. However, this is a crucial recommendation which reflects the broader concern under 2.1 that the content of DBI be credibly seen as only elements of the private cost to business.

2.2 To make reform analysis more meaningful

DB's reports, website and public communications make clear that DB measures only selected aspects of business regulation and that changes in the indicators cannot be interpreted as 'reforms'. DB should acknowledge that regulations have social benefits that are not captured by the DB exercise, and hence that improvement in the individual DB rankings is only about the private cost to business (recognizing that some of the benefits of lowering costs spill over to other businesses too) and does not necessarily indicate improvements in the regulatory environment from a public policy perspective.

DB is now planning to launch research into the connection between DB indicators on firm performance and other country-level impacts. For example, this work should, inter alia, address issues raised in recent research work that suggests the direction of change in *de facto* indicators of the quality of the investment climate (drawing on Investment Climate Assessments) are uncorrelated with changes in DB's *de jure* indicators. The recommendation 2.2 (b) is now rated 'medium' on the basis of the improvements made but making clear the abovementioned fundamental gap in making "the reform analysis more meaningful". Institutionally, at a time when attention to 'good regulation' is at an all time high and the cost of poor regulation that does not adequately address social consequences have become all too painfully clear, having a prominent WB publication focusing on a partial perspective of private sector regulation without an equal emphasis on 'good regulation' remains highly problematic for the World Bank Group. There are steps that management would want to take to ensure accuracy and consistency in the message throughout the report that the doing business indicator refers to the private cost to business and not necessarily to reform of the regulatory frame or environment. We look forward to such an improvement with respect to the content and presentation of the index in 2012.

2.3 To plan future additions or modifications of the indicators

The Bank Group has established a quality assurance process and piloting approach for proposed new indicators, thereby satisfying this recommendation with a rating of 'high'.

3. THE WORLD BANK GROUP GUARANTEE INSTRUMENTS 1990–2007

LIST OF RECOMMENDATIONS

3.1 Take a strategic approach and make a decision whether to maintain the existing organizational structure while addressing some of the important problems, or develop and propose an alternative organizational structure to the Board.

3.2 Under any scenario, take action to introduce greater flexibility in the use of guarantee instruments in response to dynamic country and client needs and market developments by

- Revising existing policies and regulations on guarantees to minimize supply-driven product restrictions where most needed and to allow product differentiation on the basis of value added.
- Ensuring that adequate incentives exist for staff to offer the full array of WBG guarantees and PRM products to private sector clients within a single menu of options.
- Establishing more systematic links between advisory services and the deployment of WBG PRM instruments and other products, particularly in infrastructure.
- Following a consistent approach to pricing of PRM across its guarantee instruments to avoid potential distortions.
- Strengthening internal awareness of the guarantee instruments and the incentives and skills for their use and reducing transaction costs where possible, keeping in mind the importance of maintaining adequate processes and regulations for risk management.

3.3 If a new organizational structure is developed and proposed, consider at least three alternative perspectives for organizational realignment: the client perspective, the country perspective, and the product perspective.

- Under the client approach, all products for private sector clients, including guarantees and PRM instruments, would be offered through a single window.
- Under the country approach, the deployment of WBG guarantee and PRM products would be made according to country needs, under a management arrangement common for all the three institutions.
- Under the product approach, the bulk of guarantee/insurance products would be managed under one institutional roof.

3.4 If the current organizational structure is maintained, direct management of each individual WBG institution to improve the delivery of its own guarantee/insurance products by

MIGA management

- Proposing to MIGA's shareholders amendments to its Convention to remain relevant and meet its market potential. Considering, in the meantime, alleviating several constraints derived from its operational regulations and policies.
- Increasing its responsiveness to market demand by addressing internal weaknesses that reduce efficiency and slow responsiveness without lowering MIGA's financial, social, or environmental standards.
- Improving its client relationship management, including aftercare, to enhance the value MIGA adds and increase its client retention.

Bank management

- Maintaining and promoting the partial credit guarantee instrument as a potential effective countercyclical tool to leverage government access to commercial funds and extending such access to IDA countries.
- Creating awareness among Bank staff of the potential use and benefits of partial risk guarantees and building necessary skills.
- Developing a marketing strategy that encompasses both governments and the private sector to better identify situations in which the role of a partial risk guarantee can make a difference.
- Streamlining processing steps to reduce both internal disincentives to working on partial risk guarantees and transaction costs for private sector clients while ensuring that crucial measures for social and environmental safeguards and risk management are maintained.

IFC management

- Mainstreaming its guarantee products through its operations departments in the same manner that its equity and loan products are deployed.
- Assessing the extent to which it can bring its guarantee products closer to meeting Basel II and regulatory requirements in general, so that the guarantee beneficiaries can use IFC products more effectively for capital, provisioning, and exposure relief.
- Revisiting its approach to RSFs to increase flexibility and improve the attractiveness of the product.
- Scaling up successful models in energy efficiency, education, and capital market development based on the use of guarantee structures.

STATUS OF IMPLEMENTATION

Recommendations	Level of Adoption	
	Mgmt	IEG
3.1 Take a strategic approach and make a decision whether to maintain the existing organizational structure while addressing some of the important problems, or develop and propose an alternative organizational structure to the Board.	**Difference of Opinion/ Not tracked**	**Difference of Opinion/ Not tracked**
3.2 Under any scenario, take action to introduce greater flexibility in the use of guarantee instruments in response to dynamic country and client needs and market developments by	**Medium**	**Medium**
3.3 If a new organizational structure is developed and proposed, consider at least three alternative perspectives for organizational realignment: the client perspective, the country perspective, and the product perspective.	**Difference of Opinion/ Not tracked**	**Difference of Opinion/ Not tracked**
3.4 If the current organizational structure is maintained, direct management of each individual WBG institution to improve the delivery of its own guarantee/insurance products by	**Medium**	**Medium**

MANAGEMENT RESPONSE 2011

As noted in the original Management Response, Management has opted to maintain the existing organizational structure while addressing some of the issues of coordination and marketing within the WBG. Hence, there are no agreed actions under sections 3.1 and 3.3 and the remaining parts of this Management Response focus on sections 3.2 and 3.4.

3.2 Original Response: As noted in the Management Response, the WBG institutions have complementary but differing mandates that are defined under their respective charters. Under these mandates, each member of the group has developed different products serving the different needs of its clients. Management therefore believes that current institutional arrangements are adequate, and issues of coordination and marketing can be addressed without a change in institutional structure.

3.2a The specific characteristics of each entity's products are governed by the entity's respective charters and policies, based on the clients it serves. Each institution continues to work to eliminate unnecessary restrictions, if any, in the use of its products. Management does not agree that an across-the-board revision covering very different guarantee products offered by the WBG members is needed. More effective coordination would better address these concerns (see below). Management would also like to point out that IFC has no specific policies restricting the offering of partial risk guarantees within its institutional boundaries and calls on MIGA to provide political risk insurance as needed. In accordance with its internal guidelines, IFC does not offer guarantee products that replicate the offerings of MIGA.

3.2b Management will assess the feasibility of increased staff incentives in the context of potential benefits. IFC is prepared to work with MIGA and the Bank with regard to marketing the various PRM products through IFC's channels with clients. For example, there could be scope to leverage IFC's industry departments' relationships with key global private sector players to offer PRM instruments along with other financing options as appropriate. As the report notes, the newly established Client Relationship Management System could also be a vehicle for coordinated marketing efforts. The incentives for MIGA or Bank staff to utilize these channels could be considered.

3.2c The World Bank and MIGA will explore ways to establish more systematic links between advisory services and their PRM instruments. For MIGA, as solely a provider of political risk insurance and with no commercial interest, close collaboration with Bank policy advice is possible and indeed encouraged, as there is full alignment of interests between sound policy advice and such guarantees. The infrastructure area is in fact a good example of WBG coordination on advisory and financing services. IFC's investment team, which is separate from the advisory team, can offer a financing package to the winning bidder subject to satisfactory due diligence. Such a package could include WBG guarantee products as appropriate. Advisory teams working with government clients will, as a matter of course, need to advise a government on the best options for ensuring a successful and competitive bid, for a concession, build-operate transfer, or other structure. Those options may lead to recommendations that either indications of interest from potential financiers (IFC or others) or of availability of political risk reduction mechanisms (WBG or others) be included in bidding information packages to increase the prospects of the government achieving its objectives. Governments are of course always free to reject such recommendations. Given the possible appearance of conflicts of interest, potential conflicts arising from such recommendations are fully disclosed to clients and mitigating measures as per WBG Conflict of Interest policies are put into effect if the governments choose to follow such recommendations. WBG units may not be able to offer financing or guarantee products if the winning bidder does not turn out to be acceptable to them.

3.2d Each of the Bank group institutions uses pricing methodology that reflects the unique characteristics of it charter and its clients. Management will provide guidance to staff to ensure the consistency of Bank advice to governments with regard to the "hierarchy of instruments" principle and the fee charged by governments to the private sector to offset the costs associated with issuing a counter guarantee. Such a fee will be considered the default option and application of the guidance will be monitored through the Finance, Economics, and Urban Development Department (the Sustainable Development Network department that supports the Regions' guarantee work).

3.2e Efforts to increase awareness and ensure adequate skills in different specializations are ongoing. MIGA and the Bank will review their procedures to address any specific issues identified in the report that lead to higher transaction costs. IFC is prepared to provide training to staff on MIGA and/or Bank guarantee products it may be asked to promote. Within IFC guarantee products, IFC's Investment Guidelines and Practices provide a detailed description of each product with a note to inform IFC Treasury as soon as is practical of plans to offer a guarantee product. Within the Finance/Treasury Vice Presidential Unit, the Structured and Securitized Products Department is the center of knowledge and practice on guarantee products in IFC, providing structuring guidance to investment staff as needed. IFC will continue to cover guarantee products in relevant training modules for staff. IFC is also mainstreaming a range of innovative financing techniques to investment departments to the degree possible.

MAR 2011 Management had agreed to take actions to improve policies and guidelines as necessary and strengthen coordination within the WBG. The previous MAR already described the mainstreaming of IDA partial risk guarantees, thus ending its pilot status. In addition, the eligibility criteria for IBRD enclave guarantees have been made more flexible. Whereas previously enclave guarantees required the underlying project to generate foreign exchange earnings, now projects without such earnings can benefit from the guarantee with adequate foreign exchange related credit enhancements and an off-take to a strongly creditworthy party.

In moving forward, Management has recognized the need for a comprehensive approach to revising existing policies and guidelines on Bank guarantees. Accordingly, in January 2011 a Bank-wide concept review for the Bank Guarantees Modernization exercise was lunched. The ultimate objective of the exercise is to systematically revise and update Bank polices on guarantees in order to enhance the utilization of the instruments, while also ensuring that risks are properly appraised and managed. Policy revisions to be considered are expected to include: the expansion of IDA guarantee instruments to partial credit and policy based guarantees; use of Bank guarantees to support government guarantee facilities; extending policy based guarantees to domestic (rather than solely external) financing; and greater alignment of the eligibility conditions for policy based guarantees with those for development policy lending. Many of these reforms reflect recommendations in the IEG report and also recommendations of the WBG-wide Working Group on Bank Guarantees that have been discussed in technical briefings for Executive Directors. Upon the Board's endorsement of the planned Board paper, OP/BP 14.25 on guarantees will be revised.

Management has taken actions to strengthen coordination among Bank Group guarantee products and also to establish more systematic links between advisory services and guarantee operations. The Bank and MIGA have signed a cooperation and marketing agreement, and a similar agreement has been signed between the Bank and the IFC advisory unit. These agreements also strengthen the linkage between advisory services and guarantee operations. The Bank's policy dialogue and technical advisory services on sector reforms continue to be critical components of guarantee operations. A guidance note to staff on WBG Guarantee Instruments has been prepared.

With regards to guarantee pricing, the Management Response indicated that each WBG institution uses pricing methodology that reflects the unique characteristics of its mandate and clients. Plans are for the Guarantee Modernization exercise to review pricing related issues with a view to enhancing flexibility and coordination within the WBG.

Management has taken actions to increase awareness and ensure adequate skills for guarantees within the Bank. Seminars and presentations on guarantees have been jointly conducted by the Bank, IFC and MIGA. The Bank also conducted a training workshop in April 2010 on Bank guarantees and is in the process of developing a new Guarantee Academy to be launched in FY11, adopting the approach used for the relatively successful DPL and CAS Academies.

3.4 Original Response:

3.4a Partially agreed at this time. Extending access of the Partial Credit Guarantee instrument to IDA countries would be an option that will be discussed under the IDA Guarantees Review to be presented to the Board by December 2008.

3.4b Agreed. Banking and Debt Management currently provides training on the political risk guarantee and other IBRD/IDA guarantee instruments for operational staff, and also includes a discussion of the guarantees in its general training for task team leaders. The Finance, Economic, and Urban Department (the Sustainable Development Network department that supports the Regions' guarantee work) will continue to maintain adequate capacity to respond to demand from task teams for specialized guarantee expertise.

3.4c Partially agreed. The potential use of guarantees is most usefully discussed as a part of Country Assistance Strategy preparation, thus making the governments fully aware of the availability of guarantees. Management will work to ensure that the potential use of guarantees is discussed as part of the preparatory Country Assistance Strategy discussions for all countries. In addition, as part of outreach programs for IBRD financial products, Banking and Debt Management routinely includes material on the availability and potential for IBRD guarantees. Management plans to undertake a similar outreach program for IDA guarantees and is exploring various institutional options.

3.4d Partially agreed. Management is exploring ways to streamline the processing of guarantees but will not commit before identifying specific measures. Compliance with Bank policies pertaining to environment and social safeguards would not be affected by any changes in policies related to guarantees.

MAR 2011 Management had agreed to take actions to improve the delivery of guarantee products. In the IDA Guarantees Review presented to the Board in May 2009, Management indicated that it would explore the possible future expansion of IDA guarantee instruments to partial credit as well as policy based guarantees but noted that further analysis would be required. The possible extension of IDA guarantee instruments will be addressed under the comprehensive Guarantees Modernization exercise mentioned above.

Management had taken actions to create awareness of guarantees and build the necessary skills among Bank staff. As indicated above, the Bank has conducted a training workshop on guarantees in April 2010 and is in the process of developing a new Guarantees Academy to be provided in FY11. The Bank has committed to maintaining adequate capacity, as the center of technical expertise, to provide support to Regions' guarantee work.

Management has taken actions to improve the marketing of guarantees and better identify opportunities to use these instruments. The original Management Response indicated that the use of guarantees is most usefully discussed as part of the CAS process. The Bank continues to participate in CAS discussions on a case-by-case basis in order to help identify appropriate opportunities for guarantees. In addition, Management increased incentives to use guarantees by reducing to 25 percent the guarantee exposure which would be counted against the IBRD country exposure limit, thus matching already existing arrangements for IDA countries. The Bank has conducted an outreach program to staff, client governments and private banks in order to enhance awareness of Bank guarantees. The program included major lead and underwriter banks in London, New York, Tokyo, Singapore and Hong Kong.

Management has taken steps to streamline the processing steps for guarantees. The corporate review process for guarantees has been aligned with those for loans and credits, by specifying that the required corporate review, notably depending on the level of risk, is not automatically at the Bank-wide Operations Committee level. The processing steps of guarantees will be reviewed and revised as necessary under the Guarantee Modernization exercise.

IEG RESPONSE 2011

3.1 1) IEG notes several important steps recently taken in the direction of recommendations made in the IEG Guarantees Evaluation, including: (i) more flexible eligibility criteria for IBRD enclave guarantees; (ii) launching of a Guarantees Modernization exercise; (iii) establishment of more systematic links between advisory services and guarantee operations; (iv) establishment of marketing agreements with MIGA and IFC; and (v) preparation of a guidance note to staff on guarantees.

3.2 Yet, IEG notes that effective implementation of many reforms is still a long way away. In particular, before effective practices can change, the Guarantees Modernization exercise needs to be completed; a Board Paper needs to be prepared; and the OP/BP on guarantees needs to be revised. The lag between when the recommendations were made in 2008 and when changes in practices can be realized has therefore continued to lengthen.

3.3 With respect to guarantee pricing, the IEG report pointed out that the clients for the Bank's PRGs are private companies – the same as for IFC and MIGA. The purpose of PRGs is to provide political risk insurance to these clients – the same as MIGA. The argument of different pricing based on the "unique characteristics of mandates and clients" therefore does not appear to apply to Bank PRGs and MIGA PRI and continued efforts to ensure consistent pricing policies appear warranted.

4. DECENTRALIZATION IN CLIENT COUNTRIES: AN EVALUATION OF WORLD BANK SUPPORT 1990-2007

LIST OF RECOMMENDATIONS

4.1 Ensure that Bank support—particularly lending—is underpinned by genuine client commitment to decentralized service delivery, given its importance to the success of Bank interventions. Occasionally, a role for the Bank may be justified in the absence of client commitment (for example, to forestall potentially adverse measures), although the evaluation finds that Bank interventions under such circumstances are not usually effective.

4.2 Encourage the adoption of a more results-based approach to decentralization by helping to develop in-country and Bank capacity for monitoring and evaluation (M&E) that focuses on local outcomes (such as enhanced accountability, greater citizen participation, and improved service delivery) rather than on just the process of decentralization.

4.3 Ensure that Bank support at the country level is (among other things):

- Founded on a clear analytical framework based on an integrative understanding of economic, political, and institutional factors at different levels of government and across sectors affected by decentralization
- Accompanied by support (from the Bank or others) to develop and maintain local government capacity to the extent feasible.

4.4 Strengthen institutional arrangements within the Bank to ensure that an integrative view underpins Bank interventions, particularly those based on sector-specific entry points.

STATUS OF IMPLEMENTATION

Recommendations	Level of Adoption	
	Mgmt	IEG
4.1 Ensure that Bank support—particularly lending—is underpinned by genuine client commitment to decentralized service delivery, given its importance to the success of Bank interventions. Occasionally, a role for the Bank may be justified in the absence of client commitment (for example, to forestall potentially adverse measures), although the evaluation finds that Bank interventions under such circumstances are not usually effective.	**Medium**	**Medium**
4.2 Encourage the adoption of a more results-based approach to decentralization by helping to develop in-country and Bank capacity for monitoring and evaluation (M&E) that focuses on local outcomes (such as enhanced accountability, greater citizen participation, and improved service delivery) rather than on just the process of decentralization.	**Substantial**	**Substantial**
4.3 Ensure that Bank support at the country level is (among other things):	**Medium**	**Medium**
4.4 Strengthen institutional arrangements within the Bank to ensure that an integrative view underpins Bank interventions, particularly those based on sector-specific entry points.	**Medium**	**Negligible**

MANAGEMENT RESPONSE 2011

4.1 Ensure client commitment:
Original Response: *Ongoing/Agreed in Principle.* Management agrees in principle with this recommendation; however, it notes that the degree of country consensus around appropriate decentralization modalities may differ by sectors and levels of government. Consequently,
the Bank can often play a critical role helping countries identify and implement entry points intended to promote quality in decentralized service delivery. However, a number of cases suggest that political drivers for decentralization are often an important country dynamic, and Bank country strategy design and implementation must be responsive to these realities. Management agrees to continue to emphasize cross-cutting client commitment for decentralized service delivery as a critical factor in defining entry points for successful engagement, and to calibrate assistance to support sustainable service delivery and poverty reduction as good practice in relevant Country Assistance Strategy (CAS) design and implementation. To implement the Governance and Anti-Corruption (GAC) Strategy, the Bank's Regional vice presidential units have identified 26 countries that are initiating country specific GAC processes. Where country conditions involve significant issues of decentralized service delivery (for example, the Democratic Republic of Congo, Indonesia, and the Philippines), country teams are systematically deepening the analysis around political-economy circumstances in shaping development effectiveness. At the conclusion of this learning process, Bank management is committed to reporting to the Board whether and how it intends to systematize and scale up its GAC work, including analytic and advisory activities. Reporting on the above agreed actions will be done in the context of overall GAC reporting.

MAR 2011: Operations are addressing this issue in the context of prevailing quality assurance processes, enhanced guidance and associated upstream AAA in this area, and the new Bank-wide risk assessment framework. Intergovernmental/sub-national operations typically span multiple counterparts across levels of government, but seek to respond and address evident critical gaps in public sector governance and service delivery. Recently issued guidance concerning the political economy of decentralization (see 14.3 below) shows how to move beyond superficial reference to "government ownership" in this area to support greater aid-effectiveness. The new Operational Risk Assessment Framework (ORAF) for investment lending, now in use, also puts strengthened emphasis on the risks of inadequate country ownership, provides guiding questions for assessing ownership and stakeholder risk, and involves a review by an independent Investment Lending Risk Team. Management will closely monitor over the coming 2-3 years as part of the implementation of the anticipated Public Sector Strategy (see 14.4 below) how this framework is performing in practice, including for the specific risks for engagement around decentralization processes identified by IEG. The Public Sector Strategy is being prepared as a companion piece to the GAC Phase II implementation strategy, and hence this feedback will be encompassed in overall GAC progress reporting.

4.2 Adoption of more result-based approach:
Original Response: Ongoing/Agreed. The Bank will continue to place particular emphasis in its dialogue with client countries on supporting the existence of a credible data-collection and reporting system for relevant services, one that is consistent with the structure of decentralization both in terms of its level of aggregation and management responsibilities and that can be used to make midcourse corrections as needed. At the same time, the design of M&E systems needs to highlight the presumed results chains between intermediate outcomes and ultimate outcomes (service delivery). For operations supporting a broad-based engagement in decentralized outcomes, countries will be encouraged to adopt a system that reflects the M&E system in place at the national level. At the national level, the Public Expenditure and Financial Accountability (PEFA) 8 indicators (concerning intergovernmental fiscal relations) and the PEFA 23 indicators (concerning front-line school and health facility financing) provide for systematic assessments of intermediate outcomes. The PEFA Secretariat also recently issued guidance on subnational government applications of this public financial management diagnostic tool, useful to countries to consider for M&E at this level. As part of the GAC Implementation Plan, management has committed to strengthen the application of Actionable Governance Indicators, including those in the area of decentralization. Management will continue its efforts to provide country and individual operations teams with guidance on helping countries strengthen M&E around decentralization.

MAR 2011: Strengthened quality assurance processes including the ORAF are enhancing the sharpness and realism of the results-focus and measurement reflected by Project Development Objectives (PDOs) in this area. The ORAF measures risks to the achievement of PDOs, thereby providing enhanced incentives for clear and well defined PDOs. Investment lending reforms already in place also include the enhanced focus on implementation support, requiring strengthened M&E systems to measure progress; specifically, one of the risks assessed under delivery quality risk and monitored regularly is the ability of the implementing agency to precisely and accurately monitor implementation. For IDA operations, the percentage of operations with at least one baseline indicator by the time of the first Implementation Status and Results Report has steadily increased across fiscal years and the addition of core indicators in key sectors has enhanced IDA's ability to monitor results (see IDA15 Results Measurement System, Midterm Review). In addition to emphasizing M&E systems specific to a project and its intervention localities, the Bank is also placing greater emphasis on supporting clients in strengthening country systems for intergovernmental M&E.[2] The Bank is also supporting the growing interest of a wide range of clients, for example Ghana and Indonesia, in more systematically instituting performance based intergovernmental transfers to complement general transfers.[3] The new results-based lending instrument proposed by Management offers a number of promising entry points for better engaging with results, notably in rewarding sub-national governments for the achievement of specific results.[4] The Public Expenditure & Financial Accountability (PEFA) program is also providing actionable indicators for intergovernmental fiscal relations and sub-national public financial management.[5]

4.3 <u>Work to an integrative analytical framework and strengthening local capacity for country level development effectiveness:</u>

Original Response: Ongoing/Agreed in Part. Given the cross-cutting nature of decentralization, management agrees that an integrated approach is important as part of general and specialized economic and sector work, including attention to the political-economy of decentralization (for example, Public Expenditure Reviews and sectoral diagnostics, including around GAC issues).

Management agrees with the first part of this recommendation and will implement it and monitor progress in the context of the GAC work noted in its response to the first recommendation.

Management agrees that support for subnational capacity can be a vital ingredient to strengthening service delivery outcomes. However, management notes that strengthening government capacity must be linked to ultimate service delivery outcomes and based on appropriate engagement models and Bank comparative advantage, especially in the presence of a large number of diverse subnational jurisdictions. Local capacity building cannot be limited to, for example, the supply of training, but depends on appropriate incentives. Experience shows that it must be demand driven to be effective. Although strengthening local capacity often represents an important element for effective decentralization, management does not commit to always supplying local capacity building as an element in the activities it supports.

MAR 2011: To support operations (as per 14.1), the Bank has developed and published a framework to enhance the manner in which political economy factors, and a more robust understanding of country ownership around decentralization initiatives, are integrated into Bank support at the country level.[6] Follow-up support is being

[2] See Sub-National Performance Monitoring: Issues and Options for Higher Levels of Government, Public Sector Group, June 28, 2010 (processed). Business Warehouse yields 117 approved projects by decentralization theme and 104 with sub-national government as sector for FY 2007-2008. As the IEG evaluation underscored, this sample may not be the exact sample a more intensive qualitative analysis of the portfolio might categorize as decentralization/intergovernmental/SNG engagement projects.

[3] Intergovernmental Performance Grants: A Synthesis of Issues and International Experiences for the 13th India IFC, July 30, 2009, (processed)

[4] For example, while prepared under existing investment lending modalities, the Indonesia Local Government and Decentralization Project (P53613, FY 2010) highlights the potential direction of opportunities in this type of project design.

[5] PEFA has become the most widely utilized PFM tool, with more than 200 assessments completed in over 120 countries, and PEFA Performance Indicator 8 refers to the rules based character, transparency and predictability of intergovernmental transfers. A growing number of PEFA assessments have also been conducted at the SN level, and the PEFA Secretariat has prepared guidance in this regards. 55 SN assessments have been prepared to-date, and 10 are in the pipeline

[6] <u>The Political Economy of Decentralization Reforms: Implications for Aid Effectiveness</u>, September 2010, PREM Public Sector Group During CY 2010, this was widely deliberated and review within and outside of the World Bank, including a series of country level pilot applications (see http://gacknowledge.worldbank.org/pe/html/gac-pe-md-gl.htm).

provided to a number of regional teams applying this approach at the country/project level supported by the Governance Partnership Facility (GPF).[7] Under the Governance and Anti-Corruption (GAC) Implementation Strategy, increasing emphasis has also been placed on strengthening the demand side for augmenting the capability of local governments to perform, moving beyond traditional supply side approaches to strengthening local government capacity.
To strengthen collaboration with international development partners on engagement approaches and greater aid-effectiveness, including around local capacity building, the World Bank co-hosted in June 2010 in Washington, DC the fifth development partners meeting of an informal network working in this area (http://siteresources.worldbank.org/EXTDSRE/Resources/DPWG_Summary_081510.pdf). This external partnership is supported by a secretariat located in Germany (see http://www.dpwg-lgd.org/cms/front_content.php). The follow-up meetings will be held in May 2011 in Brussels, building on the work by the Bank. The process has proactively engaged field-based staff in DRC, Indonesia, Uganda, and further outreach is planned to Benin, Ghana, Mozambique, and Peru in 2011.

4.4 Strengthening WBG Institutional Coordination, especially around sectoral inputs:
Original Response: Ongoing/Agreed. Management underscores the role of country management units and Regional vice presidential units (with support from multisectoral communities of practice in the Regions) in ensuring that consistent approaches are implemented as part of the CASs and operational review processes. Management will ensure that the issue is raised early in relevant CAS discussions. At a Bank-wide level, the Decentralization and Sub-National Regional Economics Thematic Group will continue to serve as a platform to promote integrative approaches to strengthen results based decentralization engagements, working together with other related cross-cutting thematic groups, notably the Urban Economics, Finance, and Management Thematic Group. Within the Bank-wide initiative to revitalize and support communities of practice, management sees this as a cross-network area to prioritize. This work will facilitate coordination across networks/ sector teams at the Regional level. To support coherent approaches, the thematic group structure will offer senior facilitation and advisory services on a demand basis to country teams engaged in upstream CAS or project design issues. Specific steps to strengthen Bank engagement on issues of decentralization and local governance are under preparation under the guidance of senior operational management.

MAR 2011: As part of the GAC Phase II Implementation Strategy, a Public Sector Strategy companion piece is addressing the Bank's engagement with intergovernmental reforms and sub-national government (alongside other core PSM areas such as PFM and CSR), notably anchored in supporting sectoral outcomes. Following further review, it was felt that a Global Expert Team structure – flagged in last year's MAR would not be the most effective mechanism at this stage to support cross-network institutional coordination , especially given the Bank's broader on-going Matrix and Knowledge Management reforms. Management feels that currently prevailing structures, including notably ongoing coordination among the respective HD, PREM, and SD anchors and regions, enhanced by the work of the new Matrix Leadership Team,, is proving an adequate mechanism to support institutional coordination in this area (including notably at CAS/CPS preparation and progress report stage reviews). The Public Sector Management Strategy team is currently engaged in initial consultations, and will propose specific follow-up concerning options for Thematic Group structures, notably addressing a perceived weakening of these structures over the past few years, and will specifically explore issues including budgetary pressures.

IEG RESPONSE 2011

[7] The GPF is a multi-donor TF established to support the implementation of the Bank's GAC strategy. At the end of CY 2010, it encompassed a total portfolio of 88 competitively awarded activities valued at USD 66.74 million in commitments (see http://gpf). A significant part of this portfolio addresses issues of decentralization and local governance, including "window 1" support for country level governance programming (Afghanistan ,Burkina Faso, DRC, Kenya, , Nepal, and Sierra Leone and Uganda,).

4.1, 4.2, and **4.3**: No comments

4.4 Management notes that the currently prevailing structures are proving to be adequate to ensure a more integrative approach to sector-specific entry points. More recent IEG evaluations, however, continue to find the lack of an integrative approach particularly in sector-specific entry points (see for example, HNP Evaluation 2009, Gender Evaluation 2010). Thus, the basis for Management's ratings is unclear.

5. ENVIRONMENTAL SUSTAINABILITY – AN EVALUATION OF WORLD BANK GROUP SUPPORT

LIST OF RECOMMENDATIONS

5.1 Increase the attention to environmental sustainability in the World Bank Group by ensuring that environmental issues enter fully into discussions of its strategic directions and Regional and country assistance programs.

- Jointly reformulate and update the 2001 Environment Strategy to reflect new realities— including the increasingly important role of the private sector, technology transfer to developing countries, global public goods, and transnational environmental footprints—and emerging Bank Group corporate priorities.
- Consider both medium- term (5–10 year) and longer- term (10–20 year) approaches to strengthening environmental sustainability at the Regional and national levels and incorporate short- term (3–5 year) environmental programs into country assistance and partnership strategies.
- Identify opportunities for intra- Bank Group cooperation in helping clients address key national and global environmental challenges, including pollution reduction and long- term goals (up to 50 years) for greenhouse gas abatement and adaptation to climate change.
- Work with development partners to help countries address environmental problems. Use Country Environmental Analyses (CEAs) and Strategic Environmental Assessments (SEAs) for this purpose at the national, policy, sectoral, and subnational levels. Treat institutional capacity building as a means rather than an end and link it to attainment of observable environmental outcomes. Give greater attention to improving the performance of projects that focus primarily on environmental policy and institutions.
- Encourage the adoption and use of the Equator Principles as global environmental standards in private sector investments in the developing world and IFC Policy and Performance Standards on Environmental and Social Sustainability by multilateral development banks.
- Continue to develop IFC's systems to improve accountability and transparency among Equator Principles signatories. Focus IFC Advisory Services and capacity building on Regions and sectors with low environmental performance, especially on Sub- Saharan Africa and the textile, food and beverage, tourism, and agriculture sectors, and continue supporting market transformation toward sustainability, emphasizing technology transfer and development in clean production, energy efficiency, and sustainable supply chain management.
- Expand MIGA's environment- related technical assistance to clients.

5.2 Move to more cross-sectoral and spatially oriented approaches to environmental support and strengthen staff skills.

- Be more proactive on environmental concerns, including adaptation to, as well as mitigation of, climate change, but not neglecting other local and global environmental priorities. Better integrate environmental, health, and labor issues under the Bank Group's sustainability agenda in the short and longer terms.
- Give greater analytical and operational attention to addressing problems that cross national and regional boundaries as well as to increasingly serious environmental and carbon footprint concerns. In analytic work, increase emphasis on linkages between poverty and the environment. Strengthen collaboration on environmental health issues among those responsible for health, water supply and sanitation, energy, transport, urban development, and environment.
- Strengthen staff skills in such areas as adaptation to climate change, carbon finance, and the ability to deliver environment-related investment and policy reform projects.
- Improve IFC- Bank coordination on policy dialogue with governments to enhance structural reforms aimed at public- private partnerships in water, wastewater, and waste management, reuse, and recycling sectors, and ensure that industry views are present in the national and sectoral policy dialogues.
- Stress the need for IFC and MIGA clients, especially financial intermediaries, to develop and implement solid environmental and social management systems, ensure that engineering and pollution control system design and community engagement is integrated in the early project stage, and use more independent environmental audits as part of project completion tests. In IFC's project selection and marketing, emphasize the potential for environmental benefits. In MIGA's engagement with projects, provide advice on environmental (and social) issues to help bring clients closer to industry best practices.

5.3 Improve the Bank Group's ability to assess its support for the environment and to monitor and evaluate the results of its environment- related interventions.

- Improve World Bank monitoring, evaluation, and reporting of environmental performance and results of lending operations. Give greater attention to improving baseline environmental assessments in IFC and MIGA— and measure more fully the aggregate effects of projects with large environmental impacts—for example, in energy and agribusiness. Work with partners such as UNDP and UNEP to help quantify progress toward the achievement of Millennium Development Goal 7 for environmental sustainability.
- Improve the way the World Bank determines how much of its total financing has supported environmental improvement and revise preparation guidelines for Implementation Completion Reports (ICRs) to require a more systematic review of environmental dimensions and results. A mechanism to track the influence of Bank nonlending services on environment- related policies and institutions in client countries would also be desirable.
- For environmentally sensitive IFC agriculture and forestry projects, especially in areas of high biodiversity, undertake carefully designed baseline studies to identify indirect, induced, and cumulative (as well as direct) environmental and social impacts. Design, implement, and monitor adequate plans to mitigate any negative effects. Enhance sustainability of supply chains with certification schemes and third- party monitoring. Measure specific emissions and mass flows in advance of relevant projects and assess them afterward to gauge project impact on the abatement of effluent discharges and dust and greenhouse gas emissions.
- Improve the performance of projects on MIGA's environmental and social policies on a timely basis, as appropriate in a project cycle. Require investor-clients to establish environmental and social project management systems at a sufficiently early stage to effectively monitor impacts. Consistently incorporate provisions for regular reporting of safeguard performance during project implementation in MIGA's Contracts of Guarantee.

5.4 Improve coordination among the Bank, IFC, and MIGA and between the World Bank Group and external partners (public and private) in relation to the Bank Group's environmental mission and ensure consistent and effective implementation at the corporate and country levels.

- Establish mechanisms to promote and monitor coordination across the Bank, IFC, and MIGA with respect to environment-related policies, strategies, and instruments. In particular:
  - Actively involve IFC and MIGA in updating the 2001 Environment Strategy and in monitoring and evaluating its implementation.
  - Jointly identify environmental aspects of World Bank Group country assistance and partnership strategies and jointly plan, monitor, evaluate, and report on mitigation of adverse impacts.
  - Increase efforts to share experience with assessment, monitoring, evaluation, and reporting on environmental aspects, results, and impacts of activities.
  - Systematically monitor and evaluate the application and results of environmental due diligence policies and procedures (safeguards and performance standards).
- Make strengthening external partnerships a central theme in an updated World Bank Group environmental strategy.
- Improve MIGA's coordination with global programs, such as the Global Environment Facility and the Bank's Carbon Financing Group, and identify potential partners whose clients might benefit from MIGA guarantee support.

STATUS OF IMPLEMENTATION

Recommendations	Level of Adoption	
	Mgmt	IEG
5.1 Increase the attention to environmental sustainability in the World Bank Group by ensuring that environmental issues enter fully into discussions of its strategic directions and Regional and country assistance programs.	**Substantial**	**Substantial**
5.2 Move to more cross-sectoral and spatially oriented approaches to environmental support and strengthen staff skills.	**Medium**	**Medium**
5.3 Improve the Bank Group's ability to assess its support for the environment and to monitor and evaluate the results of its environment- related interventions.	**Medium**	**Medium**
5.4 Improve coordination among the Bank, IFC, and MIGA and between the World Bank Group and external partners (public and private) in relation to the Bank Group's environmental mission and ensure consistent and effective implementation at the corporate and country levels.	**Medium**	**Medium**

MANAGEMENT RESPONSE 2011

With respect to the specific IEG recommendations and agreed World Bank actions, progress in several areas has been made in the past year, as outlined below. The following responses refer to World Bank actions. IFC and MIGA responses are covered in their respective Management Action Record processes with IEG.

5.1 Attention to Environmental Sustainability. As noted in the 2010 Management Response, the Bank has committed to promote environmental sustainability through a new WBG Environment Strategy. The Strategy is currently being drafted and is scheduled for discussion by CODE in May 2011. Improving the environmental sustainability of the WBG's portfolio is core to the vision of the draft Strategy, which has the overarching goal of supporting WBG clients in achieving their development objectives of poverty reduction and growth in an environmentally sustainable manner i.e. greening their development. To this end, the draft Strategy has three interrelated pillars: transforming growth paths; maximizing wealth creation from natural resources; and managing multiple environmental risks.

- Three background papers that explicitly examine environmental sustainability were commissioned to underpin the new Strategy, of which two have been completed, including one on *Lessons from Environmental Mainstreaming: Towards Sustainability*, and a second on *Monitoring Environmental Sustainability: Trends, Challenges and the Way Forward*. The third paper on the *Role of Environmental DPLs in Supporting Environmental Sustainability* is close to completion. Another background paper that helps further the environmental sustainability agenda from a climate change lens cross-sectorally is on *Assessing the Environment Co-benefits of Climate Actions,* and is now available.

- The World Bank is working with partners on a comprehensive initiative on how to bring eco-system values and natural capital into national income accounts to promote sustainable growth.

- In the 2010 Management response, Management did not commit to formally establish new medium-term and long-term approaches, citing the need for flexibility, given the importance of customization and country ownership. Instead, to strengthen intra-Bank collaboration and knowledge sharing, a Climate Change Management group has been established with regional and sectoral climate change coordinators and IFC. Recent analysis also reveals that climate change has been integrated in more than 80 percent of all new FY10 Country Assistance/Partnership Strategies. Furthermore, the INFRA (SDN specifics for supporting financial crisis investments) platform places an emphasis on sustaining funding of operations and maintenance of current infrastructure, which is of environment and social benefit, placing sustainability squarely at the core of financial crisis related financing.
- As noted in the 2010 Management Response, the World Bank is already working closely with development partners to help countries address environmental problems. Country Environmental Analysis (CEAs) continue

to be an important instrument in linking environmental priorities to growth and development priorities. Several CEAs have addressed climate change as a priority linked to growth and development (e.g. in Indonesia and Central African Republic), therefore, making the link between global environmental commons and priorities for growth and development at the national level. An Environment Strategy background paper - *Strengthening Environmental Institutions and Governance: What Should be the Role of the World Bank Group?* - addressed the issue of environmental policy and institutions, and provided recommendations for the strategy.

- With respect to Sectoral Environmental Assessments (SEAs), their use has increased notably in Africa and in forestry, mining and transport sectors. A policy SEA approach will be used by the Bank for the Forest Carbon Partnership Facility.

5.2 Cross-sectoral and Spatial Issues. As noted in the 2010 Management Response, Management agreed with parts of this recommendation but did not commit to new actions, noting that work was already ongoing on these issues.

- Knowledge, strategies, and lending activities have increasingly addressed environment and natural resources issues in some sectors. Sectors most actively integrating environment into programs and projects include water supply and sanitation; energy mining and transport; and agriculture and rural development. With respect to environmental health, the Bank is more actively helping countries address environment-related health issues, including water supply, sanitation and hygiene, indoor air pollution, and urban air quality – although the current coding system precludes ready determination of the number of such projects. Furthermore, as noted in the 2010 Management Response, measurement of health impacts, for example in the water sector, is a challenge as many water and sanitation projects that integrate improved health and environmental practices are still economically justified as and labeled as traditional "increased access to water" projects.

- In the area of climate change a number initiates have been undertaken that foster cross-sector collaboration and spatial integration. The on-going analytical work on developing methodologies for GHG analysis of World Bank lending involves close collaboration between environment department and forestry, transport and energy sectors (as well as the IFC); a recent ESW report by the environment department on Cookstoves, Environment, Health and Climate Change involved collaboration with staff working on energy, agriculture / forestry, and environmental health; the climate change knowledge portal housed with the environment department is turning out to be a one-stop shop for information required by other sectors and regions alike (http://www.worldbank.org/climateportal/); and the climate finance option – a joint UNDP-WBG knowledge platform (http://www.climatefinanceoptions.org) is servicing a wide range of stakeholders across the development community Worldwide, to facilitate access to climate finance.

- Trust funds managed by sectors, such as ESMAP, BNWPP and co-financing by GEF, carbon facilities and CIFs have contributed to the observed progress on incorporating environment in sectors. The new WBG Environment Strategy will seek to build on the progress achieved, by continued cross-sectoral collaboration to improve environmental sustainability of WBG portfolio. As part of the Strategy preparation process, internal consultations were held with Anchor and regional environment staff, SDN Sector Boards and Management teams.

- Trust funds (including BNPP, TFESSD and DGF) have continued to support "traditional" environmental priorities, incorporating vulnerability to climatic and environmental shocks and crises as new concerns. In addition, trust funds such as the GAPTF have addressed gender-environment linkages. The GEF program remains an important driver and complement to Bank Finance for regional programs and has helped attract regional IDA funds for global environmental issues. GEF also remains an important tool for testing and innovation to tackle environmental challenges and leverage subsequent scale-up of successful programs with other funds. The WBG GEF Program also integrates anchor, regional, and IFC coordination functions across a shared WBG program.

- Spatial approaches have also been taken in analytical work such as the *Economics of Adaptation to Climate Change* study, which estimated the cost of adaptation to climate change for developing countries. In addition to focusing on specific sectors, the study examined risks and macro-economic impacts of climate change across sectors and in spaces such as coastal zones. Spatial and cross sectoral analyses are some of the main approaches used by SEAs e.g., the West Africa Minerals Sector Strategic Assessment.

- With respect to intra-Bank Group cooperation on pollution reduction, the update of parts I and II of the Pollution Prevention and Abatement Handbook (PPAH), a two part pollution management Sourcebook, is the result of extensive collaboration across the WBG, through the Pollution Management Thematic Group (PoMa TG), which comprises 250 staff from World Bank, IFC and MIGA. The PoMa TG has evolved into a community of practice with skills on pollution management policy tools and hence strengthening capacity in the WBG to provide quality advice and business advisory services on pollution management to both private and public sector clients. In addition, a SCOOP PoMa TG has been created, to increase the availability of collaboration media.

- Lastly, the Sustainable Development Leadership Program (SDLP) and the Climate Change for Development Professionals (CCDP) learning program are under implementation. To-date, over 350 senior staff members have participated in the SDLP. The CCDP program has been rapidly expanding over the past two years, with 5,700 participant hours delivered in training sessions and over 3,000 in knowledge sharing events.

5.3 Assessment. Work is underway in the area of improving the monitoring, evaluation, and reporting of environmental performance and results of lending operations. Implementing the new Environment Strategy, project and country-level sector indicators of environmental sustainability in sectors will be developed in collaboration with sectors. This will help to improve monitoring and measurement of results of environment-related interventions.

- Work is also underway to strengthen the portfolio monitoring and tracking system in order to track financial flows that address climate change related in World Bank lending. This would be a major improvement over the current coding and monitoring system on climate change, and one that other parts of the World Bank (such as OPCS) as well as MDBs are very interested in. While being led by the environment department, this effort is also an example of working cross-sectorally since the system being developed will be applicable to all.

5.4 Coordination. As noted in the original Management Response, Management agreed with most of the recommendations but not all. Management committed to actively involve IFC and MIGA in the environment strategy preparation and continues to meet that commitment. The new Environment Strategy under preparation is a WBG Strategy, with active involvement of all WBG institutions. The process of consultation process on the Strategy is extensive, reaching out to different external partners - including government, private sector, development partners, donors, civil society, academia, NGOs - to better define the Bank's role, as well as to ensure harmonization and coordination on specific themes. A total of 66 external consultation sessions were conducted with more than 2300 stakeholders from over 126 countries. Stakeholders also had the opportunity to provide their views and follow the Strategy development process through a website (www.worldbank.org/environmentstrategy). In addition, as part of the preparation of the WBG Environment Strategy, a number of analytical papers, including on pollution management, environmental mainstreaming and environmental policies, were prepared in collaboration with IFC. Furthermore, preparation of several background papers that underpin the Strategy involved consultation with external stakeholders. To date, 10 out of 13 background papers to underpin the Strategy have been completed and made publicly available on the website.

- The Bank has continued harmonizing SEA approaches with donors through its active participation in the OECD DAC SEA Task Team. A collaborative ESW was undertaken with two Swedish Universities (Gothenburg and SLU) and the Netherlands Commission of Environmental Assessment to evaluate the Bank's SEA Pilot Program. As a result, a conceptual model and operational guidance for applying SEA in policy and sector reform has been refined and published which fills a gap in the literature on policy SEAs. This work is currently being widely disseminated through different fora ranging from presentations in international conferences to submissions of papers to academic journals.

- "Environment and Social Policy and Procedural Guidelines for Projects Financed Jointly by Bank, IFC, and/or MIGA" were finalized in 2009. The 2010 Management Response noted that other issues were dependent on the country context and that monitoring and evaluation can only take place within the project context, rather than at a broader level, so that the sovereignty principle is respected. ENV is supporting GEF Focal Areas programmatic-level results reporting. Often these programmatic results frameworks assist the funding agency more than the individual projects, as the results reporting demands aggregating projects-to-program rather than projects-to-country. However, the programmatic exercises are expanding aggregating methodologies in multi-sectoral areas (like nutrient pollution reduction), which can then lead to improved indicators for country-level aggregation. See examples in Georgia, Romania, and Turkey. Programmatic interventions have also been associated with demand for subsequent scale-up loans at the national levels. The "Environmental Policies and Institutions" subtheme within the IDA-15 Core Results Indicators will have an indicator specific to identifying budget support for strengthened institutions and improved effectiveness of environmental regulatory frameworks.

IEG RESPONSE 2011

IEG agrees with the ratings assigned by Management.

IEG recognizes the work underway on the new Environment Strategy, including the consultation process, and the scheduled discussion by CODE in May 2011.

IEG also recognizes the work that has been undertaken to identify opportunities for intra- Bank Group cooperation in helping clients address key national and global environmental challenges, including pollution reduction. The upcoming sourcebook entitled "*Green Growth, Firm Competitiveness and Pollution Management*" was prepared with input from both IFC and MIGA. The recent release of the ESW "The Changing Wealth of Nations" – highlights the possibilities of maximizing wealth creation by placing a greater focus on the role of natural capital like forests, agricultural land and sub-soil assets – but investments in these assets remain relatively low.

On the need to move to more cross-sectoral and spatially oriented approaches, IEG continues to note that the coding system gets in the way of accounting for and recording environmental related impacts, such as in the area of environmental health, e.g. RWSS projects. This is a missed opportunity. IEG also reiterates the finding that emerged from its Climate I evaluation, that while there have been improvements in cross-sectoral analytical work (e.g. on cities), there are still stovepipe barriers to cross sectoral energy efficiency investments. Meanwhile, there is noteworthy spatial work that has been conducted through the Mapping for Results Initiative, but how this affects projects with an environmental theme remains to be seen. The climate portal has done a significant service by collating and making available spatial data on existing climate patterns and on climate projections.

The IEG Recommendation on cross-sectoral and spatially oriented approaches noted that the Bank should be more proactive on environmental concerns, including adaptation to, as well as mitigation of, climate change, but that it should not neglect other local and global environmental priorities. Biodiversity conservation is not mentioned in the Management Response despite the fact that the World Bank prepared a Global Monitoring Report (2010) at the request of the Conference of the Parties to the Convention on Biological Diversity on the status of financing for biodiversity. The report found that global financial support has fallen short of the funding needs to achieve biodiversity objectives, and contributed to the failure to meet the global target to achieve by 2010 a substantial reduction of rate of biodiversity loss. The Management response also falls short in accurately describing the changing relationship of the World Bank as an implementing agency of the GEF. As noted in the latest operational performance evaluation of the GEF, "a remarkable trend in terms of the GEF funding share of the agencies has been the decline in the share of World Bank." During the pilot phase, World Bank accounted for 58.3 percent of the GEF funding. Thereafter, its share had been declining steadily. The pace of decline accelerated during GEF4 and it now accounts for less than a fourth of the total. The decline in World Bank share is spread across focal areas.

On skills, IEG notes the significant investments that have been made in both the SDLP and CCDP training programs, the climate toolkits, and global expert teams. IEG also looks forward to the manner by which staff will be trained to provide guidance on environmental considerations in the Bank's new lending instrument, the P4R. There is still much progress that needs to be made in improving World Bank monitoring, evaluation, and reporting of environmental performance and results of its overall lending operations.

6. CLIMATE CHANGE AND THE WORLD BANK GROUP PHASE I—AN EVALUATION OF WORLD BANK WIN-WIN ENERGY POLICY REFORMS

LIST OF RECOMMENDATIONS

6.1 Systematically promote the removal of energy subsidies, easing social and political economy concerns by providing technical assistance and policy advice to help reforming client countries find effective solutions, and analytical work demonstrating the cost and distributional impact of removal of such subsidies and of building effective, broad- based safety nets.

- Energy price reform, never easy or painless, can pose social and political economy risks in client countries. But the Bank can help provoke and promote reforms by providing clients with assistance in charting and financing adjustment paths that are politically, socially, and environmentally sustainable.
- One way to do this is for the Bank to continue to develop and share knowledge on the use of cash transfer systems or other social protection programs as potentially superior alternatives to fuel subsidies in assisting the poor. This would include systematic analyses of the distributional impact of energy subsidies. Timely monitoring and analysis of energy use and expenditure, at the household and firm levels, will also be important in policy design, in securing public support, and in detecting and repairing holes in the safety net.

6.2 Emphasize policies that induce improvement in energy efficiency as a way of reducing the burden of transition to market- based energy prices.

- Cost- reflective prices for energy boost the returns to efficiency, but the Bank should support country policies that allow households and firms to exploit efficiency opportunities. Conversely, the deployment of energy- efficient equipment such as compact fluorescent lights can be used as a device for cushioning the impact of price increases. The Bank should explore innovative ways to finance efficiency (and renewable energy) investments in the face of fuel price volatility.
- In order to strengthen internal incentives toward promotion of energy efficiency, the Bank should develop appropriate metrics, such as indicators that more directly reflect energy savings, instead of dollar growth targets in lending for energy efficiency (which may distort effort away from the high- leverage, low- cost interventions). These indicators, in turn, need to be harnessed to country strategies and project decisions. All of these efforts are likely to call for increased funding for preparation, policy dialogue, analysis, and technical assistance rather than lending.

6.3 Promote a systems approach by providing incentives to address climate change issues through cross-sectoral approaches, teams at the country level, and structured interaction between the Energy and Environment Sector Boards.

- Helping clients reform will require a systems view, such as looking at the power system as a whole; looking at energy subsidies as just one, undesirable, part of a social protection system; and looking at the connections between water and power management.
- To be effective the Bank needs to break down sectoral silos and encourage cross- sector approaches and teams. This will require championship by country directors and vice presidents, to promote incentives such as supporting capacity building for power system regulators in integrated resource planning, and using the Clean Technology Fund to support public systems that will catalyze widespread investments.
- Structured interaction of the Energy and Environment Sector Boards, initiated with ad hoc groups to address specific crosssectoral challenges, could move the Bank closer toward mainstreaming sustainable development.

6.4 Invest more in improving metrics and monitoring for motivation and learning at the global, country, and project levels.

- Good information can motivate and guide action. One particularly useful global initiative for the World Bank would be to collaborate with the International Energy Agency or other partners to set up an Energy Scorecard that would compile up- to- date and regular standardized information on efficiency indicators, energy prices, policies, and subsidies at the national and sectoral levels. Indicators could be used by borrowers for benchmarking; in the design and implementation of country strategies, including sectoral and cross- sectoral policies; and in assessing Bank performance in assisting countries.

- At the national level, the Bank should support integration of household and firm surveys with energy consumption and access information to lay the foundation for assessing impacts of price rises and mitigatory measures, as well as planning for improved access.
- At the project level, the Bank should invest in rapid- feedback monitoring and impact evaluation of efficiency projects and policies.

STATUS OF IMPLEMENTATION

	Level of Adoption	
Recommendations	Mgmt	IEG
6.1 Systematically promote the removal of energy subsidies, easing social and political economy concerns by providing technical assistance and policy advice to help reforming client countries find effective solutions, and analytical work demonstrating the cost and distributional impact of removal of such subsidies and of building effective, broad- based safety nets.	**Substantial**	**Substantial**
6.2 Emphasize policies that induce improvement in energy efficiency as a way of reducing the burden of transition to market- based energy prices.	**Substantial**	**Substantial**
6.3 Promote a systems approach by providing incentives to address climate change issues through cross-sectoral approaches, teams at the country level, and structured interaction between the Energy and Environment Sector Boards.	**Substantial**	**Substantial**
6.4 Invest more in improving metrics and monitoring for motivation and learning at the global, country, and project levels.	**Substantial**	**Medium**

MANAGEMENT RESPONSE 2011

With respect to the specific IEG recommendations and agreed Bank actions, progress in several areas has been made in the past year, as outlined below.

6.1 Promote the Removal of Energy Subsidies.

Original response Agreed; work is already ongoing. The Bank continues to work with client countries to address the issue of energy subsidies. Technical assistance and policy advice are provided, as requested by our client countries. The Bank focuses on the legal and regulatory mechanisms needed to support sustainable energy pricing reforms.

Energy staff will continue to work with Poverty Reduction and Economic Management Network and Human Development Network staff (for example, Guidance for Responses from the Human Development Sectors to Rising Food and Fuel Prices, World Bank HDN 2008) to develop and apply social safety nets, including cash transfers, designed to protect the poor from the impact of energy price adjustments. A regulatory thematic group has been established in the Bank to foster dissemination of lessons learned. These lessons will be applied, taking into account the unique circumstances in client countries. When requested, the Bank provides support to enable countries to monitor and analyze energy use so that findings can be applied to their energy policies.

MAR 2011 As requested by the G20 in their communiqué of the September 2009 Summit, the Bank collaborated with the IEA, OECD, OPEC and prepared a joint report on phasing out energy subsidies which was submitted at the G20 Summit in Canada. The report examined the challenges and options for providing targeted assistance to the poor, including what has worked in the past, drawing on the Bank and other institutions' experience. Rigorous analytical frameworks and methodologies are being developed for modeling energy subsidies that will allow drawing lessons on the implementation of removal of subsidies and developing effective ways to mitigate political economy obstacles. The Bank continues to assist client countries to address energy subsidies, through technical assistance and policy advice as requested by client countries. Several Bank DPLs approved in 2010 are aimed at removal of subsidies, such as for Belarus, Sierra Leone, Vietnam, and Zambia.

6.2 Promote Improvements in Energy Efficiency.

Original Response. Partially agreed; work is already ongoing. The Bank has established an Energy Efficiency for Sustainable Development program to help guide and scale up energy efficiency activities. It is implementing the first step of this program, to increase the staffing with energy-efficiency experience, in ESMAP, the Energy Anchor Unit, and the Regions. This effort is complemented by a learning program developed by the Bank's energy efficiency thematic group, under the oversight of the Energy and Mining Sector Board. Another step is the development of programs and projects at the country/policy level, the industry level, and the equipment level to ensure that a broad- based implementation program evolves.
To foster World Bank Group support for energy efficiency, the draft "Development and Climate Change: A Strategic Framework for the World Bank" (World Bank 2008) has proposed an initiative to screen the project pipeline for energy-efficiency potential early in the project design phase.
The Bank is working with the donor community to: (i) increase the financial support needed to intensify energy-efficiency efforts; (ii) increase low- cost funding to support energy-efficiency and renewable energy programs; and (iii) broaden the support from partners in implementing a renewable energy and energy-efficiency program.
In terms of internal incentives, the discussion on developing appropriate metrics has been ongoing with the International Energy Agency and with UN Energy, but to date it has been inconclusive. Given the inconclusive nature of the discussion to date, management is not prepared to agree with establishing new metrics that focus solely on energy efficiency. The World Bank Group has committed to accelerate lending for new renewable energy and energy efficiency to 30 percent per annum over the next three years, a 50 percent increase over the 2004 Bonn commitment (which it has consistently met since that time).

MAR 2011 The Bank continues to expand its non-lending (policy, institutional, and advisory) and lending portfolio in the areas of supply-side and demand-side energy, supported with a gradual increase in staffing and strengthening of the learning program through its energy efficiency thematic group and other broad-based SDN and Bank-wide learning initiatives. The Bank Group's FY10 commitments for energy efficiency and renewable energy were \$3.6 billion, including \$1.8 billion for energy efficiency alone, which exceeded the previous year's commitments by seven percent. Implementation of new AAA initiatives are underway to help mainstream the scaling of energy efficiency regulatory policy development activities in the future, including the Energy Efficient Cities Initiative which is working in 12 countries which has developed a city energy diagnostic tool, which analyzes city energy use to help identify opportunities to reduce operating costs, free resources for improved services, enhance competitiveness and reduce the environmental footprint through the design and implementation of energy efficiency actions. Work was also completed on the public procurement of energy efficiency services, on energy efficiency institutional governance mechanisms, and several country and regional level energy efficiency assessments. Several recent development policy lending (DPL) operations which were completed or are under preparation include heavy emphasis on energy efficiency (e.g, Mexico, Poland, Turkey, Russia, Armenia, etc). At the corporate level, the process of screening of energy projects for energy efficiency opportunities was implemented in 2010 and the energy efficiency consultant database is being maintained which is used extensively by various regions within the Bank and also by some external partners. Cross-sectoral collaboration, particularly with Urban, Water, ICT and Transport sectors, and in partnership with GEF, Carbon Finance, Clean Investment Funds, WBI, and others has strengthened the operational synergies and has helped leverage several innovative projects, programs and activities in the area of energy efficiency.

6.3 A Systems Approach.

Original Response: Partially agreed; work is already ongoing. The Bank will continue to use a system- wide

approach in reviewing projects and programs.
Most Regions and many country teams have already created climate change teams of staff from several sectors to promote synergies, and are developing cross- sectoral business strategies to integrate climate change considerations. The World Bank Group established a Climate Change Management Group as a focal point to discuss cross-sectoral issues and promote synergies. The Bank supports regulatory capacity building, drawing on lessons learned from successful cases accomplished to date. On the basis of previous experience, management disagrees with the proposed use of integrated resource planning, as it is unconvinced of the effectiveness of the use of integrated resource planning by either supply- side entities or their regulators.
However, the Bank supports the use of broad- based planning tools by policy makers to support the implementation of policies in the legal and regulatory framework.
The Bank is currently considering large- scale responses to demand- side issues using new funding for low- carbon technologies when the funds become available.
The merging of infrastructure and environment into a common vice presidency has facilitated interaction at the sector boards and thematic working groups

MAR 2011: In the past year, cooperation has continued across practices and sectors at both strategic (such as through the Sector Boards) and operational levels (such as through the Climate Change Management Group, and Climate Change Finance Working Group, etc.). Energy and Environment Units have tapped into the synergies while preparing their respective sector strategies, and for developing the investment plans and projects under the Clean Technology Fund (CTF) and Scaling Up Renewable Energy for Low Income Countries program and preparing low carbon growth country studies. The energy strategy which is currently under preparation is set up in the broader contexts of energy sector development and the climate change agenda, and is expected to enable developing countries improve the access and reliability of energy while helping facilitate the shift to a more environmentally sustainable energy development path. Staff from the various World Bank practices, along with IFC, are also working together on the implementation, carbon tagging, GHG accounting methodologies, and monitoring and results management activities related to the Strategic Framework for Development and Climate Change (SFDCC). An Energy and ICT Working Group was also established in 2010.

6.4 Invest in Improving Metrics.

Original Response: Partially agreed; work is already ongoing. The Bank has been working with the International Energy Agency on collecting energy-efficiency–related information in pilot countries for two years, with limited success. Management does not commit to the idea of establishing a centrally maintained Energy Scorecard. Rather, the focus of our efforts is now on helping client countries establish their capacity to undertake the data collection exercise in a manner that targets both effective implementation and related policy- making guidance. Without this capacity and country willingness to participate in and lead this initiative, it will not be sustained. The Bank is also looking into possible new, innovative knowledge- sharing mechanisms to facilitate sharing lessons learned.
The Bank lacks the resources to maintain a comprehensive and reliable database on energy policies, prices, subsidies, and energy efficiency at the national level. Regional organizations provide part of this information, which the Bank selectively draws upon, depending on the information's reliability.
The Bank, with ESMAP support, has led in improving Living Standards Measurement Survey (LSMS) instruments for increased collection of energy data as part of LSMS surveys.
The Bank will include rapid- feedback and monitoring and impact evaluation of efficiency projects when requested by our borrowers.

MAR 2011: Recognizing the importance of this topic, the Bank through ESMAP, had completed a comprehensive study and organized an international roundtable in 2010 for reviewing different practices and inter-linkages for evaluating energy efficiency performance at national, sectoral, activity, end-use and policy levels, and for gaining more understanding of the underlying resource requirements and the roles of international partner agencies, including that of the Bank, in facilitating the expanded use and ownership of appropriate energy efficiency metrics in developing countries. This work also benefitted from the contributions of the International Energy Agency (IEA), which has the global expertise, infrastructure, and systems set up for tracking energy efficiency indicators at sectoral and end-use level for IEA-OECD member countries, and which maintains a comprehensive clearinghouse of energy efficiency related data and information that is available in the public domain. The Bank does not have specific in-house expertise and associated resources in this area and therefore continues to draw from the work and analytics of the IEA, IAEA, APEC, World Energy Council and others, and has been able to distill the information and experience from these sources in enhancing the understanding for preparing Bank's own programs, including the targets under the clean investment plans for the CTF, low carbon country studies, and the analytical projections for potential improvements in energy efficiency associated with the country and regional level assessments.

IEG RESPONSE 2011

6.2 Promote Improvements in Energy Efficiency.
Compliance is good with the first part of this recommendation, with increased attention to energy efficiency policies in DPOs and in analytic work. There has been less progress on the second part of the recommendation, with respect to recasting internal incentives in terms of energy savings rather than dollars.

6.3 A Systems Approach.
There has been progress along some fronts. The low-carbon growth studies are opening the door to system-wide assessments of the energy sector, as are adaptation studies. There has been cross-sectoral integration in analytic work and in some DPOs. However 'stovepiping' still inhibits cross-sectoral investment work on energy efficiency. Formal interaction between energy and environment sector boards is still limited.

6.4 Invest in Improving Metrics.
Management had originally 'partially agreed' with this recommendation. The ESMAP workshop on energy efficiency benchmarks, and the Efficient Cities scorecards on city efficiency are good steps. But much more could be done on tracking energy efficiency benchmarks at the national or sectoral levels, an area where the Bank could take a leadership role and mobilize funds if necessary. This in line with Management's intention of supporting countries on this agenda. And, as reiterated in the second phase of the climate evaluation, the use of rapid but rigorous feedback on the performance of energy efficiency projects is largely untapped source of value to the Bank and its partner countries. The Bank could be proactive in working with them on this agenda.

Management had specifically disagreed on the suggestion to monitor energy prices and subsidies, saying that this is not within the Bank's comparative advantage. IEG believes to the contrary that compilation and use of information on energy prices and subsidies should be firmly within the Bank's macroeconomic agenda at the country level, and regular monitoring of the burden of energy expenditures fits with poverty and social welfare analysis.

7. USING KNOWLEDGE TO IMPROVE DEVELOPMENT EFFECTIVENESS – AN EVALUATION OF WORLD BANK ECONOMIC AND SECTOR WORK AND TECHNICAL ASSISTANCE, 2000-2006

LIST OF RECOMMENDATIONS

7.1 Reinvigorate the mandate—which underpinned the fiscal 1999 ESW reforms—for country teams to maintain a strong knowledge base on countries and sectors where the Bank is providing or planning to provide funds.

- Bank country strategies and lending activities need to continue to be supported by requisite analysis, although a return to strictly defined "core diagnostic" ESW is unnecessary.

7.2 Ensure ESW tasks in IDA countries are adequately resourced, even if it means fewer ESW in some countries.

- This will help to address the lower level of resources for individual ESW tasks in IDA countries than those in International Bank for Reconstruction and Development countries and is supported by the finding that cost matters for quality and quality matters for effectiveness. Greater selectivity will also help to reduce the burden on limited government capacity in some IDA countries and will free resources for more collaboration and follow-up needed to enhance the effectiveness of ESW. Selectivity could be enhanced by giving priority to ESW that informs Bank lending and strategy or that is clearly desired and needed by the client.

7.3 Enhance the institutional arrangements for undertaking ESW and TA.

- To the extent allowed by budget, ensure substantive task team presence in country offices, particularly in countries with low institutional capacity. This will facilitate closer collaboration with clients from task initiation through follow-up. In addition, formulate a dissemination and implementation strategy for ESW and TA at the concept paper stage. Such a strategy should identify the target audience, the mode of dissemination, and the follow-up arrangements after dissemination, all of which should be explicitly budgeted for as integral to the task.

7.4 Recognize and build on client preferences, whether for nonlending versus lending services or for TA versus ESW.

- Institute a mechanism to obtain client feedback on a periodic basis on delivered ESW and TA products. Such feedback should include clients' views on collaboration, follow-up, and usefulness of the tasks (including specifics of how the tasks were used). The client feedback should be requested at a set period (for instance, around 1 year) after the delivery of the task to the client to allow time for follow-up, and it should be the last milestone for ESW and TA. Obtaining client feedback would encourage a stronger results focus for ESW and TA and would help counterbalance current Bank incentives for lending over nonlending and for ESW over TA.

7.5 Take the results tracking framework seriously, including by incorporating systematic client feedback, as noted in the above recommendation.

STATUS OF IMPLEMENTATION

Recommendations	Level of Adoption	
	Mgmt	IEG
7.1 Reinvigorate the mandate—which underpinned the fiscal 1999 ESW reforms—for country teams to maintain a strong knowledge base on countries and sectors where the Bank is providing or planning to provide funds.	**Substantial**	**Medium**
7.2 Ensure ESW tasks in IDA countries are adequately resourced, even if it means fewer ESW in some countries.	**Substantial**	**Substantial**
7.3 Enhance the institutional arrangements for undertaking ESW and TA.	**Substantial**	**Substantial**
7.4 Recognize and build on client preferences, whether for nonlending versus lending services or for TA versus ESW.	**Medium**	**Medium**
7.5 Take the results tracking framework seriously, including by incorporating systematic client feedback, as noted in the above recommendation.	**Substantial**	**Substantial**

MANAGEMENT RESPONSE 2011

Original Response

7.1 Agreed/Ongoing. Management agrees with the recommendation of maintaining a strong knowledge base in countries where the Bank is providing or planning to provide funds. This recommendation, which is supported by the empirical association between the existence of upstream ESW and the quality of loan design, is particularly relevant as the Bank moves into thematic lending areas such as governance and climate change mitigation. In the context of the review of AAA starting this fiscal year, and particularly for International Development Association (IDA) countries, management will take stock of the existing body of ESW and outline steps to address identified issues.

7.2 Agreed/Ongoing. Management agrees with the importance of selectivity in allocating ESW resources. In the context of ESW and TA, greater selectivity may lead to reducing the number of tasks and to increasing the budget assigned to each of the tasks. But the issue should not be seen just in terms of numbers of tasks, but also in terms of consolidating tasks within a programmatic, multiyear, results-based approach so as to enhance their overall impact. The planning of the AAA program, including ESW and TA activities, takes place in the context of preparation of the CAS, and selectivity is a major consideration in preparing a CAS program that is tailored to country needs. As part of the consultation process, as well as ongoing country policy dialogue, specific knowledge gaps are identified. How and when to address them is planned, taking into account country needs, the work programs of other partners, and country circumstances. For IDA countries, issues with data quality and availability of analytic work prepared by the government or other sources may entail a larger effort to fill gaps over time. In countries where what is needed is knowledge on implementation (the engineering of reform) rather than traditional ESW, it is possible that, given weaker country capacity, smaller and more narrowly focused ESW or TA is more effective than larger efforts. In its AAA review, management will analyze resource allocation issues surrounding ESW and TA tasks and will propose steps to strengthen collaboration with in-country institutions and other stakeholders to ensure an effective ESW/TA program.

7.3 Agreed/Ongoing. Management agrees that task team presence in field offices, particularly in countries with low institutional capacity, will facilitate close collaboration with clients. The delegation of task management responsibilities to the field has been an ongoing process—for example, in the Sub-Saharan Africa Re-

gion and fragile states—and further steps are being considered. There are associated trade-offs that transcend budget constraints. Ensuring that ESW/TA is of top quality often requires that task management be carried out by thematic experts who cannot be decentralized, given their global role. In many countries, the size of the ESW program and budgetary constraints limit decentralization of specialized staff. In any country, the balance depends on the country context and the specific issues. Management is reviewing these considerations in the context of the ongoing review of decentralization. Management fully agrees
with the recommendation to clearly formulate and adequately fund the dissemination and follow-up strategy for ESW and TA at the concept stage of the task. The AAA review will provide further guidance in this area.

7.4 Agreed. Management agrees that client feedback is a key input to assess how clients view the different dimensions of ESW/TA in particular and the design of the Bank's program in general. Feedback is already sought and used in the context of client surveys, CAS preparation, policy dialogue, lending preparation, and project implementation. Feedback focused on ESW and TA should provide further insights on client views as well as lessons for the design and implementation of the ESW and TA program. Overall, the focus should be more on the development results that might follow from changes in client approach and policies, rather than short-term client satisfaction with the production process. In the context of the AAA review, management will review options regarding the periodicity of requests for feedback to minimize the burden on country counterparts. Management will also analyze whether the feedback should focus on independent pieces of work rather than on a body of work with a common thematic focus.

7.5 Agreed. Management agrees with the recommendation to ensure greater attention to results, for example, by incorporating client feedback. Although use of feedback is an important component of a results framework, other elements could also be quite relevant. Attribution is certainly an issue: it is difficult to ascribe results to a single piece of ESW. In some cases a credible results framework can be established around a thematic program of activities that will help monitor results within an adequate time frame. In the context of the AAA review that is now starting, management will examine the results framework for ESW and TA and outline steps to strengthen it. Management will consider all these agreed actions completed with the conclusion of the AAA review and management decision based on the results of the review. Management will report to the Board on the outcome of that process in fiscal 2010.

MAR 2011 Work has intensified on the Review of ESW and TA on two key fronts which address the actions recommended by the IEG Evaluation: strengthening the results framework for ESW/TA and developing systems and processes which enable systematic consideration of the factors of success underlying high impact ESW/TA (e.g. relevance, ownership, timeliness, appropriate dissemination and follow-up, in addition to technical quality). As a backdrop to this work, the inclusion of the Knowledge Agenda as one of the elements of the internal reform agenda has given increased prominence and importance to the contribution of ESW/TA. In addition, the heightened focus on results has led to broader buy-in across the Bank on strengthening the results framework for ESW and TA, including discussions with IEG on an appropriate methodology to assess and evaluate ESW and TA.

The following deliverables are expected to be completed by end-FY11: (i) improved results framework, monitoring and measurement; (ii) better systems & processes, differentiated by products: just-in-time, programmatic, etc.; and (iii) input (eg. monitorable results indicators) to feed into the broader Knowledge work; Results Report and Corporate Scorecard. A summary of the changes will be shared with CODE, but the substance covered in broader consideration of the above mentioned reports.

7.1 Reinvigorate the mandate for country teams to maintain strong knowledge base on countries where the Bank is providing or planning to provide funds.

> The importance attached to the Bank's knowledge assets, especially at the country level, has been reinvigorated by the knowledge strategy, including the establishment of the Knowledge and Learning Council, the Chief Economists Council and the Matrix Leadership Team. As recognized in the recent IEG evaluation of the Bank Group's response to the global economic crisis, the Bank's analytic work was important in many countries and enabled the Bank to provide financial support quickly. In addition, the enhanced results framework for ESW and TA currently under development seeks to ensure better strategic alignment of both lending and knowledge services in the Bank's overall engagement

with clients.

7.2 Ensure ESW tasks in IDA are adequately resourced, even if it means fewer ESW in some countries.

As noted in last year's Management Action Record, there has been continued consolidation of ESW tasks, with numbers of tasks declining without a drop in overall expenditure levels. In addition, a new product line –Programmatic AAA—is being which enables the clustering of ESW and TA around a common development objective within a multi-year framework, thus reducing fragmentation and increasing selectivity based on country demand/need. This product line will respond to requests from Regions in order to not only reduce fragmentation, but also to facilitate increased management attention to a fewer number of larger tasks.

7.3 Enhance institutional arrangements for undertaking ESW and TA.

Fundamental to increasing the impact of ESW and TA is the upfront recognition of client needs and hence ownership. A standardized, on line concept note format currently under development will focus discussion and approval of the concept on a clear statement of objectives and expected intermediate outcomes of the activity. Integral to this will be the clear identification of the intended audience and appropriate "dissemination" (including need for translation) as well as next steps.

The sub-recommendation to "ensure substantive task team presence in country offices, particularly in countries with low institutional capacity" will need to be considered and balanced with the need for the Bank to maintain and share global expertise, as well as other issues (e.g. budget). As noted in the original Management Response, this and other issues are being considered in the context of the global Bank (another of the internal reform agenda items).

7.4 Recognize and build on client preferences whether for non-lending versus lending or for TA versus ESW.

Revealed client preferences continue to show a trend of increased demand for technical assistance. Programmatic AAA will also enable a more strategic fit with client needs and preferences. More structured capturing of client feedback is being planned in conjunction with the Knowledge Agenda and client survey instruments. In addition, indirect feedback from clients is also being sought via country director ratings of Bank performance, including in the area of the effectiveness of policy dialogue and analytic work. It is also expected that IEG's evaluation of ESW (sample based) which has been piloted would involve seeking client input.

7.5 Take the results tracking framework seriously.

Intensive work is underway to strengthen the ESW/TA results framework, ensuring that such framework is reflected throughout the lifecycle of the activity (i.e. results need to be linked to clear objectives identified at concept stage). Consultations have begun with IEG to ensure that the results framework is also consistent with IEG's own evaluation methodology and that the construct of the activity can be evaluated post-completion (i.e. "success indicators" are systematically covered at concept stage). Accordingly, the Activity Completion Summary (ACS) will be replaced by a Results Completion Summary (RCS) in which TTLs will self-assess the performance of the activity in meeting its "change objective" as well as a Bank performance rating (reflecting quality, timeliness, relevance and client engagement). Self-assessments will be validated by Management and aggregate indicators fed into Corporate Scorecard, Results Report and Knowledge Report. The updating of systems and processes to support this enhanced RCS is currently underway by IMT; the new systems and processes will be tested in a pre-roll out in FY11Q3.

IEG RESPONSE 2011

IEG notes the progress that has been made by the Bank on the knowledge agenda since a year ago. In particular, there has been progress in the development of concrete actions in the context of the AAA review undertaken by the Bank, compared to a year ago when the review was just being undertaken and yet to be presented to CODE.

In light of this progress, IEG has raised its ratings on the level of adoption by Management for 3 of the 5 recommendations (7.2, 7.3, and 7.4). The ratings on the level of adoption for the other 2 recommendations (7.1 and 7.5) remain the same as last year, as IEG does not discern appreciable changes in the level of adoption to merit increases in ratings for them. IEG's ratings for each of the recommendations are explained below.

Recommendation 7.1. Reinvigorate the mandate for country teams to maintain a strong knowledge base on countries where the Bank is providing or planning to provide funds.

IEG notes the management response that greater importance has been attached to the knowledge agenda, in particular through the knowledge strategy, and the establishment of the various councils. However, there is absence of any mention in the knowledge strategy of the need to ensure that any lending, or potential lending, by the Bank should be underpinned by adequate analysis, which is fundamental to the recommendation. Hence the rating for the level of this recommendation remains "medium", as last year (Management's rating for this is "substantial").

Recommendation 7.2. Ensure ESW tasks in IDA are adequately resourced, even if it means fewer ESW in some countries.

IEG endorses Management's development of the new product line – Programmatic AAA – which will enable clustering of ESW and TA around a common development objective within a multi-year framework, reducing fragmentation and increasing selectivity. IEG has raised its rating for the level of recommendation of 7.2 from "medium" in last year's MAR to "substantial" for this MAR (same as Management's rating).

Recommendation 7.3. Enhance institutional arrangements for undertaking ESW and TA.

IEG endorses Management development of the standardized on-line concept note that will include a clear statement of objectives and expected intermediate outcomes of the activity, as well as a clear identification of the intended audience and appropriate "dissemination" (including translation) and next steps. IEG has raised the rating from "medium" in last year's MAR to "substantial" for this MAR (same as Management's rating).

Recommendation 7.4. Recognize and build on client preferences whether for non-lending versus lending or for TA versus ESW.

IEG appreciates the Management response that more structured capturing of client feedback is being planned in conjunction with client survey instruments. Hence, IEG has raised its rating for this category from "negligible" in last year's MAR to "medium" for this MAR (same as Management's rating).

Recommendation 7.5. Take the results tracking framework seriously, including by incorporating systematic client feedback, as noted in the above recommendation.

The work reported by Management as being underway would present an important step forward in tracking ESW/TA results seriously. Hence, IEG's rating for the level of adoption of this recommendation is "substantial", up from "medium" last year, endorsing Management's "substantial" rating for this category.

8. THE WORLD BANK'S COUNTRY POLICY AND INSTITUTIONAL ASSESSMENT (CPIA)

LIST OF RECOMMENDATIONS

8.1 Disclose ratings for IBRD countries.

8.2 Remove accounting for the stage of development in the CPIA rating exercise.

8.3 Undertake in-depth review of each CPIA criterion and revise as necessary. This should entail a detailed review of the literature for each criterion and should reflect the latest thinking on development and lessons learned. It should also take into account the recommendations of IEG on specific changes to the criteria that were derived from the evaluation.

8.4 Consider not producing an overall CPIA index while continuing to produce and publish the separate CPIA components.

STATUS OF IMPLEMENTATION

Recommendations	Level of Adoption	
	Mgmt	IEG
8.1 Disclose ratings for IBRD countries.	Difference of Opinion/ Not tracked	Difference of Opinion/ Not tracked
8.2 Remove accounting for the stage of development in the CPIA rating exercise.	Difference of Opinion/ Not tracked	Difference of Opinion/ Not tracked
8.3 Undertake in-depth review of each CPIA criterion and revise as necessary.	**Substantial**	**Substantial**
8.4 Consider not producing an overall CPIA index while continuing to produce and publish the separate CPIA components.	**Substantial**	**Substantial**

MANAGEMENT RESPONSE 2011

Original Response:

8.1 Disclose ratings for IBRD countries. Difference of Opinion

8.2 Remove accounting for the stage of development in the CPIA rating exercise. Difference of Opinion

8.3 Undertake in-depth review of each CPIA criterion and revise as necessary. Agreed. Periodic reviews of the content and methodology have been a fixture of the evolution of the CPIA, and going forward they should continue to be. As the IEG evaluation recognizes, these reviews create discontinuities, as some criteria are added, dropped, or revised. The last major revision took place in 2004, informed by the recommendations of an external panel that undertook an in-depth review of the CPIA. Consensus on development thinking moves slowly, and revisions should be undertaken with sufficient intervals so that the CPIA scores have some consistency over time. From the standpoint of country relations and aid volatility, it is also important to avoid situations where changes in scores result from modifications in the criteria rather than from a deterioration or improvement in country performance. The CPIA is used by other multilateral development banks and an extensive consultation process would be necessary. The IEG evaluation found that "perhaps the time has come… for a thorough review of the CPIA" (chapter 2). Management broadly agrees but underscores that such a review needs to be carefully planned and done in the context of IDA 16. The specific suggestions provided in the IEG evaluation will inform this review, to be completed by the time IDA 16 is launched.

8.4 Consider not producing an overall CPIA index while continuing to produce and publish the separate CPIA components. Agreed. Management will take this IEG recommendation into consideration in the context of the review of the CPIA mentioned above. IEG's rationale for this recommendation is that producing the different components of the CPIA without assigning weights to them in order to arrive at an aggregate index would allow different weights to be applied according to country context and uses. In management's view, in the absence of robust evidence as to what these weights should be, there is value in applying a uniform weighting scheme across all countries and producing an overall index that summarizes the information contained in the different criteria and provides a clear reference point. Moreover, because the scores for all the criteria are disclosed, nothing prevents the users from creating an alternative index based on their preferred set of weights. As part of the review of the CPIA, management will consider whether or not to produce an overall index.

MAR 2011: The review of the CPIA criteria is ongoing. Taking into account the recommendations of the IEG evaluation, terms of reference were prepared to guide the review of each criterion by the appropriate network anchor. Drafts of the individual criteria have been prepared and in several cases these drafts have been already discussed by the appropriate sector boards and revised on the basis of comments received. In the context of the ongoing work, the pros and cons of preparing an overall index have been considered and discussed with the regions and networks. The review of the criteria is on track, and the 2011 CPIA exercise is expected to be carried out using the revised criteria as it was agreed during the CODE meeting of September 2009.

IEG RESPONSE 2011

IEG notes the progress that has been made since last year specifically that concrete steps have been undertaken with respect to the review of the CPIA, compared to a year ago when Management made the commitment to undertake the review.

Since the review is still ongoing, with revisions to the CPIA criteria yet to be made (though Management expects that revised criteria will be used in the 2011 CPIA exercise), IEG rates the adoption of recommendations 8.3 and 8.4 as "substantial" (same as Management's ratings).

9. HOW EFFECTIVE HAVE POVERTY AND SOCIAL IMPACT ANALYSES BEEN? AN IEG STUDY OF WORLD BANK SUPPORT TO PSIAS

LIST OF RECOMMENDATIONS

9.1 Ensure that staff understand what the PSIA approach is and when to use it by providing clear guidance (perhaps through updating of the 2008 PSIA Good Practice Note) and actively disseminating this guidance, particularly on—

- Whether and how the PSIA approach differs from other distributional analyses, including whether the inclusion of the word "social" in Poverty and Social Impact Analysis suggests the need to include a different type of analysis
- Whether or not PSIAs should be linked to specific reforms and identify beneficiaries and those adversely affected by the reform
- What criteria should be used to determine when the PSIA approach is appropriate for a particular operation in a country program.

9.2 Clarify the operational objectives of each PSIA with regard to its intended effect and tailor the approach to those objectives, ensuring that the concept note

- Contains a clear statement of the operational objectives of the PSIA with respect to the intended effect (not just the topics/issues to be analyzed)
- Indicates how its approach, in particular stakeholder engagement, team composition, partner institutions, budget, and time frame, have been tailored to meet the operational objectives, and provided the rationale for the choices made
- Shows how any tensions and trade-offs among the operational objectives will be reconciled
- Discusses if the intended dissemination audience and strategy are consistent with the stated operational objectives.

9.3 Improve integration of the PSIA into the Bank's country assistance program by—

- Shifting decision-making and funding authority to the Regions to ensure that the PSIA topics, scope, and approach are consistent with the country assistance program and that PSIAs ask policy-relevant questions
- Requiring that *all* earmarked funding for PSIAs be matched by a substantial contribution from the country unit budget.

9.4 Strengthen PSIA effectiveness through enhanced quality assurance, including—

- Subjecting PSIAs to systematic review by Regional management at the concept and completion stages to ensure relevance and fit of the PSIA to the country assistance program and consistency of the proposed approach with operational objectives, in addition to ensuring technical quality
- Ensuring that the Bank establishes a monitoring and self-evaluation system designed to assess if PSIAs are being undertaken where appropriate and are achieving their stated operational objectives.

STATUS OF IMPLEMENTATION

Recommendations	Level of Adoption	
	Mgmt	IEG
9.1 Ensure that staff understand what the PSIA approach is and when to use it. Bank management can do this by providing clear guidance (perhaps through updating of the 2008 PSIA Good Practice Note) and actively disseminating this guidance.	**High**	**Substantial**

Recommendations	Level of Adoption	
	Mgmt	IEG
9.2 Clarify the operational objectives of each PSIA with regard to its intended effect and tailor the approach to those objectives.	**High**	**Medium**
9.3 Improve integration of the PSIA into the Bank's country assistance program.	**High**	**Substantial**
9.4 Strengthen PSIA effectiveness through enhanced quality assurance.	**Substantial**	**Medium**

MANAGEMENT RESPONSE 2011

9.1 Original Response: Agreed. Management agrees that it should disseminate more widely what is meant by the PSIA approach as outlined in the 2008 Good Practice Note. Management, however, notes an important caveat in addressing this recommendation. Efforts to expand awareness about the PSIA approach must be careful to not create perceptions of minimum or universal standards for PSIA, and instead stress the flexibility of the approach to adapt to specific country and policy contexts. The revised Good Practice Note (GPN) discusses key elements of the PSIA approach: first, an analysis to determine the distributional impacts and, second, a process that engages appropriate stakeholders in policy making.3 The GPN also makes it clear that an ideal PSIA will vary based on country and reform-specific conditions. In particular, the range
and extent of stakeholder engagement in the PSIA process will vary according to the political context of the reform and the related opportunities for promoting the public debate on policy options. The GPN clarifies when it could be a priority for a country team to carry out detailed PSIA: when there are potential negative poverty and social impacts on different groups, particularly poor and vulnerable groups; when there is potential to significantly improve the benefits of a reform for poor and vulnerable groups; the prominence and urgency of the report in the government's policy agenda; and the level of debate surrounding the reform. With regard to the methods and tools adopted for PSIA, the GPN stresses the need for flexibility as well. While multidisciplinary or mixed methods of analysis enhance the understanding of the poverty and social impacts of a reform, the design of the methodology and the selection of tools will depend on the nature of the reform problem being addressed, the availability and quality of data, the time available for analysis, and the available in-country capacity. PREM and SDV are already incorporating the revised GPN into their PSIA-related learning programs (Fundamentals of Bank Operations, PSIA e-learning, PSIA course). Management will further enhance outreach using these materials through an improved Web site that more clearly frames the main objective and potential benefits, as well as the need for a flexible approach, and more frequent and accessible learning events, drawing on additional resources provided by the aforementioned Multi-Donor Trust Fund. Management will consider its agreed action complete with the full roll-out of these activities in fiscal 2010.

MAR 2011: Management agreed with this recommendation and considers that it has been completed with the full roll-out of the following activities that it agreed to undertake in fiscal 2010, as indicated in its Management Response. Guidance on the PSIA approach has been revised, updated, and disseminated to staff throughout the Bank's relevant learning programs and PSIA website. The Good Practice Note on PSIA has been revised by PREM and SDV and incorporated into their PSIA-related learning programs (such as Fundamentals of Bank Operations, PSIA e-learning, and PSIA Course). OPCS's DPL Academy includes a dedicated session on how to use poverty and social impact analysis in the context of Development Policy Lending. Furthermore, the PSIA website hosted by PREM has also been significantly improved to enhance the outreach of these materials and more often and accessible learning activities have been offered to staff. Management rates the adoption of this recommendation as *High*.

9.2 Original Response: Agreed. Management agrees that poverty, social, and distributional impact analysis should have a clear operational objective and a methodology and strategy for stakeholder engagement and dissemination that is consistent with the operational objective. Almost all PSIA type analysis is done in the context of economic and sector work (ESW), where Bank guidelines require that the operational objective, scope, and participatory approaches be clearly specified in the concept note. The revised GPN

indicates that poverty, social, and distributional analysis should be an integral part of the ESW cycle. All dissemination activities need to be fully consistent with the Bank's Disclosure Policy. PSIA can also be done in the context of technical assistance, where the objective is to strengthen client institutions and capacity to influence reforms or as a factual technical document analyzing a specific policy reform supported by a Development Policy Operation. Once operational, the new PSIA trust fund will require that the Regions detail in their concept notes how they will ensure that poverty, social, and distributional analysis (supported by the Trust Fund) is treated as an ESW, technical assistance, or a projectrelated factual technical document. Management will consider its agreed action complete with the introduction of these requirements.
MAR 2011: Management agreed with this recommendation and considers that it has been completed with the full roll-out of the following activities that it agreed to undertake in fiscal 2010, as indicated in its Management Response. In FY10, the Bank set up a new Multi-Donor Trust Fund (MDTF) to support PSIA work and assigned responsibility to the Regions, in terms of allocating funds, monitoring and quality review of the analytical work funded by the Trust Fund. The MDTF requires that the Regions detail in their concept notes how they will ensure that poverty, social and distributional impact analysis (supported by the TF) is treated as ESW, TA or a FTD. Management rates the adoption of this recommendation as *High*.

9.3 Original Response Agreed. Poverty, social, and distributional impact analysis that is part of ESW, technical assistance, or a project-related factual technical document is currently managed and funded by the Regions. The revised GPN explicitly advises that poverty, social, and distributional impact analysis be anchored in the Country Assistance Strategy (CAS). Under the revised policy for poverty reduction (OP 1.00), the CAS summarizes existing knowledge on poverty, identifies analytical gaps, and presents the
work program by the Bank and others to fill these gaps. The CAS can usefully lay out key reform areas that the Bank will support and indicate whether there are any plans for poverty, social, and distributional impact analysis. The new PSIA trust fund will decentralize the management of resources for poverty, social, and distributional impact analysis carried out as ESW, technical assistance, and factual technical documents to the Regions. The Regions will be required to provide matching resources from the country unit budget. The annual Trust Fund Regional monitoring reports will indicate the share of matching resources provided to complement Trust Fund support. Management will consider its agreed actions
complete with the roll-out of the trust fund.
MAR 2011 Management agreed with this recommendation and considers that it has been completed with the full roll-out of the following activities that it agreed to undertake in fiscal 2010, as indicated in its Management Response. The Good Practice Note on PSIA has been revised and explicitly urges poverty, social and distributional impact analysis to be anchored in the CAS. The CAS Retrospective (*Country Assistance Strategy: Retrospective and Future Directions*) concluded by Management in FY10 confirmed that CASs, particularly in IDA countries, have included a comprehensive discussion and diagnosis of poverty, covering poverty incidence, trends, causes and correlates with links to the MDGs. In addition, the new PSIA MDTF has decentralized the management of resources for poverty, social and distributional impact analysis carried out as ESW, TA, and FTD to the Regions, which are required to provide matching resources from the country unit budget. Management rates the adoption of this recommendation as *High*.

9.4 Original Response Agreed. PSIA work that is part of ESW is subject to Regional quality assurance procedures and the preparation of an activity completion report. As noted in the Management Response to IEG's evaluation of ESW and technical assistance, management will undertake a review of analytic and advisory activities in fiscal 2010 that will address institutional arrangements, notably quality assurance.
The quality and effectiveness of PSIA informing the Bank's Development Policy Operations has been monitored through the retrospective assessment of the Bank's Development Policy Lending portfolio that has been carried out every two years by Operations Policy and Country Services. A Development Policy Operation retrospective is under preparation and will be available early in fiscal 2010.
The proposed PSIA trust fund annual Regional monitoring reports as well as the final independent Trust Fund evaluation will assess the extent to which poverty, social, and distributional analysis (supported by the Trust Fund) has met its operational objectives and has had an impact on the ground.
Management will consider its agreed actions complete with the completion of the fiscal 2010 analytic and advisory activities review and the implementation of changes coming out of that process, the issuance of the Development Policy Operation retrospective, and the implementation of the trust fund reporting system.

MAR 2011 As indicated in the Management Response, Management had agreed to implement this recommendation through the following actions: (a) the completion of the FY10 AAA review broadly covering analytic and advisory activities and the implementation of changes coming out of that process; (b) the issuance of its DPL Retrospective; and (c) the implementation of the PSIA MDTF reporting system. Actions (a) and (b) have been completed, while action (a) is expected to be completed in FY11. The AAA Review will be completed in FY11 and will propose revised systems and procedures for analytic and advisory activities. The findings and recommendations of the AAA Review will be incorporated in Management's Knowledge Strategy and shared with CODE in the context of the discussion on the Knowledge Strategy in FY11. Hence, Management no longer intends to present the AAA Review as a separate product to CODE, as indicated in the 2010 MAR. Management rates, therefore, the implementation of this recommendation as *Substantial*.

IEG RESPONSE 2011

Regarding Recommendation **9.1**, IEG notes that Management has revised and disseminated PSIA guidance and incorporated that guidance into various learning programs and web-based resource materials. A higher rating would call for data on: the proportion of relevant staff (those currently undertaking/reviewing or likely to undertake/review PSIAs or other forms of distributional analysis) availing of the learning programs/web-based resource materials; and views of those staff regarding the usefulness of the guidance in understanding what PSIAs are and when to use them.

Regarding Recommendation **9.2**, the Management Response that "The MDTF requires that the Regions detail in their concept notes how they will ensure that poverty, social and distributional impact analysis (supported by the TF) is treated as ESW, TA, or a FTD" does not adequately address IEG's Recommendation. A higher rating would call for data on the extent to which PSIAs are clear about their intended effect and the PSIA approach is tailored to achieve that effect.

Regarding Recommendation **9.3**, IEG notes that making the Regions responsible for managing the MDTF is an important step in the right direction. A higher rating would call for data on the proportion of matching contributions from country unit budgets where earmarked PSIA funds are used as well as on the extent to which PSIA topics, scope, and approach are consistent with the country assistance program, and PSIAs ask policy-relevant questions.

Regarding Recommendation **9.4**, the actions taken by Management so far (i.e., issuance of the DPL Retrospective and implementation of the PSIA MDTF reporting system) do not adequately address IEG's Recommendation. A higher rating would call for data on the extent to which the Regional management's review of PSIAs is focusing on the intended effects of PSIAs in addition to their technical quality, and there is a monitoring and self-evaluation system to assess if PSIAs are being undertaken where appropriate and are achieving their intended effects.

10. IMPROVING EFFECTIVENESS AND OUTCOMES FOR THE POOR IN HEALTH, NUTRITION, AND POPULATION - AN EVALUATION OFF WORLD BANK GROUP SUPPORT SINCE 1997

LIST OF IEG RECOMMENDATIONS

10.1 Intensify efforts to improve the performance of the World Bank's health, nutrition, and population support.

a. Match project design to country context and capacity and reduce the complexity of projects in low-capacity settings through greater selectivity, prioritization, and sequencing of activities, particularly in Sub-Saharan Africa.
b. Thoroughly and carefully assess the risks of proposed HNP support and strategies to mitigate them, particularly the political risks and the interests of different stakeholders, and how they will be addressed.
c. Phase reforms to maximize the probability of success.
d. Undertake thorough institutional analysis, including an assessment of alternatives, as an input into more realistic project design.
e. Support intensified supervision in the field by the Bank and the borrower to ensure that civil works, equipment, and other outputs have been delivered as specified, are functioning, and are being maintained.

10.2 Renew the commitment to health, nutrition, and population outcomes among the poor.

f. Boost population and family planning support in the form of analytic work, policy dialogue, and financing to high-fertility countries and countries with pockets of high fertility.
g. Incorporate the poverty dimension into project objectives to increase accountability for health, nutrition, and population outcomes among the poor.
h. Increase support to reduce malnutrition among the poor, whether originating in the HNP sector or other sectors.
i. Monitor health, nutrition, and population outcomes among the poor, however defined.
j. Bring the health and nutrition of the poor and the links between high fertility, poor health, and poverty back into poverty assessments in countries where this has been neglected.

10.3 Strengthen the World Bank Group's ability to help countries to improve the efficiency of their health systems.

k. Better define the efficiency objectives of its support and how efficiency improvements will be improved and monitored.
l. Carefully assess decisions to finance additional earmarked communicable disease activities in countries where other donors are contributing large amounts of earmarked disease funding and additional funds could result in distortion in allocations and inefficiencies in the rest of the health system.
m. Support improved health information systems and more frequent and vigorous evaluation of specific reforms or program innovations to provide timely information for improving efficiency and efficacy.

10.4 Enhance the contribution of support from other sectors to health, nutrition, and population outcomes.

n. When the benefits are potentially great in relation to the marginal costs, incorporate health objectives into non-health projects, for which they are accountable.
o. Improve the complementarity of investment operations in health and other sectors to achieve health, nutrition, and population outcomes, particularly between health and water supply and sanitation.
p. Prioritize sectoral participation in multisectoral HNP projects according to the comparative advantages and institutional mandates, to reduce complexity.
q. Identify new incentives for Bank staff to work cross-sectorally for improving HNP outcomes.
r. Develop mechanisms to ensure that the implementation and results for small health components retrofitted into projects are properly documented and evaluated.

10.5 Implement the results agenda and improve governance by boosting investment in and incentives for evaluation.

s. Create new incentives for monitoring and evaluation for both the Bank and the borrower linked to the project approval process and the midterm review. This would include requirements for baseline data, explicit evaluation designs for pilot activities in project appraisal documents, and periodic evaluation of main project activities as a management tool.

LEVEL OF ADOPTION

Recommendations	Level of Adoption	
	Mgmt	IEG
10.1 Intensify efforts to improve the performance of the World Bank's health, nutrition, and population support.	**Substantial**	**Substantial**
10.2 Renew the commitment to health, nutrition, and population outcomes among the poor.	**Substantial**	**Medium**
10.3 Strengthen the World Bank Group's ability to help countries to improve the efficiency of their health systems.	**Substantial**	**Substantial**
10.4 Enhance the contribution of support from other sectors to health, nutrition, and population outcomes.	**Medium**	**Medium**
10.5 Implement the results agenda and improve governance by boosting investment in and incentives for evaluation.	**Substantial**	**Substantial**

MANAGEMENT RESPONSE 2011

10.1 Intensify efforts to improve the performance of the World Bank's health, nutrition, and population support.

Original Response: Management agrees that complexity can be at least partially addressed by adopting IEG recommendations, such as thorough technical preparation, including solid analytical underpinning, political mapping, high quality at entry, including prioritizing interventions relative to the institutional context, and establishing a good results framework, followed by in-depth supervision and parallel policy dialogue with client and partners.
However, HNP operations are rarely institutionally or technically simple, since the desired outcome depends on a complex and interacting set of social, cultural, and institutional factors. This is recognized by donors and policy makers, whether in low-income, middle-income, or high-income countries. The inherent complexity of the sector may be attributable to the political economy in a multi-stakeholder environment, the need for extensive coordination and partnership with national and international agencies and civil society organizations, and the often difficult technical and social nature of the subject. The recent international recognition of the need to invest in (complex) health systems in order to ensure the success of vertical disease control programs in low-income countries is testimony to the fact that there are few easy ways to avoid systemic complexity. Investing in simple programs would not necessarily provide for lasting impact.

Management agrees in principle to carry out political mapping exercises prior to investments in the sector where appropriate. As there are currently mandatory risk assessment and mitigation steps built into the project cycle and approval process, we anticipate improved risk mitigation strategies in newer HNP operations. These enable staff to identify major political and technical risks and devise with the client suitable risk-mitigation strategies. However, it is also evident that despite good assessments and risk-mitigation strategies, neither technical nor political risks can be completely offset.

Management agrees to the recommendation to phase reforms to maximize the probability of success.
Undertake thorough institutional analysis, including an assessment of alternatives, as an input into more realistic project design.

Management agrees in principle with this recommendation. Supervision requirements, both in terms of staffing mix and budgeting, are being reassessed Bank-wide within the context of the ongoing review of investment lending. Given the inherent dispersed nature of many HNP investments, care must be taken during project design to ensure that the client assumes responsibility for ensuring that civil works, equipment, and other outputs have been delivered as specified, are functioning and being maintained, while the Bank audits/appraises/confirms that such monitoring is taking place so that detailed supervision of projects can be properly conducted within likely budget norms. Management action: In response to the portfolio quality challenges, the HNP Sector Board has introduced a quarterly portfolio monitoring and benchmarking system, which is being used by the Sector Board and regional management to improve portfolio performance.

MAR 2011
Building off the substantial progress in 2010, HNP has maintained its efforts to review and improve portfolio quality, which

continues to be a key priority for the HNP Sector Board (SB) and an ongoing effort at all levels.

- The Portfolio Improvement Action Plan (PIAP) continues to be reviewed by the HNP SB on a quarterly basis. The HNP SB sub-committee on quality remains active and continues to discuss and resolve portfolio quality issues.
- All operational teams, especially in Africa (AFR) and South Asia (SAR), continue to make strides towards improved portfolios. For example, based on discussions and demand for increased guidance on Implementation Status and Results (ISR) report ratings, AFR carried out a detailed review of ISR reports and developed a checklist to assist TTLs, cluster leaders, and sector managers. Additionally, in SAR a significant share of the India portfolio has been restructured, with the result of improvement in portfolio performance.
- Of the 15 FY11 approvals that required Quality Enhancement Reviews (QERs), 8 QERs were carried out by the Hub and the rest underwent a Regional QER. There was one Hub managed QER of supervision.

HNP continues to incorporate risk assessment into reviews and has made progress in developing strategies to mitigate risks on a case by case/country by country basis.

- The Operational Risk Assessment Framework (ORAF), which was not in existence at the time of the drafting of the HNP Management Action Plan,[8] is an "integrated framework for assessing the risks of investment lending projects." HNP has taken steps to adopt the recently developed ORAF. Promoting staff knowledge and understanding of the ORAF is critical and all HNP staff have been encouraged to attend OPCS training sessions on the ORAF. In addition, HNP, in cooperation with Operations Policy and Country Services (OPCS), conducted sessions on the ORAF during HD Week (FY11Q3).
- 100% of Hub-managed QERs review the ORAF in detail and provide advice to teams on risk mitigation measures. Additionally, QER panels also confirm/adjust ratings based on risk management/mitigation as appropriate.
- The regions continue to prioritize risk management and mitigation throughout the project cycle, including through utilization of the ORAF. For example, in EAP uses non-EAP peer reviewers, peer reviewers with expertise on risk management/mitigation, and external experts in the Regional QER process. SAR employs both ORAFs and Governance and Accountability Action Plans (GAAP) to identify, mitigate, and assess risks. Finally, ORAF is also an integral part of all new LAC project packages and some projects have also developed a Governance and Anticorruption Council (GAC). For example, in Argentina the team has developed an extensive ORAF and implemented a GAC to improve project fiduciary performance, accountability, and transparency.
- In addition, regions have taken other measures to reduce risk and improve portfolio, including use of external peer reviewers in Regional QER panels in LAC and routine use of Regional Accountability and Risk Reviews (RARs) in SAR. In the case of problem projects in East Asia and Pacific (EAP) Region, additional funds have been provided by the VPU (e.g., Philippines restructuring) and mid-term reviews have been carried out, with early restructuring if necessary (Timor Leste). AFR has instituted a program of intensive support for problem projects. After an initial increase in the number of projects at risk (as a result of more realistic and independent ratings), the number of projects at risk has begun to steadily decline.

HNP has made progress and continues to undertake significant efforts to improve the quality and realism of project design.

- Analytical work and Quality of design for HNP projects has improved, in particular regarding the complexity of design. In the Second Quality Assessment of the Lending Portfolio (QALP-2), 77% of sampled HNP projects had moderately satisfactory or above ratings, compared to 61% under QALP-1.
- HNP had 15 new projects from March 2010-February 2011, not including additional financing projects or emergency recovery loans.[9] Of the 15 new HNP projects, 7 have a significant focus on health systems strengthening;[10] 4 out of these 7 were based on specific analytical work, though all of them included analysis of risk.[11]
- Institutional analysis remains a critical component of HNP's project development. All 15 new HNP Projects are based on institutional analysis (100%).[12] At the regional and country levels, use of institutional analysis remains a

[8] Published July 2010, OPCS.

[9] P094755, P110599, P106870, P095171, P121060, P074091, P111840, P115563, P111556, P113540, P113202, P117417, P095275, P113896, P116226.

[10] P111556, P113896, P110599, P113202, P116226, P106870, P115563.

[11] See PADs for projects: P111556, P113896, P116226, P106870.

[12] See PADs for projects: P094755, P110599, P106870, P095171, P121060, P074091, P111840, P115563, P111556, P113540, P113202, P117417, P095275, P113896,

foundation for the project development cycle. In SA, institutional analysis has been an explicit part of the preparation of the Nepal HNP&AIDS SWAp and the India ICDS Systems Strengthening and Nutrition Improvement Project. LAC carries out analytical work at regional and country levels (Jamaica, Brazil, Colombia, Mexico, Argentina, Mexico and Peru, Paraguay, Chile), which feeds into the policy dialogue, further analytical work, technical assistance and operational support to client countries. Similarly, in AFR, almost all new operations are based on analytical work such as country status reports or public expenditure reviews.

- As reported in the 2010 HNP MAR to the IEG report, "a new course – Flagship Course on Health Sector Reform and Sustainable Financing – started in FY10, with stakeholder analysis (in the context of the politics of health systems reform) as a core component and institutional analysis included in the sections on organization."[13] The Bank's Flagship Course on Health Systems continued in the latter half of FY10 and has already reached over 80 HNP Staff in FY11. Additionally, a shortened version of the Flagship Course on Health System Reform and Sustainable Financing, which emphasizes policies to improve HS efficiency, along with access and quality of health systems, was developed and offered for WB staff in 2010 and has recently been delivered as part of the 2011 HD Learning Week.
- In order to provide support for strengthened institutional analysis, AFR launched the Health Systems for Outcomes (HSO) program in FY10. HSO supports governments, Bank TTLs and development partners in over 24 countries in Africa by providing technical, analytical and knowledge management assistance directly related to health systems strengthening. For example, HSO's work has included contributions to the policy dialogue and analytical contributions in the form of country programs such as support for public expenditure reviews (PERs), public expenditure tracking surveys (PETs), country status reports (CSRs), to name a few. This work has resulted in: the development of an Africa Investment Case (to achieve the health related MDGs and other health objectives); numerous workshops on health insurance, improving financial access to care, governance and regulation of the pharmaceutical industry, public/private partnerships; development of a Health Financing Flagship course; establishment of health systems communities of practice in Africa and a common platform for exchange of health systems information.
- HNP has also carried out a review of the Bank's work on health system analysis. An HNP Discussion Paper has been developed and will be published in FY11Q3.

HNP is continuing to ramp up its efforts to strengthen overall portfolio and match project design to country context and capacity.

- All HNP Hub-organized QERs focus on simplifying design and provide guidance to teams on how better to match the complexity of the operation to the capacity of the country.
- HNP is working to strengthen supervision in the field, though this has been challenging due to declining supervision budgets over time. However, it remains a critical component of operational work. Of the 15 new HNP projects considered, only 7 projects had civil works components.[14] Of these projects, 6 projects outline borrow responsibility,[15] all 7 have adequate civil works budgeting, and 5 include use of standards for civil works.[16]All regions continue to regularly review new and on-going projects to ensure appropriate fit to country context and reduced complexity. For example, in the Middle East and North Africa (MENA) Region, projects have been simplified to avoid complex and multi-component health sector reform-type designs. Additionally, the scope of outputs and outcomes expected from each investment project has been reduced and made more attainable. For example, the scope of the Egypt Health Insurance System Development Project is limited to establishing the business process and IT systems to support the purchasing functions of the new national health insurance agency (NHIA). This investment will lay the foundation for building the capacity of the NHIA, which is hoped to eventually lead to universal coverage; however the project only addresses the first phase of the multi-phased reform agenda. In addition, participation of AFR Cluster Leaders in a number of AFR missions during the design stage has helped ensure simplicity of project design.

Specific efforts have been undertaken to strengthen monitoring and evaluation (M&E) of HNP projects and improve the focus on results.

- Building off of a review which started in FY10, AFR recently carried out an in-depth study of M&E in all 52 AFR operations, which will be published in FY11Q3. Key findings of this work reveal progress on M&E design, including selection of indicators and approaches to data collection. However, sustained effort is critical to continued im-

[13] HNP MAR, 2010.

[14] P095275, P111556, P115563, P111840, P095171, P106870, P110599

[15] See PADS for: P095275, P111556, P115563, P111840, P095171, P106870,

[16] See PADs for: P095275, P111556, P115563, P111840, P095171,

provement of M&E design.

- AFR has undertaken a work program to improve M&E, including analytical work on target setting, finalization of a results chain (and guidance to staff on indicator selection), and an M&E checklist for task teams during design and implementation of operations.
- In AFR, there is now a much greater focus on RBF – the region is currently at various stages of policy dialogue with 27 countries. More specifically, RBF pilots are ongoing in Benin, Cameroon, DRC, Kenya, South Sudan, and Zambia and under preparation in Ethiopia and Nigeria, while other RBF programs have been recently scaled up to the national level in both Burundi and Rwanda.

10.2Renew the commitment to health, nutrition, and population outcomes among the poor.

Original Response: Management agrees with this recommendation for high-fertility countries and regions—in particular as those areas have received less attention from other development partners as well over the past decade. Demand for stand-alone population (family planning) programs has declined over time. The Bank should increase support for reproductive health programs, which are usually better implemented when they are fully embedded into public health/clinical services. We would generally not support a return to stand-alone vertical family planning projects. Moreover, AIDS control projects (or components) and the work through UNAIDS have substantially contributed to reproductive health—and greatly expanded coverage of family planning for otherwise hardto- reach population groups. In countries that are significantly advanced through the demographic transition, clients increasingly request advice and financing on financial protection, labor markets, and long-term care needs to address the ongoing demographic and epidemiological shifts resulting in an aging society. Finally, Development Grant Facility–financed programs such as the Special Program of Research, Development and Research Training in Human Reproduction (HRP), into which the Bank has substantial technical, financial, and managerial input, are contributing to the global reproductive health agenda.

Management generally agrees with the need to ensure that project design responds to the priorities and needs of the poor, and to measure the full impact of improved health services for the poor. Management will therefore seek to ensure that adequate attention is given to poverty dimensions in project design and supervision. However, direct assessments, where feasible, may be technically complex and expensive. The Bank publication Attacking Inequality in the Health Sector—A Synthesis of Evidence and Tools (Yazbeck 2009) lays out a policy menu (pro-poor policy reforms along six dimensions) and a list of the analytical tools for understanding the constraints to pro-poor targeting of public health investments in poor countries. As opposed to specific income groups, disease control programs must focus on the prevailing epidemiology (for example an AIDS program must focus on high-risk groups, irrespective of income). A malaria program focused solely on the poor would fail to eliminate malaria. Polio could only be eradicated from the Western Hemisphere by focusing on large, inclusive campaigns targeting all income groups. Such investments in public health and control of communicable diseases are global public goods, generating positive externalities for society, irrespective of income status. Investments in health systems should result in increased access and better quality of services— also benefiting the poor. Investment in social security and social safety net systems prevents the middle class from falling into poverty in case of a catastrophic health event. Management notes the substantive improvements over the past years in quantity and quality of HNP involvement in Poverty Reduction and Economic Management Network (PREM)–led analytical work, and agrees that HNP must be fully included in all Poverty Assessments and fully examined in the preparation of CASs.

Management agrees with this recommendation. Particularly in the context of the global food crisis, the Bank needs to increase investments in nutrition, with a particular focus on maternal and infant nutrition. Management is therefore investing significant resources in the next few years to ramp up the Bank's analytical and investment work and leverage resources from other donors.
The agenda for scaling-up nutrition is being catalyzed with additional budget resources, starting in 2009 and continuing for three years. The increased allocations are being utilized principally in Africa and South Asia, two Regions where the malnutrition burden is highest. These funds will be complemented by additional trust fund resources from Japan, and possibly from other donors that are currently engaged in discussions on this issue.

Management agrees in principle with this recommendation, and will seek to ensure adequate provision for data collection, where technically feasible, during quality-at-entry and supervision reviews, in particular as far as poverty targeting is concerned. In order to accomplish this in a sustainable manner, management believes that the first priority in many poor countries is to establish routine health monitoring systems (surveillance, facility reporting, vital registration, census data, resource tracking, household surveys, and the like). These data systems need to be strengthened in parallel to investing in project-specific management information systems, in order to provide data and indicators that are needed for program targeting and monitoring for (but not limited to) the poor.

Management agrees. Substantial progress regarding this recommendation has been made in some regions over the past years, both in terms of the analytical underpinnings, the need for capacity building, and investment needs. Management will seek to improve cross-sectoral collaboration with the PREM Network at country level as a precondition to further improvements. Management action: Recent major analytical work for staff and policy makers prepared by the Human Development Network to improve effectiveness in reaching the poor includes: Reaching the Poor with Health, Nutrition and Population Services—What Works, What Doesn't and Why (Gwatkin, Wagstaff, and Yazbeck 2005) and Attacking Inequality in the Health Sector—A Synthesis of Evidence and Tools (Yazbeck 2009). It is expected that this work will help clients and staff achieve better results in reaching the poor with health services. Concerning nutrition, in addition to disseminating the new Nutrition Strategy (Repositioning Nutrition as Central to Development—A Large Scale Action [World Bank 2006c]) the Regional Reprioritization Fund will allocate US$4 million over fiscal years 2009–11 to strengthen Bank capacity to scale up nutrition support and leverage resources from other donors.

MAR 2011
HNP continues to be a key global player in sexual and reproductive health rights, particularly with the recent launch of the World Bank Reproductive Health Action Plan.

- The World Bank's new *Reproductive Health Action Plan (RHAP)*, a detailed operationalization of the reproductive health component of the 2007 HNP Strategy, was presented to the Board in May 2010 and implementation began in FY11. Under the RHAP, the World Bank is focusing on 57 priority countries with high levels of maternal death and morbidity, fertility rates, and higher levels of STI prevalence.
- A CSO Consultative Group has been formed to ensure continued dialogue and priority for SRHR at the World Bank and to ensure accountability of RHAP at the national level.
- Profiles are being created for all 76 priority countries of the RHAP to provide readily available information on the country's RH status and as inputs into CASs. They will also be used for policy dialogue with governments in priority countries. Since March 2010, 10 countries have had new CASs or Interim Strategy Notes (ISNs).[17] Issues related to fertility, family planning, and reproductive health were mentioned in 7 of the CASs/ISNs.[18]
- In partnership with others, the Bank has: contributed to a first attempt to assess trends in MMR at the regional and global levels; organized a training in AFR on the methodology for measurement of maternal mortality; provided total support of $3.87 million through the Development Grant Facility to support civil society organizations for capacity development through the Population & Reproductive Health Capacity Building Program; continued the WBI's Flagship training course on Pop/RH- *Achieving the Millennium Development Goals: Poverty Reduction, Reproductive Health and Health Sector Reform*. Additionally, the Bank is developing case studies for a better understanding the impact of political leadership on progress on MDGs 4 and 5 (Bolivia, Nepal, Egypt and China) and is organizing a learning session on the RHAP for the HD Learning Week.
- The Bank is in constant dialogue with partners (UNFPA, UNICEF, UNAIDS, WHO) and is working together towards jointly programming work at the national and regional level in an effort to enhance synergies and achieve maximum results.
- Efforts at the global level are mirrored by strong progress at the regional and country levels, as reproductive health, including family planning, is increasingly incorporated to health systems projects, for example. In MENA, the Bank has engaged in a regional consultation on gestational diabetes and work is ongoing to intensify the focus on maternal, neonatal, and reproductive health in Yemen and Djibouti. In EAP, an important study on adolescent sexual and reproductive health is underway in the Pacific Islands to identify improved information delivery strategies. In LAC projects are currently active which place specific emphasis on improving maternal and child health outcomes, particularly among the poor (Guatemala, Argentina, and Brazil). SAR has developed regional RHAP workplan and is exploring options for a "buy-down" for family planning in Pakistan, for example. Finally, AFR has developed a draft RHAP and the South Asia Region and nearly all RBF activities in AFR include support for family planning. Reproductive health projects are under preparation in both Burkina Faso and Mali, while there is an ongoing population projects in Niger, strong components of reproductive health in the Mozambique Health Sector Development Plan, and the Angola Municipal Health Service Strengthening project. AFR is also in the process of preparing a Population Policy Note (to be completed mid-2011) and is currently collaborating with PREM on (i) popula-

[17] Burkina Faso, Cameroon, Chad, Comoros, Honduras, Lesotho, Sierra Leone, Solomon Islands, Timor Leste, Uganda.

[18] CAS: Burkina Faso, Cameroon, Lesotho, Sierra Leone, Uganda; ISN: Chad, Comoros, Honduras, Solomon Islands, Timor Leste.

tion/reproductive health input into a new PRSP for Burundi; (ii) population policy note for Sierra Leone; and (iii) AAA product for Uganda (contributions on demography and economic growth).

Improving health results for the poorest and most vulnerable continues to be a cornerstone of the work of HNP.

- HNP's ongoing seminar series *Making Health Systems Work for the Poor* continues to be a success in presenting evidence from health reforms with a measurable impact on the poor.
- HNP has made progress in incorporating poverty dimensions into new projects. Of the 9 IBRD and 12 IDA projects approved in FY10 and FY11 Q1 and Q2, 13 projects (5 IBRD, 8 IDA) were considered to be "appropriate" for incorporating a poverty dimension – other projects related to strengthening institutional capacity (supply chain management, etc.) or H1N1. In appropriate projects, 7 projects (3 IBRD, 4 IDA) were found to incorporate poverty dimensions into PDOs, a vast improvement over the IEG findings. Kenya, Vietnam, Nepal, and Mexico were particularly good examples of incorporating poverty dimensions into PDOs and results frameworks.
- Increased emphasis on poverty and equity continue to be a key focus of the Bank HNP regional work. For example, AFR has established a baseline on what proportion of projects explicitly set out to measure equity in access or outcomes and has incorporated equity concerns in its results chain and other job aids. Support to the Africa Programme on Onchoerciasis Control (APOC) is also ongoing and has made great strides in reducing onchocerciasis incidence. Moving forward, there are plans to use this program to launch an effort on neglected tropical diseases which disproportionately affect the poor. In SA, all new operations include indicators which track impact upon the poor or marginalized groups. Similarly, several LAC projects focus on the disproportionate burden of communicable and non-communicable diseases on the poor (Argentina, Mexico, Brazil, Haiti, Nicaragua, Caribbean, and Uruguay). In Brazil, VIGISUS allocated $100m to improve the health of poor, indigenous populations. Similarly, HIV/AIDS and STI work in Central America and the Caribbean are largely targeted towards indigenous groups and marginalized people (commercial sex workers, etc.). Finally, an ESW is underway in MENA on the topic of health equity, which is based on commissioned studies in 7 countries in the MENA region to measure catastrophic health expenditures at different income levels, and the impoverishing effects of health expenditures, especially on the near poor population.

Support to improving nutrition outcomes continues to be a significant component of HNP's work to deliver improved health results.

- The Global Action Plan for Nutrition, now called the Scaling-Up Nutrition (SUN) Framework, was launched during the Spring Meetings in April 2010. The Bank also worked with partners to develop the SUN Roadmap, which spells out the operationalization of the consensus framework for action.
- As reported in the 2010 HNP MAR, "Six additional Bank staff have been hired for nutrition work—one in HQ and five in the Regions," and "A new multi-donor trust fund established by Japan to scale up nutrition solutions has been secured and is operational."[19]
- The Bank team is now developing programmatic guidance on agriculture/food-security-nutrition linkages and social protection-nutrition linkages. These guidelines (initial drafts will be completed by March 2011) will advance the ability of the Bank to support positive nutrition outcomes through *nutrition sensitive* activities across multiple sectors (e.g., Agriculture, Social Protection, and Education among others) in addition to *nutrition specific* actions in the Health sector.
- With last year's scale up of field-based nutrition staff, progress on nutrition work in the regions has been significant. Under the SUN Framework, HNP has committed to conducting 6-8 analytical and advisory activities or new investments in nutrition by FY11, with work in one country (Afghanistan) already complete. The EAP Regional nutrition strategy is currently under preparation. Two countries have completed country nutrition scale-up plans (Nepal and Mozambique) and Morocco's plan is awaiting government sign-off. In Malawi, Tanzania, Kenya, Zimbabwe, Yemen, Benin, Angola, Afghanistan and Zambia, analytic work that will support the development of country nutrition strategies and plans to scale up nutrition programming has been completed and scale-up plans are under development. AFR has a total of 10 active nutrition operations, including two new operations in Benin and the Gambia and 8 free-standing projects or projects with sizeable nutrition components (Madagascar, Senegal (2), Mauritania, Ghana, Ethiopia, Tanzania, Burkina Faso). Four new nutrition projects were approved (Nepal) or are under preparation (Malawi and Mozambique and Pakistan). Projects and project components are being prepared in Yemen, Burkina Faso, Liberia, and Sri Lanka, building on qualitative and quantitative research regarding the nutrition situation in-country supported through the Japan Trust Fund for Scaling up Nutrition. Pilots of innovative ap-

[19] Supra, 5.

proaches (for example, a locally-produced Ready-to-Use Therapeutic Food commodity and Corn Soya Blend in Ethiopia and a pilot to test the effectiveness of social transfers, food or cash, to improve the birth weight of children in Nepal) are being implemented in Ethiopia, Haiti, Guatemala, Peru, Ecuador, and Nepal. After the pilots are evaluated, lessons learned will be disseminated through South-to-South exchanges, regional consultations, and other fora. Three countries (Ghana, Malawi, Zambia) have joined and are part of the five "early risers" under the global multi-donor SUN Framework, with five more expected to join in FY11 or early FY12 (Ethiopia, Mali, Mozambique, Senegal, Tanzania) and two more on the waiting list (Burkina Faso, Niger).

- In addition, a large amount of ESW has also been carried out on nutrition in AFR - Malawi and Nigeria are being finalized; ESW reports have been completed for Mali, Tanzania and Ethiopia; new ESW on nutrition has been initiated in Angola and The Gambia. The focus of all these ESWs is on mainstreaming nutrition in the development agenda and scaling up evidence-based nutrition action at country level. Both formal and informal technical assistance on nutrition policy and program development is being provided to Benin, Cote d'Ivoire, DRC, Ghana, Liberia, Mozambique, Rwanda, Senegal, The Gambia, Zambia and Zimbabwe. Regional AAA work include the finalization and publication of the comparative nutrition policy study in eight countries (Benin, Burkina Faso, Ethiopia, Ghana, Madagascar, Senegal, Tanzania, The Gambia); a soon-to--be-launched capacity assessment in four East African countries (Kenya, Tanzania, Uganda and Zimbabwe); and a new initiative (in preparation) on South-South Peer Reviewing and Coaching to be launched in West Africa.

Improving the monitoring of HNP outcomes among the poor is being undertaken through analytical work that provides information on changes in HNP outcomes among the poor, and through training materials and events and tools that build the capacity of Bank staff and client countries to better, and more easily, monitor HNP outcomes themselves.

- Over the course of FY10 to FY11 Q2, a comprehensive database on HNP outcomes and coverage rates by wealth quintile for 98 countries, with data from 1985-2007 has been developed; a series of Health Equity and Financial Protection (HEFPro) country reports that monitor HNP outcomes among the poor have been initiated; and country data sheets monitoring HNP outcomes among the poor have been developed. Additionally, WBI's e-learning course on Health Outcomes and the Poor was delivered in FY10 and the ADePT-Health software that automates and simplifies the analysis of financial protection and equity in the health sector has been substantially improved, user guides have been developed, online tutorials are available, and there is a fast-expanding group of international users. In FY10 Q4, training on ADePT-Health and health equity monitoring techniques was delivered to clients at a conference in Manila; training materials are currently under development for more intensive training in CY11. HNP, WBI and DEGRG are collaborating on the creation of a new WBI Flagship course on Health Equity and Financial Protection (to debut in FY11 Q4).
- Of the 5 Poverty Assessments completed in FY10 and FY 11 (Q1, Q2), all but one (80%) gave considerable attention to health outcomes of the poor. One of the five (Bosnia and Herzegovina) assessments had an entire chapter dedicated to health and two (India and Iraq) had chapters devoted to a combined analysis of health and education. Overall, the coverage of health outcomes in poverty assessments is considered substantial. Any expectations for improvement need to take into consideration the evolution in the nature of Poverty Assessments away from generic multi-sectoral analyses towards more tailored documents focusing on only a few themes that are of particular interest to government at the time of writing. Of all of the 16 CASs and CPSs delivered in FY10, 15 discussed health outcomes to some degree. This discussion tended to be brief and, especially in IDA countries, sometimes focused only on progress towards the health-related MDGs. Of these 16 CASs, only 6 mentioned health outcomes among the poor. More promisingly, 5 of the CASs included an objective, indicator or target related to the health status of the poor in their results matrices.
- HNP is currently working to systematically increase the emphasis on poverty and equity, however, and has recently taken up a new work program for monitoring equity and financial protection in the health sector, which complements the new ADePT-Health data analysis tool developed by DEC.

10.3 Strengthen the World Bank Group's ability to help countries to improve the efficiency of their health systems.

Original Response: Management generally agrees with this recommendation. The efficiency argument is a key rationale, in particular for working with health systems in middle-income countries. Since national health expenditures rise with national income, improving sector efficiency makes an important contribution to fiscal sustainability. However, in the health sector there are important efficiency equity trade-offs. This points to the fact that efficiency gains should not be the sole objective of Bank-financed health programs.

Management agrees that it is necessary to carefully assess the need for additional finance where other donors are contributing substantial amounts. While fiscal space and potential budget substitution by ministries of finance should be closely monitored, the empirical evidence of distortionary effects of large vertical disease programs is scanty. Proposals for Bank support for new disease-specific programs are closely coordinated with other donors and often fund complementary financing and institutional needs, for which financing was unavailable from other donors.

Management agrees partially with this recommendation: Technical support and financing for management information systems as well as routine surveillance and vital statistics systems should be ramped up. However, the outcomes of management information system investments may be hard to evaluate fully within the timeframe of a project, and multiple determinants influence health outcomes. Management also notes that the Paris and Accra Declarations and the new OP 13.60 emphasize the use of pooled funding and country-level M&E systems instead of ring-fenced funding and stand-alone M&E systems. Hence, the standard should be that sufficient evidence on outputs, intermediate outcomes, and outcomes should be collected to establish a credible story line to assess the link between Bank-financed investments and overall sector progress, including efficiency and efficacy gains. Management action: The Human Development Network and the Regions have carried out major analytical work that will help policy makers and Bank staff to better understand challenges and trade-offs in health financing, risk pooling and insurance, the issue of fiscal space and external assistance (Health Financing Revisited—A Practitioner's Guide [Gottret and Schieber 2006]). Furthermore, the Bank is a lead sponsor of the International Health Partnership (IHP+). This is a country-led and country-driven partnership that calls for all signatories to accelerate action to scale up coverage and use of health services and deliver improved outcomes against the health related MDGs, while honoring commitments to improve universal access to health.

MAR 2011

Efficiency and quality are both important for improving health results. HNP continues to work with internal and external partners to find ways to maximize efficiency while maintaining or improving quality of HNP results.

- Of the 15 new HNP projects since March 2010, 14 consider efficiency, including overall potential efficiency gains, reduction in wastage and leakages, and increased cost-effectiveness, for example. [20]
- HDNHE has developed guidelines of strategies to improve organization performance in service delivery. A discussion paper is ready for publication and a more pro-active user's guide for strategies to improve service delivery performance is being finalized for FY11Q3. The plan is to develop opportunities to work with TTLs and clients to carry out the analysis needed to apply this approach and use it to improve efficiency of health systems.
- The Bank is developing guidelines and tools for country teams to integrate cost-analysis into its RBF for health programs, including program cost-effectiveness, efficiency and sustainability analysis, into project design. This work will begin in Afghanistan, Benin and Rwanda.
- The IHP+ continues to be a key partnership whose intention is to help reduce transaction costs and increase efficiency, based on the principles of Aid Effectiveness (more below).
- The Health Systems Global Expert Team also responded to a number of requests from TTLs and different Bank regions to advise on project design and reform plans to improve health system efficiency. In FY11, 20 requests were received, 4 have been completed and all others are currently in progress. Some highlights of this work include: high level consultations with Mexico on strategies to strengthen Seguro Popular; virtual workshop with 5 Africa offices/TTLs on health insurance; development of practitioner to practitioner capacity building in Asia on health insurance and provider payment.
- Increased efficiency at the regional and country levels is also a high priority. In EAP, RBF approaches have been utilized to improve efficiency and create stronger linkages to results, especially in Lao, Vietnam, Philippines, and the Pacific Islands. EAP has also supported China in M&E activities at a decentralized level for the implementation of the ambitious Chinese National Health Reform. In SA, both Bhutan and Nepal are currently conducting assessments of public expenditure for health, which aim to identify opportunities for efficiency gains to create fiscal space. Innovative work is ongoing in AFR, where a randomized controlled trial (RCT) of different approaches to deliver drugs to peripheral health centers in Zambia has been carried out. This is the first published RCT on logistics management in health - the best approach identified by this study proved to be extremely efficient in reducing stock outs and has now become national policy in Zambia. Finally, work in LAC focuses on strengthening regional health systems. As such, operations aim at improving essential public health functions (Argentina, Brazil), public sector management (Argentina, Brazil), public sector management (Brazil, especially the GDF Multisector Man-

[20] P094755, P110599, P106870, P095171, P121060, P074091, P111840, P115563, P113540, P113202, P117417, P095275, P113896, P116226.

agement Project), health insurance (Argentina, Mexico), health networks (Brazil, Costa Rica), modernization of hospitals and hospital management (Brazil), pharmaceutical policies, and other issues aiming at improving coverage, quality, and efficiency of regional health systems.

- The Harmonization for Health in Africa (HHA) partnership (AfDB, JICA, UNAIDs, UNFPA, UNICEF, USAID, WHO, WB) is also important for increasing efficiency. The WB HSO team closely coordinates and collaborates within the context of this partnership to ensure harmonized support for African countries, increasingly working in the context of joint missions and shared responsibilities. HHA, in turn, works closely and collaboratively with other regional and global partnerships such as the Global Health Workforce Alliance, Joint Learning Network, and IHP+. Increasingly, the HHA has carried out joint efforts with the IHP+ in support of countries, namely Benin, Burkina Faso, Burundi, Cameroon, DRC, Ethiopia, Ghana, Kenya, Liberia, Madagascar, Mali, Mozambique, Niger, Nigeria, Rwanda, Sierra Leone, and Zambia.

HNP continues to be a leader in the global dialogue on delivering results in line with the principles of Aid Effectiveness outlined in the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action.

- HNP continues to work towards improvement in selectivity/complimentarity of support in order to maximize the impact of support at the country level and to continue to work towards implementing the principles of aid effectiveness. Of the 15 new HNP projects, 3 projects included a significant focus on priority diseases.[21] Of these 3, only 1, Nepal, included financing from other donors – the project in Nepal mapped contributions from these other donors.[22]
- Increased aid effectiveness remains a key aspiration of ongoing projects, as well. In EAP, for example, the approach has been to consider support provided by others and to serve as a donor of last resort. In SA, financing for HIV/AIDS components has been rolled into existing SWAps in Nepal and Bangladesh and are part of a provincial level health sector operation in Pakistan. In the Caribbean, LAC has plans to move from single disease projects to increased investment in health systems strengthening (Haiti) and chronic diseases (other Caribbean countries). In AFR, partners have recently asked the Bank to spearhead an effort to develop a joint disease control approach to health systems in order to foster synergies and bridge he divide between disease control programs and HSS at the country level.
- A number of HNP-managed partnerships continue to support the aid effectiveness agenda, highlighting the need for collaboration amongst partners and coordinated financial and technical support to countries based on a single national health plan, thus resolving a number of existing issues regarding financing for earmarked diseases. These include the IHP+ and the related Health Systems Funding Platform.
- IHP+ continues to support the implementation of the Joint Assessment of National Strategies (JANS). The JANS tool, which lays out some parameters for assessing a country's national health strategy, is now widely considered a global public good in the health sector. Since the time of last reporting, JANS have been carried out in a number of countries – Ethiopia, Nepal, Uganda, Ghana, and Vietnam. In order to learn from lessons of these JANS, a document has been developed consolidating lessons learned to date; the IHP+ also intends to learn from these lessons by revising the JANS tool to work towards better applicability to country needs.
- The Health Systems Funding Platform is now advancing well. The World Bank, led by the work of HNP, is working with the GAVI Alliance, the Global Fund, WHO, and other partners to accelerate progress towards the MDGs to coordinate, mobilize, streamline and channel the flow of existing and new international resources to support national health strategies. For example, Nepal is using the Platform to further implement the aid effectiveness agenda and bring more donors into a joint fiduciary framework. A JANS was conducted in 2010 and the World Bank, AusAid and DFID were able to use this process in place of the stand alone appraisals and the leading aid donors (DFID, World Bank, the GAVI Alliance, USAID, UNFPA and UNICEF[23]) agreed to sign a joint financing agreement (JFA) for pooling and non-pooling partners committing additional resources through a single framework for financial management – with one report and one audit –Nepal is currently urging donors to carry out their commitment to using one M&E framework. Similarly, development partners and the MoH in Ethiopia are working towards agreement on a joint fiduciary framework, working together on one financial management assessment, planned in March. This work links directly to the preparation of a new RBF health project using the new Results-based Investment Lending Instrument. Other platform work is ongoing in Cambodia and Benin.

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21 P117417, P113540, P121060..

22 See PAD: P117417.

23 It is expected that AusAid and KfW will sign the JFA in due course.

Health Information Systems (HIS) are a critical component to a functioning health system and effective health governance and M&E. HNP continues its strong support of this work in a diverse through a diverse array of mechanisms.

- Building capacity at the country level is critical for the sustainability of strong monitoring and evaluation systems. Of the 15 new HNP projects since March 2010, 12 projects include components to strengthen country M&E systems.[24]
- As reported in the 2010 HNP MAR, "Under the IHP+, global health partners have developed a common monitoring and evaluation framework." Additionally, also reported in 2010, "In partnership with the Health Metrics Network, the Bank has supported country assessments of health information systems in over 80 countries."[25]
- HNP supports country impact evaluation (IE) programs of RBF for health projects, through four priority areas: (i) financing IE activities through the HRITF, (ii) development of technical resources such as an IE Toolkit, questionnaires and training manuals; (iii) direct technical support to country teams on design and implementation of prospective, rigorous IE; and (iv) technical training in IE in annual IE training workshops. To date, the Bank has directly supported over ten RBF for health project teams on IE activities.
- HIS and IE are critical components of project success at the country level. As a result, MENA has recently scaled up investment in strengthening health information systems for improved health service management and health financing in Lebanon (claims processing and utilization reviews of hospital services), Tunisia and Morocco (governorate level monitoring of health systems performance), Egypt (Health Insurance System Development Project - IT/business process enhancement), and Saudi Arabia (Saudi Health Insurance Bus - a national portal for health insurance claims processing, and a Saudi National Health Data Dictionary). Health systems strengthening operations in LAC have also assisted in the establishment of complex surveillance systems (Brazil), M&E (Brazil) and HIS (Brazil and Caribbean). Additionally, many of the LAC RBF projects have disbursement-linked indicators directly related with health systems strengthening.

Increased support of health systems, strengthened partnership and coordination, and improved knowledge management and learning remain critical components of HNP's efforts to make progress on the health-related MDGs.

- The HNP Knowledge Resource Center (KRC) was successfully launched by the Hub in FY10, with strong positive feedback from the regions. The KRC delivers just-in-time advisory services that respond to TTL requests within 24 hours. The strongest positive feedback has been for the consultant/TORs database, which is available on the internal website and updated continuously and the HNPWeekly internal e-newsletter. Other products include HNPFLASH, the external monthly subscription-only e-newsletter, which has been only been active since June 2010. In spite of this short time and no marketing, HNPFLASH has 1,000 new subscribers. The KRC is also coordinating HNP's 2011 HD Learning week, which consists of 3 parallel course series including the nascent HSS Staff Flagship Program. The full HNP Learning Program, which consists of BBLs and seminars jointly-sponsored with other units remains as active as in previous years. This year the KRC developed one of the first On-Boarding Programs in the Bank, which is still under review by management, but is key to implementing the Bank's new Learning Strategy. The KRC also collects and synthesizes knowledge content for the central HNP Website, edits the HNP Discussion Paper and HNPNotes series, and conducts vigorous outreach to the regions to meet internal demand for knowledge and learning.

10.4 Enhance the contribution of support from other sectors to health, nutrition, and population outcomes.

Original Response: Management agrees in principle, but implementation can be challenging. For example, health is a secondary objective for many clients in water and sanitation operations and borrowers are reluctant to add potentially costly components. In addition, the current mandate, staffing, and budget of the water sector does not allow the sector to be "accountable for health benefits" as IEG suggests. Under IDA 15 guidelines, it is mandatory to track "safe and sustainable access to water and or sanitation services" as an outcome, with health benefits classified as impacts, rather than outcomes. Because it is difficult and expensive to track health impacts, the number of water projects with a health objective has declined, and this trend is likely to continue absent changes in policy and/or additional resources.

[24] See PADs: P094755, P110599, P106870, P095171, P121060, P074091, P111840, P115563, P113202, P117417, P095275, P113896.

[25] Supra, 5.

Management generally agrees that we need to support client countries to seek improved complementarity of water and sanitation programs with health projects, in particular as clients are reluctant to burden all water and sanitation operations with potentially small (albeit cost effective) health impact objectives, and to demonstrate and document empirically such impact and outcomes in each case.

Management agrees and notes that significant additional resources have been mobilized from fiscal year 2009 on to better respond to client and partner requests for embedding Bank support in multisector programs, or to provide just-in-time advice to countries and partners in development. Specifically, over US$3 million additional Bank budget will be allocated per year to ramp up Bank support for the 14 IHP+ countries, mostly in Africa, including the establishment and staffing of two regional technical support hubs in Africa. Additional resources are being provided by other donors.

Management agrees, but notes that this is a concern across the institution that needs institutional analysis and solutions, including revisiting the incentives needed for improved cross-sectoral and cross-departmental collaboration.

Management agrees, subject to the limitations mentioned previously related to M&E and attribution. Management action: the HNP sector continues to expand and deepen cross-sector engagement. Recent products include work on Social Safety Nets, Ageing and Demographic Change, Early Childhood Development and Poverty, Environment and Health. Ongoing initiatives include work with Water and Sanitation, Transport, Poverty Reduction and Economic Management, Agriculture and Rural Development, and Operations Policy and Country Services on global challenges ranging from global infectious threats, climate change (part of the 2010 World Development Report), road safety, and an Advanced Market Commitment to develop a pneumococcal vaccine suitable for use in Africa.

MAR 2011

Achieving improved health results is a product of health and non-health sectors alike. Multisectoriality, while a challenge, remains critical to achieving results in the health sector.

- A working group has recently been convened to address non-health sector inputs to health results. This group includes representatives from sectors such as education, social protection, environment, transport, and water and sanitation. The first meeting of this group took place in February 2011.
- HNP continues to solicit the participation of other sectors in QERs, based on project need. Thus far in FY11, 8 Hub-supported QERs were undertaken, 5 of which included inputs from other sectors.
- As part of capturing contributions from other sectors, HNP tracks 100% of all non-HNP sector Board operations for core health sector indicators.
- The nutrition team continues to work across sectors, engaging with Children and Youth (C&Y), Education, Social Protection and Agriculture, to name a few. Multisectoral actions feature prominently as part of the solution to malnutrition. Under the SUN Framework, a team from HNP, SP and ARD is developing programmatic guidance on agriculture/food-security-nutrition linkages and social protection-nutrition linkages. The agriculture/food security-nutrition joint guidance will be implemented in a few of the SUN "early riser" countries (Nepal, Bangladesh, Ghana, Uganda and Malawi) which have committed to rapid scale up efforts, with support from the HD and ARD Hubs. HNP also collaborated with Education and C&Y in the Africa region to produce a new volume in the Directions in Development Series entitled, *Investing in Young Children: An Early Childhood Development Guide for Policy Dialogue and Project Preparation*. This book takes a multisectoral/multidisciplinary approach to the topic of early childhood development, highlighting the importance of, and need for, investment in all of the domains that affect child growth and development including the physical (health and nutrition), linguistic, cognitive, and socio-emotional. Finally, the Nutrition team received a $250,000 RSR grant in FY10 to: 1) support the development of guidelines for multisectoral approaches to nutrition and 2) organize a regional conference (based in Africa or South Asia) to share experiences among Bank and client country teams in a South-South learning event.
- Multi- and cross-sectoral work has also been very successful in HNP regions. EAP has provided inputs to other sectors supporting health activities, with a particular view to increase the impact at the community level. For example, it provided inputs to Social Protection on conditional cash transfers in Indonesia and the Philippines. In LAC, cross-sectoral work in LAC is very positively rated in OPEs, which provides incentives for staff to work with other sectors. HNP operations in Brazil, Guatemala, and Panama, to name a few, have strong support to other sector projects with health goals. In Brazil, the multisector SWAps aim to improve HNP outcomes through improvement in public sector management and, in some cases, improvements in other sectors like Wa-

ter and Sanitation have positive spillovers to the health sector. All HIV/AIDS projects are also multisectoral, engaging sectors such as Education, Transport, and Tourism to improve HNP outcomes. In the case of some HIV/AIDS projects (Barbados), increased selectivity of engagement of other sectors has been important and a key objective with the intent to improve performance and shift the focus to groups at higher risk of infection. Regional Influenza and Nutrition projects are also multisectoral, engaging with the Agriculture sector and, in the case of nutrition, working closely together to improve food security, for example. Finally, LAC HNP also works closely together with the Environment to improve hospital waste management throughout the region (Barbados, Brazil, Costa Rica) and management of the use of pesticides for communicable diseases (Argentina, Brazil).

- AFR and SA have also shown tremendous success in multi- and cross-sectoral work. AFR is currently taking forward a new multisectoral initiative on strengthening all aspects of child development, including maternal and child health, nutrition, early childhood development, school feeding, and school health. AFR is also working closely with Social Protection in Rwanda to address rural poverty and has recently carried out a regional country team training on governance and the pharmaceutical sector in close collaboration with GAC Africa, INT, and OPCS, all under the auspices of the AFR HSO program. AFR has expanded an existing $40m multi-country Senegal River Basin Water Resources Development project to $70m for joint efforts for malaria control and infrastructure development. This project brings together a number of countries and sectors to strengthen the fight against malaria in Africa and this project is the first of its kind for malaria. Finally, the AFR HIV/AIDS program has a long history of interaction with other sectors, such as the Transport sector, for improving delivery of HNP results. SAR has also begun to ramp up cross sectoral collaboration, having recently incorporated a road safety component into a Pakistan roads project; including community level nutrition in the India livelihoods project, and working the HNP Hub to jointly implement a regional Food and Nutrition Security Initiative with the Agriculture sector.

10.5 Implement the results agenda and improve governance by boosting investment in and incentives for evaluation.

In line with the 2007 HNP Strategy, which renewed the Bank's focus on results, the Bank continues to prioritize implementation of results-based financing (RBF) projects and documentation of lessons learned, and leverage partner resources to support work at the country level.

- HNP continues to support RBF activities through the Health Results Innovation Trust Fund (HRITF). This multi-donor TF supports RBF approaches in the health sector for achievement of the health-related MDGs, particularly those linked to MDGs 1c, 4 and 5. During calendar year 2010, additional contributions from the governments of Norway and the United Kingdom were formalized, which expanded commitments to the HRITF to US$543 million equivalent through 2022.
- HNP continues to provide technical and financial support to nine governments, through country pilot grants (CPGs) to design, implement, and learn from RBF and carry out impact evaluations (Afghanistan, Benin, DRC, Ghana, India, Kyrgyz Republic, Rwanda, Zambia, and Zimbabwe). The HRITF third phase was launched in September 2010 and seven CPGs were approved for Burkina Faso, Burundi, Ethiopia, Laos, Nigeria, Sri Lanka, and Tajikistan. Under the HRITF, grant financing for RBF pilots is linked to a required prospective, rigorous impact evaluation (IE) embedded in project design.
- The HRITF Phase 3 introduced Country RBF Evaluation Grants to support non-HRITF funded RBF projects, to provide financial support to RBF program evaluation efforts to learn from successful (and unsuccessful) experiences from around the world, with four grants awarded. To date, 4 country teams have received this support, including Argentina, Cameroon, India and Turkey.
- In 2010, the Bank held an annual RBF for Health Impact Evaluation workshop, co-hosted by the African Development Bank, to provide technical support to country teams, as well as a forum to discuss new challenges and demand for support for the next phase of impact evaluation work. The workshop was attended by over 80 participants from ten countries.
- Additionally, 18 new RBF Knowledge and Learning Grants were awarded under the HRITF to support technical dialogue and learning around RBF design and implementation in IDA eligible countries.
- RBF and RBF-like approaches have shown tremendous success at the regional and country levels. AFR has provided a large amount of technical assistance to countries on RBF, including organization of regional workshops and establishment of a large and very successful "community of practice" on RBF. LAC operations have been successfully utilizing a number of approaches, including RBF (also SWAps and APLS – SWAPLs) in or-

der to increase the focus on results. These projects disburse against achievement of specific, measurable outcomes/outputs and results are verified by independent technical auditors. Finally, in MENA, a results-based approach to project payments in Yemen has been introduced. In Egypt, use of an independent verification and validation agency has been incorporated into all investment project designs.

Incentives for governance and evaluation continue to be critical for improving HNP results.

- A regular practice in HNP, the Results Framework and M&E arrangements of all Preparation and Supervision QERs supported by the Hub continue to be reviewed by the M&E specialist in the Hub or by an M& E specialist Panel member
- In EAP, improvements in creating incentives for monitoring and evaluation have been seen in ensuring baseline data is available during the design stage; utilizing government indicators has helped to ensure ownership of indicators and utilization of indicators as a management tool. Restructuring of various indicators has been supported by management in Lao, Timor Leste, and Vietnam. Finally, a regional evaluation of SWAps in health and education is currently being undertaken in the Pacific Islands in conjunction with other global partners (Australia, New Zealand, Asian Development Bank).
- In SAR, incentives have been strengthened, with proposed APLs in India (Uttar Pradesh and the India nutrition project) tying additional financing to results. Also in India, a study on impact evaluation and cost effectiveness has received support under the India AIDS project. In Nepal, a similar incentive allows for acceleration of disbursements if results are attained. In Afghanistan, a test is currently ongoing to see whether tying financing to results improves performance of service providers.
- Based on recent analytical work, AFR has provided support to task teams in all areas of monitoring and evaluation, including distribution of key aids (results chains). It also continues to use ISRs intensively as a forum to discuss results. AFR is also working closely with OPCS on the use of results-based lending instruments such as programmatic investment loans (PILs).
- LAC also continues to focus on support of impact evaluation. Impact evaluation analysis and focus on results has been implemented in a number of large operations, promoting accountability and better governance in the sector in countries such as Argentina, Brazil, and Mexico. For example, Argentina has obtained a $0.8m grant for impact evaluation of Plan Nacer and technical assistance has been put in place to support the design and further implementation of a health observatory for health systems and policies. Mexico is currently seeking financing to carry out an impact evaluation of its universal health coverage program.
- Thus far in FY11, LAC has provided a number of grants to support strengthening of the governance agenda, namely for human resources and health financing at the regional level. Additionally, as previously noted, health systems strengthening operations in LAC have facilitated the development of a complex surveillance system in Brazil (VIGISUS), and strengthening of both M&E and health information systems in Brazil and the Caribbean, respectively. New projects are currently focusing on the use of the information produced by such projects, as well as other available evidence, for improved decision making.

IEG RESPONSE 2011

IEG's response is based on the evidence provided by management (above) in light of the specific actions and commitments in the World Bank Management Action Plan for the HNP evaluation (pp. 161-164), in addition to statements of intent from the text of management's original response – in cases in which the Action Plan itself does not seem to include actions reflecting those commitments. IEG appreciates management's systematic review of the objectives and content of projects approved since March 2010 and footnoting the specific project IDs for those that satisfy specific recommendations.

10.1 Intensify efforts to improve the performance of the World Bank's health, nutrition, and population support: substantial.

a) "<u>Match project design to country context and capacity and reduce the complexity of projects in low-capacity set-</u>

tings through greater selectivity and sequencing of activities, particularly in Sub-Saharan Africa." *In the Action Plan, management committed to undertake intensive Quality Enhancement Reviews (QERs) in 75% of all new HNP projects, focusing on technical preparation, M&E, and institutional and risk assessments and mitigation measures, beginning in FY10, and to undertake quarterly reviews of the HNP portfolio by the Sector Board.* Adoption of this sub-recommendation continues to be high. All 15 FY11 approvals to date that were eligible (not repeater projects) have been subjected to in-depth QERs and the Sector Board has been reviewing the portfolio via the Portfolio Improvement Action Plan on a quarterly basis. All QERs conducted in the Hub (about half of all QERs) reportedly focus on simplifying design and better matching of complexity to country capacity. Projects have been restructured in South Asia, with reported improvement in portfolio performance, although the precise results were not reported. In MNA Region, projects have reportedly been simplified to avoid complex and multi-component health reform designs. The number of projects at risk, after initially increasing from more realistic ratings, has "begun to steadily decline". No specific evidence has been provided to show a reduction in complexity and greater selectivity in Africa region projects. Overall, adoption of this sub-objective is **high**.

b) "Thoroughly and carefully assess the risks of proposed HNP support and strategies to mitigate them, particularly the political risks and the interests of different stakeholders, and how they will be addressed." *In the Action Plan, management committed to ensuring that 100% of the QERs focus on risk, beginning in 2010, and that a course would be developed and rolled out on project risk analysis for HNP teams, disseminating best practices and lessons learned, starting in FY10.* According to management's response, all of the QERs managed by the Hub focus on risk assessment, though IEG has not been able to confirm that the quality of risk assessment has actually improved as a result. Staff have been trained in the new Operational Risk Assessment Framework and 80 staff enrolled in FY11 in the new Flagship Course on Health Sector Reform and Sustainable Financing, which includes a core component stakeholder analysis in the context of the politics of health systems reform. It isn't clear to what extent these measures have resulted in better assessment of the political risks, the interests of different stakeholders, and mitigation measures in newly approved projects. Adoption of this sub-objective is rated **substantial**

c) "Phase reforms to maximize the probability of success." *In the Action Plan, management committed to increase the analytical work focusing on reform for HNP reform projects, with 100% of all new projects focusing on health system strengthening (HSS) or broadly on health reform to be based in analytical work, including political risks and the interests of different stakeholders, starting in FY10.* According to management's response, four of the 7 new FY11 HNP projects that focused on health systems strengthening were based on specific analytical work and all analyzed risk, about the same share as reported in the previous year's MAR for FY10 (10 of the 14 new operations). However, it would be important to document the extent to which reforms are being phased among the health reform projects that have been improved, which is the thrust of the sub-recommendation. Adoption of this sub-objective is rated **substantial**,

d) "Undertake thorough institutional analysis, including an assessment of alternatives, as an input into more realistic project design." *In the Action Plan, management committed to conduct institutional analysis in 80% of all new projects beginning in FY10 and to design and deliver a training/learning program focusing on HNP sector institutional and stakeholder analysis.* Management's response indicates that all 15 of the new HNP projects that are not additional financing included an institutional analysis as part of preparation. Institutional analysis is part of the organization section of the Heatlh Reform Flagship course. It is unclear the extent to which these analyses are discrete products that take into account institutional incentives and that propose alternatives at the design stage, per the recommendation. Adoption of this sub-objective is rated **substantial**.

e) "Support intensified supervision in the field by the Bank and the borrower to ensure that civil works, equipment, and other outputs have been delivered as specified, are functioning, and are being maintained." *In the Action Plan, management committed to specify in project design the borrower's responsibility for civil works and equipment maintenance in all new HNP projects, beginning in FY10, and that all new HNP projects would be designed to ensure adequate recurrent cost budgeting for civil works and equipment maintenance.* The Action Plan's commitments are about project preparation rather than the intent of the sub-recommendation, which is intensified supervision of existing as well as new projects. In its response, Management notes that of the 7 new projects with civil works, six outline the borrower's responsibility, all 7 have adequate budgeting and five use standards for civil works. However, overall, scant information is provided about the extent to which supervision has been intensified – the Africa region has developed a checklist for ISRs, but Management notes that supervision budgets have been declining over time. Adoption of this sub-objective is rated **medium.**

10.2 Renew the commitment to health, nutrition, and population outcomes among the poor: Medium

a) "Boost population and family planning support in the form of analytic work, policy dialogue, and financing to high-fertility countries and countries with pockets of high fertility."
In the Action Plan, management committed to writing an analytic and advisory activity policy note on reproductive health, including family planning (FP), by FY10; to incorporate FP into health system strengthening projects, delivering 2 HSS projects in high fertility countries that include strengthening of FP in FY10; and to incorporate population and family planning into half of CASs for high-fertility countries, beginning in FY10. A Reproductive Health Action Plan was presented to the Board in May 2010and implementation began in FY11; it targets 57 countries, including but not limited to those with high fertility. A Population Policy Note is being prepared in the Africa Region and population analytic work is being prepared for Burundi (for a new PRSP), Sierra Leone (Policy Note), and Uganda (demography and economic growth), all high-fertility countries. A freestanding population project has been approved in Niger and preparations are under way in Burkina Faso and Mali. There have been new CASs or Interim Strategy Notes in 10 countries since March 2010, of which 6 are in countries with total fertility rates greater than 5 children: CASs in 2 high-fertility countries commit to specific actions to support population and family planning programs addressing high fertility, in 2 countries the CAS commits to continued support for ongoing maternal and child health interventions, and in 2 countries high fertility is mentioned as a constraint in the CAS, with no specific action. Adoption of this sub-recommendation is rated **substantial**, based on progress in strategies and policy development since last year, but will be revisited in the next period with respect to evidence that the policy changes have found their way into country strategies and the portfolio of lending and analytic work in high-fertility countries**.**

b) "Incorporate the poverty dimension into project objectives to increase accountability for health, nutrition, and population outcomes among the poor."
The Action Plan committed to ensure that "adequate attention is given to the poverty dimensions in project design and supervision, particularly project development objectives and key performance indicators"; the target was for 80 percent of all new HNP projects to incorporate the poverty dimensions "where appropriate" beginning in FY10. According to Management's response, 13 projects approved in FY10 and the first two quarters of FY11 were appropriate for incorporating a "poverty dimension"; 7 of these (54%) did so in their objectives and 4 (31%) incorporated poverty into the objectives and at least some of the indicators of the results framework. This is an improvement over the findings of the HNP evaluation (20 percent explicitly targeting the poor or having an equity objective, FY97-06), but short of the 80% target. Adoption of this sub-objective is rated **medium**.

c) "Increase support to reduce malnutrition among the poor, whether originating in the HNP sector or other sectors."
The Action Plan committed to scale-up the Bank's analytic and investment work and to leverage resources from other donors, by hiring 6 additional Bank nutrition staff, mobilization of additional trust fund money for nutrition from Japan and others; developing a Global Action Plan with key partners by FY10; and conducting 6-8 analytical and advisory activities or new investments in nutrition by FY11. Six additional staff have been hired for nutrition, one in headquarters and five in the regions; the Japanese trust fund for nutrition is operational; and the Nutrition Global Action Plan ("Scaling Up Nutrition") was launched in April 2010. Six to eight new AAA or investments in nutrition are expected by FY11, only one has been completed (in Afghanistan) – no change since the previous MAR. There are numerous plans to scale up nutrition activities in the regions. One concern (not addressed in the action plan but part of the recommendation) is whether these activities to reduce malnutrition are sufficiently targeted to the poor; there is no information in management's response regarding this point, and it would be worth examining for the next MAR. Overall adoption of this sub-recommendation remains **high**.

d) "Monitor health, nutrition, and population outcomes among the poor, however defined."
The Action Plan commits to tracking health outcomes and coverage of interventions among the poor by publishing an annual review of health indicators among the poor, starting in FY10, with the responsibility in the HNP Hub. Management reports on the development of a comprehensive database on HNP outcomes and coverage by wealth quintile and additional tools and training. However, the evaluation's recommendation was based on the fact that very few projects or countries were monitoring health outcomes among the poor – an issue for country teams and

operational staff, not a call for more analytic work at the center. Management's original response to the HNP evaluation also acknowledged that point (p. 157): "Management agrees with the need to ensure that project design responds to the priorities and needs of the poor, and to measure the full impact of improved health services for the poor." Management reports that all new operations in South Asia Region include indicators that track impact on the poor or marginalized groups; all of the four projects with explicit objectives to reach the poor noted above in 2b had incorporated at least some indicators of access or outcomes among the poor into the results. However, the gist of the recommendation is that outcomes should be measured among the poor as a good practice, whether or not it is explicit in the objectives. It would be useful if management could provide some statistics in this regard for next year's MAR. Until then, there remains an important agenda in monitoring HNP outcomes among the poor in the lending portfolio. Adoption of this sub-recommendation is rated **medium**.

e) "Bring the health and nutrition of the poor and the links between high fertility, poor health, and poverty back into poverty assessments in countries where this has been neglected."
The Action Plan committed to increase inclusion of HNP in poverty assessments, with the target of 90% of all poverty assessments and 40% of all CASs assessing the health status of the poor, beginning in FY10. Management notes that Poverty Assessments in Bosnia & Herzegovina, India, and Iraq, completed since the last MAR, had a dedicated chapter for health or for health and education together, out of a total of 5 that were completed --60% of new poverty assessments, short of the 90% target. It isn't clear to what extent high fertility is discussed in any of them, since none of the three are high-fertility countries. Of the 16 CASs and CPSs delivered in FY10, five (31%) include an objective, indicator, or target related to the health status of the poor in their results matrix. While these results fall short of the targets, there has been significant progress since the last MAR. Adoption is rated **medium**.

10.3 Strengthen the World Bank Group's ability to help countries to improve the efficiency of their health systems: Substantial

a) "Better define the efficiency objectives of its support and how efficiency improvements will be improved and monitored."
The Action Plan committed to expanding and making more explicit the PAD definition and discussion of efficiency objectives, measures, and monitoring framework, with 70% of HNP projects to include definition and analysis of improving sector efficiency, including discussion of the efficiency-equity trade-off beginning in FY10. It also committed to launch AAA tasks to review experience in improving health system efficiency. Among the 15 HNP projects approved since March 2010, only two had explicit objectives to improve efficiency (P095171, P113896) and two others had objectives that involved functions linked to efficiency (P074091, P116226) – 27%. There is no mention of the status of the proposed AAA to review experience in improving health system efficiency. Adoption of this sub-objective is rated **medium**,

b) "Carefully assess decisions to finance additional earmarked communicable disease activities in countries where other donors are contributing large amounts of earmarked disease funding and additional funds could result in distortion in allocations and inefficiencies in the rest of the health system."
The Action Plan committed to coordinate proposals for new disease-specific programs with other partners, mapping all HNP projects with significant priority-disease components with contributions from other donors, and to ensure strengthening of health systems, starting in FY10. Management has provided substantial evidence of efforts to address the balance between earmarked disease funding and health systems development, taking into account support from other donors. Adoption of this sub-objective is rated **substantial.**

c) "Support improved health information systems and more frequent and vigorous evaluation of specific reforms or program innovations to provide timely information for improving efficiency and efficacy."
The Action Plan committed to building statistical capacity in countries on priority HNP outcome indicators directly through Bank operations and/or supporting global partners' country support, with half of new HNP projects to include strengthening of country M&E systems by FY10. It also advocated continuing to support the IHP+ efforts to strengthen M&E and health information systems, specifically developing a with global partners a strategy for global monitoring by FY09, and conducting assessments of health information systems in 10 countries by FY10. As noted in last year's MAR,assessments of health information systems have been conducted in 80 countries (greatly exceeding the target), and under the IHP+ the global health partners have developed a common M&E framework. Twelve of the 15 new HNP projects include components to strengthen country M&E systems. The Action Plan itself does not respond to the intent of the sub-recommendation to ensure vigorous evaluation of specific reforms or

program innovations. Management notes that impact evaluations have been supported in a number of projects supporting results-based financing, but there is no specific information on the incorporation of more frequent and vigorous evaluation of specific reforms or innovations to improve management decisions around efficiency and efficacy. Adoption of this sub-recommendation is rated **substantial.**

10.4 Enhance the contribution of support from other sectors to health, nutrition, and population outcomes: negligible. The intent of the recommendation was to make other sectors accountable for HNP outcomes, but the Action Plan assigns accountability almost entirely to the HNP Sector. Management's response has given many examples of collaboration by HNP staff with staff from other sectors. But the HNP evaluation advocated greater accountability and results from health investments of other sectors, and greater synergy between projects in different sectors in the field.

a) "When the benefits are potentially great in relation to the marginal costs, incorporate health objectives into non-health projects, for which they are accountable."
The Action Plan committed to provide incentives to non-HNP task team leaders to incorporate health objectives into non-health projects and to set up an intersectoral coordination thematic group for HNP results to identify constraints and incentives by FY10. The Action Plan had no targets with respect to health objectives in non-health projects, and did not suggest focusing on any particular sectors. A working group has been set up to address non-health sector inputs into health results and met for the first time in February 2011, including links with education, social protection, environment, transport, and water and sanitation. Under the new global nutrition strategy framework, teams from HNP, social protection, and agriculture and rural development are developing programmatic guidance on links between nutrition and agriculture/food security and social protection. Management's response indicates many initiatives of cross-sectoral collaboration to support health objectives of projects managed by other sectors, but (as in the previous MAR) there is yet no evidence of an increase in the share of non-health projects (for example, water supply and sanitation projects) with explicit objectives to improve health outcomes. The adoption of this sub-recommendation is rated **medium.**

b) "Improve the complementarity of investment operations in health and other sectors to achieve health, nutrition, and population outcomes, particularly between health and water supply and sanitation."
The Action Plan committed to develop, implement, and manage an intersectoral coordination thematic group for HNP results (same as (4a) above) by FY10. An intersectoral coordination working group was just established and met for the first time in February 2011, and the results are not yet apparent. No evidence is provided of systematic efforts to improve complementarity of operations to improve HNP outcomes at the country level, particularly with water supply and sanitation. One exception is the Brazil Integrated Health and Water Mangement Project, which pulls together major investments in both health and access to safe water and sanitation in a single project to address childhood diarrhea and mortality. Adoption of this sub-recommendation is rated **medium.**

c) "Prioritize sectoral participation in multisectoral HNP projects according to the comparative advantages and institutional mandates, to reduce complexity."
The Action Plan committed to invite other sectors' participation to HNP project design reviews (for example, Quality Enhancement Reviews), where appropriate, for all HNP projects starting in FY10. Management reports that 5 of 8 QERs conducted to date in FY11 by the Hub had representation from other sectors. However, this recommendation is not about engaging more sectors in the design of HNP projects. Rather, it is about reducing the complexity of multisectoral HNP projects (projects involving more than one sectoral ministry in implementation) by prioritizing a smaller number of sectors that are strategically the most important. No information has been provided about efforts to reduce the complexity of multisectoral HNP projects. It would be sufficient to show, for example, that HNP projects in the countries with the least capacity have embraced fewer priority sectors. In the absence of information, adoption of this recommendation is rated **negligible.**

d) "Identify new incentives for Bank staff to work cross-sectorally for improving HNP outcomes."
The Action Plan referred back to the incentives proposed to sub-recommendation 4a on the intersectoral committee. The recent formation of the intersectoral committee is noted. Management also notes that in the Latin America and Caribbean region, cross-sectoral work is positively rated in OPEs of HNP staff and there si evidence of strong support from HNP staff in LAC to projects in other sectors. The Africa region has launched a new multisectoral initiative on strengthening child development. It would be important to demonstrate in the next MAR the incentives for

staff in other sectors to address health outcomes in their projects. Adoption is rated **medium.**

e) "Develop mechanisms to ensure that the implementation and results for small health components retrofitted into projects are properly documented and evaluated."
The Action Plan commits to monitor health results achieved by the portfolio managed by non-health sectors, with the target to track half of all HNP and non-HNP Sector Board operations, starting in FY10. As no evidence is presented on the monitoring on the non-health sector portfolio of health components, nor is there any information on efforts to ensure that these components are evaluated, adoption of this recommendation is rated **negligible.**

10.5 **Implement the results agenda and improve governance by boosting investment in and incentives for evaluation.** Specifically, the recommendation was to "create new incentives for monitoring and evaluation for both the Bank and the borrower linked to the project approval process and the midterm review. This would include requirements for baseline data, explicit evaluation designs for pilot activities in project appraisal documents, and periodic evaluation of main project activities as a management tool."
The Action Plan commits to: (i) support impact evaluations of at least 15 HNP projects in FY 11 through the Spanish Impact Evaluation Trust Fund (SIEF); (ii) pilot and evaluate the impact of output- and performance-based financing for HNP-related projects/programs in 16 projects, with most loan proceeds for input-based finance; and (iii) introduce Results Frameworks targeting HNP outcomes, output, and system performance, reaching at least 70% of new projects approved by the Board beginning in FY09. No information is presented on the number of HNP projects in FY11 with impact evaluations financed by the SIEF. Country pilot grants were approved, financed by the Health Results Innovation Trust Fund, for Results-Based Financing in nine countries (against a target of 16), all of which are linked to a prospective, rigorous impact evaluation embedded in project design. All anchor-supported preparation and supervision QERs review the Results Framework and M&E arrangements, and involve the anchor's M&E specialist or an M&E specialist panel member. It isn't clear whether the target on Results frameworks (70% of new projects) has been achieved. While progress continues to be substantial, it is not known whether these important initiatives flagged in the Action Plan have changed the incentive structure for *evaluation*, which is the thrust of the recommendation. Results-based financing can generate incentives for monitoring; it remains to be seen whether it creates incentives for greater evaluation. Adoption of this recommendation is **substantial.**

11. GENDER AND DEVELOPMENT: AN EVALUATION OF WORLD BANK SUPPORT, 2002–08

LIST OF RECOMMENDATIONS

11.1 Foster greater clarity and better implementation of the Bank's gender policy, notably by—

t. Establishing a results framework to facilitate consistent adoption of an outcome approach to gender integration in the Bank's work.

u. Establishing and implementing a realistic action plan for completing or updating country-level diagnostics, giving primacy to countries with higher levels of gender inequality.

v. Extending implementation of the 2007 GAP while formalizing and strengthening its policy basis. An alternative would be to reinstate and strengthen provisions along the lines of OMS 2.20 to restore a sector- and/or project-level entry point for gender.

11.2 Establish clear management accountability for the development and implementation of a system to monitor the extent to which Bank work adequately addresses gender-related concerns, including effective reporting mechanisms. The pivotal role of country directors needs to feature centrally in the accountability framework.

11.3 Strengthen the incentives for effective gender-related actions in client countries by continuing to provide incentive funding through the GAP to strengthen the collection, analysis, and dissemination of gender-disaggregated, gender-relevant data and statistics.

STATUS OF IMPLEMENTATION

Recommendations	Level of Adoption	
	Mgmt	IEG
11.1 Foster greater clarity and better implementation of the Bank's gender policy.	**High**	**Medium**
11.2 Establish clear management accountability for the development and implementation of a system to monitor the extent to which Bank work adequately addresses gender-related concerns, including effective reporting mechanisms. The pivotal role of country directors needs to feature centrally in the accountability framework.	**Substantial**	**Substantial**
11.3 Strengthen the incentives for effective gender-related actions in client countries by continuing to provide incentive funding through the GAP to strengthen the collection, analysis, and dissemination of gender-disaggregated, gender-relevant data and statistics.	**Substantial**	**Substantial**

MANAGEMENT RESPONSE 2011

11.1 Fostering greater clarity and better implementation of the Bank's gender policy

Original Response: Management agrees that the implementation of the Bank's gender policy needs improvement and will detail steps to be taken in the GAP transition plan to be presented to the Board in the fourth quarter of fiscal 2010. Management will also prepare and issue a guidance note to staff on the Bank's gender policy framework.

Management notes that the Bank has a gender monitoring framework and reports regularly to senior management. Of course, it can be improved and made more results focused. The GAP transition plan will set out how the framework will be strengthened.

Management sees the CAS as the link between diagnostics and implementation and as the right place to determine gender priorities in Bank support to all countries in which the Bank has an active program. As noted in the CAS Retrospective (World Bank 2009c), management will work to improve the treatment of gender in CASs and will further monitor that the gender assessment adequately informs the CAS, as required in the policy. Management will report on results in regular gender monitoring reports.

Management and IEG agree that the GAP is filling an implementation gap in the Bank's gender policy framework. At the Board's request, management is preparing a transition plan that will extend the gains of the GAP once it ends. The policy basis for the GAP and future action plans is fully adequate. The Bank's relevant policies already determine project entry points for gender.

Mar 2011: Management welcomed IEG's recommendation that the implementation of the Bank's gender policy needs improvement. In response, Management identified a series of concrete steps in the GAP transition plan, "*Applying Gender Action Plan Lessons: A Three-year Roadmap to Gender Mainstreaming (2011 – 2013)*", presented to the Board in the fourth quarter of fiscal 10, to this end. The transition plan extends the implementation of the Gender Action Plan, while broadening its scope.

Internal to the World Bank Group, the transition plan identifies a specific results framework and proposes a set of additional tools to make WBG work more gender-responsive. External to the World Bank Group, it identifies priority interventions based on analysis of gender equality trends, with a particular emphasis on managing risk and vulnerability for women and girls resulting from aggregate shocks, and on harnessing demographic opportunities for economic growth through gender-related interventions. These priorities fully align with the World Bank Group's Post-Crisis Directions.

During 2010, following IEG's recommendation, Management prepared and issued a policy guidance note clarifying Management's position that the Bank's gender policy framework is wider than OP/BP 4.20 and that project-level entry points for integrating gender issues are triggered by a number of factors. This guidance note pulls together in one place the various strands of Bank policy with gender-relevance. It is aimed at fostering greater clarity and better implementation of the various Bank policies, procedures, good practices, guidelines and templates for routine Bank project preparation that are relevant for mainstreaming gender issues in the Bank's work.
A set of expanded and operationally focused CAS guidelines have been developed to support compliance with OP4.20. They will be published following clearances from PREM and OPCS.

Management continues to monitor the treatment of gender in all CASs and report on progress in regular Gender Monitoring Reports, and will further monitor that the gender assessment adequately informs the CAS, as required in the policy. Starting in May 2010, meetings of the operational vice presidents (OVPs), chaired by a Managing Director (MD) have been held regularly to assess progress on implementing the Bank's gender policy, including, amongst others, the commitments mentioned above, and to establish clearer management accountability for gender-related performance.

Further, Gender was made a Special Theme for the 16th replenishment of the International Development Association (IDA), including a commitment by Management that 100 percent of IDA CASs will draw on and discuss the findings of a gender assessment, to be supported by the issuance of a guidance note on the World Bank gender policy, training for staff on how to mainstream gender issues in CASs, and more robust corporate review of gender analysis of CASs by the PREM network. In IDA countries, for the implementation of IDA16 (FY11 – 13), Management has introduced an Action Plan on Gender Mainstreaming and Gender-Related MDGs, including

- Increasing gender-informed investments in line with World Bank president Robert Zoellick's commitment, and monitoring progress through the addition of an indicator and a performance standard in the IDA16 RMS.
- Additional tracking indicators to measure IDA's support to gender-based country outcomes.
- The preparation and implementation of Regional Gender Action Plans.
- Implementation of the Reproductive Health Action Plan with a focus on 52 priority countries with high maternal mortality and total fertility rates, including 25 countries in the Africa Region.

- The completion of the forthcoming Education Sector Strategy and the subsequent implementation of a program of action targeting gender issues in high priority countries.

Some of this work is ongoing, while other parts are scheduled to be launched during 2011. Progress on this Action Plan will be reviewed during the IDA16 Mid-Term Review.

11.2 Monitoring and Mgmt Accountability

Original Response: Management agrees with the recommendation to strengthen accountability for implementation of the Bank's gender policy, including country directors and operational vice presidents. Management notes that it has monitoring systems in place, but agrees that further work is needed to improve their impact. Starting with the current fiscal year, management commits to an annual Managing Director–level discussion of the comprehensive annual progress
report, drawing on inputs from operational vice presidencies.

Mar 2011: Management welcomed IEG's recommendation. The Bank has had a gender monitoring framework and reported regularly to senior management on progress on the gender strategy, along with annual reports to the Board of the implementation of the Gender Action Plan (GAP). Nevertheless, management agreed with IEG that the monitoring system should be strengthened along with a need to establish clearer accountability.

Since then, the GAP Transition Plan has been presented to the Board containing a specific and time-bound set of quantitative performance targets and accompanying indicators for Bank deliverables in key sectors and Regions, which were defined in a process involving relevant sector boards and Region departments. This specific results framework helps 'give teeth' to efforts to strengthen management accountability. Progress on these performance targets and indicators is now being reviewed regularly during MD-level discussions. The first such meeting, with OVPs, was held during the first quarter of fiscal 11.

Since the IEG report, two MD-chaired discussions have been held to monitor progress and one , in January 2011, identified practical next steps and priority areas.

In addition, information on the number of project beneficiaries, disaggregated by sex, is now required for all International Development Association (IDA) investment projects that have an approval date of July 1, 2009, or later. The GAP Transition Plan, launching in January 2011, includes provisions for supporting Bank task teams in fulfilling this new requirement.

11.3 Incentive-funding for collection, analysis, and dissemination of gender-disaggregated data

Original Response: Management agrees that incentive funding continues to be needed for gender disaggregated data and statistics, but adds that transitional incentive funding for analytical and operational work has proven to be effective, as demonstrated by GAP results.

MAR 2011: Management agreed that incentive funding continues to be needed for sex-disaggregated data and statistics, and added that transitional incentive funding for analytical and operational work has proven effective, as demonstrated by GAP results. The GAP Transition Plan includes provisions for continued incentives-based funding for better results on gender-relevant statistics, as well as for analytical and operational work, including, importantly, gender-diagnostics in key ESW in targeted countries.

In addition, Management is in the process of establishing a task force (under minister-level supervision) with key government partners to create a roadmap for addressing a perennial issue for practitioners of gender and development: the lack of reliable and consistent data on women's economic opportunity.

IEG RESPONSE 2011

11.1 Fostering greater clarity and better implementation of the Bank's gender policy: While IEG appreciates and notes several important steps that Management has taken, there is still a need to articulate a clear results framework for Bank support for gender and development in a manner that will "facilitate consistent adoption of an outcome approach to gender integration in the Bank's work". Currently, as reflected in the GAP Transition Plan, the results framework for gender equality is at best partial. There is also a need to ensure a policy basis for the GAP, namely for gender integration at the project-level.

11.2 Agreed.

11.3 Agreed.

12. WATER AND DEVELOPMENT: WORLD BANK SUPPORT, 1997–2007

LIST OF RECOMMENDATIONS

12.1 Work with clients and partners to ensure that critical water issues are adequately addressed.

- Seek ways to support those countries that face the greatest water stress. The mid-term strategy implementation review should suggest a way to package tailored measures to help the Bank and other donors work with these clients to address the most urgent needs, which will be far more challenging as water supply becomes increasingly constrained in arid areas.
- Ensure that projects pay adequate attention to conserving groundwater and ensuring that the quantity extracted is sustainable.
- Find effective ways to help countries address coastal management issues.
- Help countries strengthen attention to sanitation.

12.2 Strengthen the supply and use of data on water to better understand the linkages between water, economic development, and project achievement.

- In project appraisal documents, routinely quantify the benefits of wastewater treatment, health improvements, and environmental restoration.
- In project appraisal documents, routinely quantify the benefits of wastewater treatment, health improvements, and environmental restoration.
- Support more frequent and more thorough water monitoring of all sorts in client countries, particularly the most vulnerable ones, and help ensure that countries treat monitoring data as a public good and make them broadly available.
- In the design of WRM projects that support hydrological and meteorological monitoring systems, pay close attention to stakeholder participation, maintenance, and the appropriate choice of monitoring equipment and facilities.
- Systematically analyze if environmental restoration will be essential for water-related objectives to be met in a particular setting.

12.3 Monitor demand-management approaches to identify the aspects that are working or not working and to build on these lessons of experience going forward.

- Clarify how to cover the cost of water service delivery in the absence of full cost recovery. To the extent that borrowers must cover the cost of water services out of general revenues, share the lessons of international experience with them so they can allocate partial costs most effectively.
- Identify ways to more effectively use fees and tariffs to reduce water consumption.
- Carefully monitor and evaluate the experience with quotas as a means to modulate agricultural water use.

STATUS OF IMPLEMENTATION

Recommendations	Level of Adoption	
	Mgmt	IEG
12.1 Work with clients and partners to ensure that critical water issues are adequately addressed.	High	Medium
12.2 Strengthen the supply and use of data on water to better understand the linkages between water, economic development, and project achievement.	High	Medium
12.3 Monitor demand-management approaches to identify the aspects that are working or not working and to build on these lessons of experience going forward.	Substantial	Medium

MANAGEMENT RESPONSE 2011

12.1 Work with clients and partners to ensure that critical water issues are adequately addressed:

Original Response: Ongoing/Agreed. Management agrees with the recommendation, which is at the core of the *2003 Water Resources Sector Strategy*. The Bank has been responsive to government priorities on water in the most waterstressed countries and in those that will face problems in the future. Using a range of instruments (finance, knowledge, and reputation), the Bank has worked toward ensuring that its assistance adds value, especially vis-à-vis other development banks and donors. The Water Resources Sector Strategy Mid-Cycle Implementation Progress Report will highlight (i) how the World Bank has addressed client needs, differentiating by income group; (ii) the growing importance of addressing water issues at the river-basin level; (iii) areas of the 2003 strategy where the Bank has sequenced its approach, starting with studies, technical assistance, capacity building, and pilot projects to address complex issues, such as sustainable groundwater management and coastal management; and (iv) how the development community has been actively working toward meeting the sanitation MDG targets.

MAR 2011: The sector saw some realignment of the Bank's portfolio and the identification of investment priorities, including multipurpose hydraulic development, water supply and sanitation and watershed management. The Mid Cycle Implementation Progress Report for the Water Resources Sector Strategy highlights how the World Bank has addressed client needs, the growing importance of addressing the water issues at the river–basin level and sequencing of approaches. While the Bank Group has engaged across the whole spectrum of clients, it has expanded its support to IDA countries significantly where water stress is greater. The bulk of the assistance for water has been directed towards those countries that rank highest on the water poverty index. The report illustrates progress made in aligning Country Assistance Strategies (CAS) and the Country Partnership Strategies (CSP) with the Sector Strategy on the principle of comprehensive water resource management. Comparing the last CAS/CPS with the previous CAS/CPS for each country, improved water resources management was the most common activity in the recent strategic documents in countries that are at the top of the water poverty index. In government owned Poverty Reduction Strategy Papers (PRSP), more attention has been devoted to water resources management, including stakeholder participation, water quality improvement, establishment of monitoring systems, ground water management and legal and institutional reforms. Country Water Resources Assistance Strategies (CWRAS) have been found effective instruments to support a dialogue with client countries on water issues as the instrument analytically pinpoints the country's water challenges and opportunities and set those challenges and opportunities within a framework in a long-term context, together with political, economic and social constraints. t The Bank continues to promote their use. As a result, lending to the water sector has increased substantially because of an improved understanding of the sector. Integration between water resources management and sectors is still a work in progress though CWRAS have been able to mobilize intra-sectoral cooperation with the Bank quite effectively. Most recently, the WBG has been engaging to assess options to reduce the gap between water availability and use by involving all stakeholders in order to support government transformation programs. The IFC - McKinsey Report identified supply-side and demand-side measures to close the water resource gap more effectively and formed the base to engage with several countries to develop the transformation programs. The Bank is looking at ways this approach can be applied in specific countries to support policy or lending programs of key strategic importance. The sustainability of the resource base is being discussed and incorporated in more Bank operations. Furthermore, the Bank is now embarking in the formulation of a strategic approach to ensure that water management and the provision of services are clearly aligned and that water service operations include proper management strategies. Support to the incorporation of proper groundwater activities in Bank loans is continuing primarily through the expert support team coordinated by the Water Anchor. WSP has played a pivotal role by bringing the development community in piloting and testing at scale the most effective approaches to sanitation and supporting national and local governments towards meeting the sanitation MDG targets. The Bank is also continuing to promote basic sanitation through the support of the Water Partnership Program and the expert support team on sanitation.

12.2 Strengthen the supply and use of data on water to better understand the linkages between water, economic development, and project achievement:

Original Response: Ongoing/Agreed. Management agrees with the recommendation, and the principle that more and better data would help to support efforts to improve the performance and accountability of the water sector, the results of Bank-financed water projects, and the impact of alternative water policies. Several global initiatives are under way (for example, IBNET, Hydrological Expert Facility), and efforts are ongoing as part of the standard evaluation analysis of projects to quantify the costs and benefits (and externalities). Better management and use of data will take place when the investment lending reforms are implemented.

More specifically:

• The Water Anchor will develop further core indicators for water projects (for example, sanitation/sewage, irrigation/drainage).

• Regions will pilot new approaches to take advantage of new sources of information (such as remote sensing), tackling these with existing data sources.

• Regions will scale up projects, building detailed information systems and benchmarking systems.

• The Water Anchor and Water Sanitation Program will conduct an impact evaluation of sanitation and hygiene interventions at scale in achieving health and income outcomes.

• As part of the development impact evaluation initiative, in collaboration with the Development Economics Department, the water sector will conduct further impact evaluations on health impacts of water and wastewater interventions. The Water Resources Sector Strategy Mid-Cycle Implementation Progress Report will outline how progress toward strengthening the supply and use of data will be monitored.

Mar 2011: The Water Resources Sector Strategy Mid Cycle Implementation Progress Report highlights that water has been among the four sectors that have spearheaded the effort to define Core Sector Indicators to strengthen results based decision making in Bank projects. To monitor progress in implementing the Water Resources Sector Strategy, a new Results Framework for the Water Resources Strategy, FY 10-13 has been developed incorporating country level indicators, WBG activities and outputs. The Water Anchor has developed core indicators for water projects and these indicators are being implemented for IDA projects in water supply as well for sanitation. A Guidance Note on irrigation and drainage core indicators prepared and has been virtually reviewed and approved by the Water and the Agriculture and Rural Sector Boards for both IDA and IBRD operations. The next step will be the release by OPCS. Efforts are underway in preparing new environment and energy strategies to develop core indicators that are relevant to the water practice (for eg. water quality, coastal zone management, and ground water). Regions are working on comprehensive monitoring systems combing latest remote sensing data with models and ground based monitoring data in projects. On December 10, the Water and Sanitation Program (WSP—a multi-donor partnership operating in 25 countries and with Regional offices, including in Washington, D.C.) and the Water Anchor published the IBNET (International Benchmarking Network) Blue Book, a database that covers performance of more than 300 utilities from 110 countries and updates are ongoing constantly. Two World Bank projects under implementation already have IBNET as an official tool for monitoring the performance of utilities. WSP and the Water Anchor are developing tools for energy efficiency and a water utility vulnerability index on the basis of IBNET. WSP has conducted 31 Country Sector Overviews (CSO) for African Countries. The Water Resources Sector Strategy Mid-Cycle Implementation Progress Report states that impact evaluations may yield useful information on the impact of water investments; however clients have been reluctant to include them in projects, placing more emphasis on borrowing to meet access needs. In response, the Water Anchor is organizing with SDN and HDN a series of capacity building exercises geared to Bank TTLs and client countries to ensure that more projects have activities to gather data and evaluate impacts. The first of these training events will take place in April of 2011.The sector is actively engaged in the Bank's Development Impact Evaluation Initiative with a number of studies looking at health impacts of water and wastewater interventions. WSP has an ongoing state of the art project on measuring the health impact from improved rural sanitation and hand washing in 6 countries (Peru, Senegal, Tanzania, India, Indonesia and Vietnam). The baseline data collection and analysis have been completed and end-line data collection is expected to be completed in this FY. The Economic Sanitation Initiative (ESI) analyzing economic cost of lack of sanitation has been recently published for India and two more country reports (Bangladesh and Pakistan) are underway.

12.3 Monitor demand –management approaches to identify the aspects that are working or not working and to build on these lessons of experience going forward :

Original Response: Ongoing/Agreed.

• Regions and the Water Anchor will examine financing of services delivery as part of Public Expenditure Reviews and other country-specific economic and sector work.

• The Water Anchor and Regions will conduct a study on lessons learned about government payment for water services.

• Regions will continue to explore fees, tariffs, and other options (metering, water rights, and the like) for demand management in Bank projects.

• Regions will pilot evapotranspiration (ET)-based rights and community-based approaches to water resource management. A key priority of the Thematic Group on Water Resource Management, with the support of the Water Anchor, will be to document lessons learned on demand-management approaches.

MAR 2011: As a response to the IEG exercise, the Anchor prepared a cost recovery note, particularly addressing the water supply and sanitation and irrigation sectors. In addition to this, the Water Anchor is preparing an ESW report template on cost recovery in the water practice as a FY11 delivery. The work will present a systematic approach to assessing and documenting the current situation in the water practice (actual expenditure, revenues and subsidies); the minimum requirement for financial/physical sustainability (required expenditures under current management; achievable revenues under present tariffs and required subsidies); and the desired future scenario (required expenditures under efficient management; tariff structures to promote better water use and achieve social objectives). The approach will be applicable individually to the major water-using sectors (WSS, irrigation) as well as across sectors for multi-purpose schemes. Water Public Expenditure Reviews (PERs) are increasingly used as an instrument to engage clients on the allocation of fiscal resources and financing water services. The Water Anchor is producing a Knowledge Product on PERs for delivery in FY11.The goal of the project is to increase knowledge of key issues in public expenditure in the WSS sector by analyzing the existing coverage, quality, and results of World Bank led PERs in the Water and Sanitation Sector in proceeding years. The mapping will include stand-alone WSS Sector PER as well as sector analysis within Public Expenditure Reviews.

IEG RESPONSE 2010

12.1 Work with clients and partners to ensure that critical water issues are adequately addressed.

IEG agrees that the Mid-cycle Implementation Progress Report for Water Resources Sector Strategy has highlighted many of the critical water issues. IEG has the following comments on the status of implementation with regards to the list of recommendations provided in the Water Evaluation.

- The report discusses that the Bank Group is providing more support to IDA countries where water stress is greater compared to the countries that are least water poor, however, the IEG water evaluation has shown that during the same evaluation period the most water stressed countries have not received sufficient attention. More evidence should therefore be provided on the tailored measures to help the Bank and other donors work with the water stressed clients to address the most urgent needs.
- The report describes how the Country Water Resources Assistance Strategies and other sector work have been instrumental in improving the knowledge of water resources management in many countries. More evidence needs to be provided on the actions that have been taken to ensure that projects pay adequate attention to conserving groundwater and that the quantity extracted is sustainable.
- Similarly, more evidence is required on the effective ways to help countries address coastal management issues.
- IEG welcomes the increasing focus placed in ongoing projects to scale up access to improved sanitation through WSP and trust funds. Despite such interventions, the challenge of meeting the MDG targets on sanitation remains. More attention needs to be given to scale up the tested pilots across Bank supported water projects.

IEG rates the level of adoption as Medium.

12.2 Strengthen the supply and use of data on water to better understand the linkages between water, economic development, and project achievement.

- IEG welcomes the key actions taken by the management in strengthening the supply and use of data on water, including the definition of the core indicators for water projects through the work done by the water anchor, guidance notes, and new environment and energy strategies to cover all the sub sector indicators. IEG however seeks to understand what actions have been taken to routinely quantify the benefits of wastewater treatment, health improvements, and environmental restoration in project appraisal documents.
- Recent publication of the IBNET Blue Book and related benchmarking exercises would contribute to the improvements in utility data collection, comparison, and execution of other analytical work by WSP and the Water Anchor. IEG welcomes this and other initiatives taken by the Anchor and the regions to develop and define water monitoring indicators. More evidence would be required on helping the countries to treat the collected monitoring data as a public good and making them broadly available.
- Similarly, more evidence would be required on how WRM projects that support hydrological and meterological monitoring systems are paying close attention to stakeholder participation, maintenance, and the appropriate choice of monitoring equipment and facilities.
- IEG acknowledges that impact evaluation of water investments have been difficult as the clients place more emphasis on borrowing to meet access needs, and welcomes the Water Anchor's plan to organize capacity building exercises for the TTLs and client countries, starting in April 2011.
- Collaboration with the Development Economics Department and WSP are welcome to conduct further impact evaluations on health impacts of water, wastewater, and sanitation interventions.
- More information from the region would be required to assess whether a systematic analysis or monitoring has been adopted in the client countries of e.g. the need for environmental restoration.

IEG rates the level of adoption as Medium.

12.3 Monitor demand –management approaches to identify the aspects that are working or not working and to build on these lessons of experience going forward.

- IEG welcomes the Anchor's cost recovery note, as well as the ongoing work on developing a template on cost recovery in the water practice.
- IEG agrees that the increasing number of water PERs would serve as a useful tool for the clients in allocating the required budget for the sector, and welcomes the ongoing knowledge product on water PERs.
- Updates on the following activities have not been included in the MAR: (i) The Water Anchor and Regions had agreed to conduct a study on lessons learned about government payment for water services; (ii) Regions agreed to continue to explore fees, tariffs, and other options (metering, water rights, and the like) for demand management in Bank projects; and (iii) Regions would pilot evapotranspiration (ET)-based rights and community-based approaches to water resource management. A key priority of the Thematic Group on Water Resource Management, with the support of the Water Anchor, would be to document lessons learned on demand-management approaches.

  IEG rates the level of adoption as Medium.

13. POVERTY REDUCTION SUPPORT CREDITS: AN EVALUATION OF WORLD BANK SUPPORT

LIST OF RECOMMENDATIONS

13.1 Phase out the PRSC as a separate brand name for development policy lending or clarify when it is appropriate to use it.

- Convergence in the design and content of PRSCs and other development policy lending suggests that there is no rationale for the separate existence of the PRSC today. However, there are also implicit criteria backing the PRSC brand name. If the PRSC brand name is seen to still be important, clear guidelines (which are currently lacking) and criteria for eligibility should be spelled out and applied.

13.2 Simplify the language of conditionality for PRSCs/DPLs by eliminating the term "triggers" and by transferring program benchmarks to the monitoring framework

- In line with its use of the term "prior actions," the Bank could further simplify its lending framework by dispensing with the term "triggers" and substituting the term "indicative prior actions for future lending." Lending would then be based simply on prior actions already achieved and indicative prior actions for future lending. This would exhibit greater flexibility and improve understanding. To clearly delineate legally binding conditions from program benchmarks, which are still referred to as binding and nonbinding conditions by clients and others in the aid community, program benchmarks should be removed from the policy matrix/Performance Assessment Framework and, instead, combined with the program monitoring framework.

13.3 Enable more effective participation of the Bank in a multidonor budget support lending framework by better synchronizing Bank internal process with donor processes.

- At present, Bank financial commitment to support, in a multidonor framework, must sometimes be made before the Bank's internal review of the PRSC. This can limit the Bank's substantive contributions and comments on program content. Synchronizing the Bank's internal processing schedule with country and donor processes would ensure Bank input in PRSC/DPL formulation.

13.4 Underpin operations with comprehensive diagnostics

- PRSCs (and DPLs) should reflect country-specific growth diagnostics, which are undertaken based on analytic underpinnings that identify an overall growth strategy reflecting the linkages among growth, poverty-reduction, and broader social development.

13.5 Strengthen PRSC/ DPL results frameworks and link them with the underlying PRS / national development strategy and increase their poverty focus.

- Results frameworks of PRSCs should be consistently linked to those in the PRS or national development strategy and its annual reviews, and simplified to a small set of core outcomes. Adequate baseline and intermediate indicators and pro-poor results indicators should be required and built on country monitoring systems to the extent feasible.

13.6 Focus sector content in policy loans on high level or cross-cutting issues.

- PRSC/DPL sector content should focus on areas where it has been consistently effective: cross-sectoral or central ministry issues critical to facilitating key sectoral reforms and strengthening sector budget processes. Complementary parallel sector lending, linked to PRSC/DPL, remains necessary to address detailed technical issues and facilitate program ownership by line ministries.

STATUS OF IMPLEMENTATION

Recommendations	Level of Adoption	
	Mgmt	IEG
13.1 Phase out the PRSC as a separate brand name for development policy lending or clarify when it is appropriate to use it.	**High**	**Substantial**
13.2 Simplify the language of conditionality for PRSCs/DPLs by eliminating the term “triggers” and by transferring program benchmarks to the monitoring framework	Difference of Opinion/ Not tracked	Difference of Opinion/ Not tracked
13.3 Enable more effective participation of the Bank in a multi-donor budget support lending framework by better synchronizing Bank internal process with donor processes.	**Substantial**	**Negligible**
13.4 Underpin operations with comprehensive diagnostics	**High**	**Medium**
13.5 Strengthen PRSC/ DPL results frameworks and link them with the underlying PRS / national development strategy and increase their poverty focus.	**High**	**Medium**
13.6 Focus sector content in policy loans on high level or cross-cutting issues.	**High**	**Medium**

MANAGEMENT RESPONSE 2011

13.1 Original Response: Agreed. All operational policy and guidance on development policy lending were unified with the introduction of OP/BP 8.60 in 2004. OP/BP 8.60 and operational guidance do not list PRSCs as a separate option. Since 2004, therefore, PRSCs have not had a separate existence. Poverty Reduction Support Credit (or Grant) is simply a title given to operations, usually programmatic, to signal their alignment with a PRSP. Management will emphasize this in training activities and guidance to staff to eliminate any remaining misunderstandings on this matter. Management is not prepared to object, however, if a government wants to call the development policy operation that it receives from the World Bank a PRSC. Management considers this action complete, as subsequent to the evaluation we have clarified this in DPO guidance.

MAR 2011: As indicated in the Management Response, all operational policy and guidance on development policy lending were unified with the introduction of OP/BP 8.60 and operational guidance do not list PRSCs as a separate option. Since 2004, therefore, PRSCs have not had a separate existence. Management has revised its guidance on DPOs to eliminate any remaining misunderstandings on this matter and clarify that a Poverty Reduction Support Credit (or Grant) is a title given to an operation, usually programmatic, to signal their alignment with a PRSP.

13.2 Difference of Opinion/ Not tracked

13.3 Original Response: Agreed in principle. More effective participation of the Bank in multidonor budget support (MDBS) groups would be valuable in helping countries achieve their development goals. Management agrees that it would be optimal to achieve such synchronization. However, MDBS lending frameworks are prepared and implemented in tandem with other development partners, and there can be tradeoffs and limits to Management’s ability to commit to a particular operation in the absence of Senior Management and Board approval. As indicated in the 2009 DPL Retrospective, Management agrees to review its experience with MDBS frameworks and derive lessons from these collaborative engagements and to use these lessons to identify ways to do better in the future. This action will be completed when the proposed review of experience with MDBS frameworks agreed to in the DPL Retrospective has been concluded and lessons disseminated.

MAR 2011: Management has agreed in principle with this recommendation. Management agrees that it would be optimal to achieve such synchronization and most programmatic DPOs to IDA countries in the Africa Region are embedded in a MDBS lending framework. However, full synchronization is not always possible or feasible as

MDBS lending frameworks are prepared and implemented in tandem with other development partners, and there can be tradeoffs and limits to Management's ability to commit to a particular operation in the absence of Senior Management and Board approval. As indicated in the 2009 DPL Retrospective, Management agrees to review its experience with MDBS frameworks and derive lessons from these collaborative engagements and to use these lessons to identify ways to do better in the future. This action will be completed when the proposed review of experience with MDBS frameworks agreed to in the DPL Retrospective has been concluded and lessons disseminated.

13.4 Original Response: Agreed. As discussed in the 2009 DPL Retrospective, Management fully agrees that the policy and institutional actions supported by a DPO should be underpinned by comprehensive analytic work. However, Management would like to note that diagnostic work needs to be related to the content of the operation. For example, a DPO that focuses on the health sector should be underpinned by comprehensive analytic work on health. Management will monitor and report on progress in strengthening the diagnostic underpinning of DPLs in the context of its periodic DPL Retrospectives.

MAR 2011: Management agreed with this recommendation and considers that it has been completed. As highlighted in the 2009 DPL Retrospective, the policy and institutional actions supported by a DPO should be underpinned by comprehensive analytic work that needs to be related to the content of the operation. Guidance to staff has been revised to clarify how to explain the extent to which analytic work has informed the design and the content of a DPO. Furthermore, Management has agreed to continue monitoring and reporting on progress in strengthening the diagnostic underpinning of DPOs in the context of its periodic DPL Retrospectives.

13.5 Original Response: Agreed. As discussed in the 2009 DPL Retrospective, DPOs have become increasingly results focused, but there is scope for further improvement in their results frameworks. Management agrees with the recommendation to strengthen DPL results frameworks with the adequate use of baseline and results indicators that are linked to the actions supported by the operation. Management notes, however, that the results frameworks of DPOs need to be more specific than those prepared for a PRSP or a national development strategy. In the context of its 2009 DPL Retrospective, Management has agreed to update guidance to staff on how to design results frameworks. This action will be considered completed when the revised guidance to staff agreed to in the DPL Retrospective has been completed and disseminated.

MAR 2011: Management agreed with this recommendation and considers that it has been completed. As indicated in the Management Response, Management agreed to undertake this recommendation by updating its guidance to staff on how to design results frameworks. A revised Good Practice Note on Results in Development Policy Lending reflecting the findings of the 2009 DPL Retrospective has been posted in OPCS's website.

13.6 Original Response: Agreed. Management agrees with this recommendation to focus sector content of DPOs on areas that can enhance the effectiveness of the reforms supported by the Bank and with the provision of parallel sector lending necessary to address specific sector issues that cannot be addressed by the DPL instrument in isolation. Management will continue to monitor the content of DPOs in the context of its periodic DPL Retrospectives.

MAR 2011: Management agreed with this recommendation and considers that it has been completed. Management has reviewed the experience with sector-specific DPOs in its 2009 DPL Retrospective which concluded that DPOs with sector-specific content support policy and institutional actions considered necessary to address specific sector issues to enhance the effectiveness of the reforms supported by the Bank. Management has agreed to continue to monitor the content of DPOs in the context of its periodic DPL Retrospectives.

IEG RESPONSE 2011

13.1 Phase out the PRSC as a separate brand name for development policy lending or clarify when it is appropriate to use it.

- Convergence in the design and content of PRSCs and other development policy lending suggests that there is no rationale for the separate existence of the PRSC today. However, there are also implicit criteria backing the PRSC brand name. If the PRSC brand name is seen to still be important, clear guidelines (which are currently lacking) and criteria for eligibility should be spelled out and applied.

  Level of Adoption: Substantial. IEG considers that there has been progress towards the clarification of what PRSCs are, reflecting their programmatic nature and links to a PRSP. Current guidelines (2010-11-18) state that "Programmatic development policy operations in **IDA-eligible countries** that support the implementation of a country's Poverty Reduction Strategy (PRS) are called **poverty reduction support operations** (credits or grants)". Management has stated that in two recent training activities: Nuts and Bolts, and Customization of DPOs, guidance has been given to staff to emphasize this. The OPCS website points out that the PRSC is a title given to programmatic development policy operations in IDA-eligible countries that support the implementation of a Poverty Reduction Strategy.

  The revised wording does not comment on other implicit attributes of PRSCs that have been associated with the 'brand name': their orientation towards better performing countries, their broad scope, the focus on social sectors and poverty related issues. It is to be noted that the notion of a PRSC as being a part of a programmatic series reserved for better performing countries and signaling long term Bank support and engagement still remains. It has a signaling content not only within the Bank but also to external audiences. Changing the practice within the institutions as well as changing external perceptions is a difficult process though the need for such a more broad based concept of response to the recommendation should be kept in mind. If PRSCs are now indistinguishable from other DPLs, evidence of this, comparing recent PRSCs with other DPLs from management would be welcome.

13.2 Difference of Opinion/ Not tracked

13.3 Enable more effective participation of the Bank in a multi-donor budget support (MDBS) lending framework by better synchronizing Bank internal process with donor processes.

- At present, Bank financial commitment to support, in a multi-donor framework, must sometimes be made before the Bank's internal review of the PRSC. This can limit the Bank's substantive contributions and comments on program content. Synchronizing the Bank's internal processing schedule with country and donor processes would ensure Bank input in PRSC/DPL formulation.

  Level of Adoption: Negligible. Management response for the MAR 2011 is no different from the original response. There is no reported progress, conclusion or dissemination of the review of Bank experience with MDBS frameworks, which Management has flagged is a prerequisite to the adoption of specific steps in this direction. An update on progress is requested. However IEG notes that challenges in MDBS frameworks are noted and discussed in the 2009 DPL Retrospective.

13.4 Underpin operations with comprehensive diagnostics

- PRSCs (and DPLs) should reflect country-specific growth diagnostics, which are undertaken based on analytic underpinnings that identify an overall growth strategy reflecting the linkages among growth, poverty-reduction, and broader social development.

  Level of Adoption: Medium. The 2009 DPL retrospective indeed highlights the need for a comprehensive analytical underpinning of a DPL, IEG notes that the 2009 DPL Retrospective describes the need for an appropriate macroeconomic framework and spells out its core elements. Management notes also that guidance to staff has been revised to clarify how to explain the extent to which analytic work has informed the design and the content of a DPO. If there are additional Guidance documents to staff on the analytical framework for a DPL they are requested.

  There is also a need to demonstrate the results; ie the extent to which there is a real improvement in the macroeconomic framework or analytical underpinning since the revision of guidance. In the absence of such evidence it is difficult to judge the outcome.

13.5 Strengthen PRSC/ DPL results frameworks and link them with the underlying PRS / national development strategy and increase their poverty focus.

- Results frameworks of PRSCs should be consistently linked to those in the PRS or national development strategy and its annual reviews, and simplified to a small set of core outcomes. Adequate baseline and intermediate indicators and pro-poor results indicators should be required and built on country monitoring systems to the extent feasible.

Level of Adoption: Medium. IEG notes that Management has stated that it has revised its guidance to staff on how to design results frameworks, and affirms that the following document has been issued: GOOD PRACTICE NOTE FOR DEVELOPMENT POLICY LENDING - RESULTS IN DEVELOPMENT POLICY LENDING; issued in January 2011. IEG points out however that what is needed is a demonstration of achievement of better results frameworks, and that revised guidance is just a first step towards this. An assessment of achievement can be incorporated in the upcoming DPL Retrospective.

13.6 Focus sector content in policy loans on high level or cross-cutting issues.

- PRSC/DPL sector content should focus on areas where it has been consistently effective: cross-sectoral or central ministry issues critical to facilitating key sectoral reforms and strengthening sector budget processes. Complementary parallel sector lending, linked to PRSC/DPL, remains necessary to address detailed technical issues and facilitate program ownership by line ministries.

  Level of Adoption: Medium. While Management has indeed included a review of sector specific content of DPLs in its 2009 DPL Retrospective, IEG does not perceive a discussion of the need for, or consideration of, a focus on high level or cross-cutting issues with regard to sectors, in broad based DPLs.

WORLD BANK IMPLEMENTATION REPORT 2011

14. COUNTRY FINANCIAL ACCOUNTABILITY ASSESSMENTS AND COUNTRY PROCUREMENT ASSESSMENT REPORTS: HOW EFFECTIVE ARE WORLD BANK FIDUCIARY DIAGNOSTICS?

LIST OF RECOMMENDATIONS

14.1 Gear CFAAs and CPARs more directly to the fiduciary goal

- Agree on a common definition of "fiduciary risk that would be applied consistently in all PFM diagnostic instruments.
- Develop a comprehensive and integrated risk analytical framework that would include a standardized methodology for aggregating country-level PFM risks; and
- Guide staff on how risk assessments should influence the design of Bank assistance both at the project and program level, and revise guidelines as needed.

14.2Enhance the quality of the diagnostics.

- Issue revised guidelines jointly prepared by the three sector boards on undertaking integrated diagnostics; and
- Develop and implement an integrated training program for staff from all three Networks on implementing the "Strengthened Approach".

14.3Improve the outcome and impact of fiduciary work and associated outcomes.

- Ensure that the Bank supports clients in preparing a single integrated, prioritized, costed, and monitorable set of actions within an agreed framework for PFM reform even though the diagnosis may be undertaken using multiple instruments.

STATUS OF IMPLEMENTATION

Recommendations	Level of Adoption		Status Rating	
	Mgmt	IEG	Mgmt	IEG
14.1 Gear CFAAs and CPARs more directly to the fiduciary goal	**High**	**Substantial**		**Complete and Archived**
14.2Enhance the quality of the diagnostics.	**High**	**Substantial**		**Complete and Archived**
14.3Improve the outcome and impact of fiduciary work and associated outcomes.	**Substantial**	**Medium**		**Active**

MANAGEMENT RESPONSE 2011

14.1 Original Response *Mostly Agreed* In Management's view, the Bank's operational policies and guidelines provide sufficient guidance to staff on taking into account country PFM performance and fiduciary risks in decisions on and design of development policy operations and investment lending (see OP 8.60, Development Policy Lending; "Good Practice Note: Financial Management Issues in Development Policy Operations," "FM Practices Manual," and "Revised Instruction for Carrying out Assessment of Agency's Capacity Assessment to Implement Procurement, Setting of Prior-Review Thresholds and Procurement Supervision Plan"). The integrated approach to PFM work and use of the PFM performance measurement indicators help provide a holistic view of country PFM performance and risk, covering all dimensions of the PFM system. Management suggests that the emphasis now should be on further operationalizing these measures, including providing further guidance to staff on assessing fiduciary risks in the use of country PFM systems in Bank-supported operations Management will consider its agreed actions to be complete with the issuance of updated guidance to staff on assessing fiduciary risks in the use of country PFM systems in Bank-supported operations.

MAR 2011. As stated in the 2010 Management Response, the Financial Management (FM) Sector Board has issued Interim Staff Guidelines for assessing fiduciary risks in the use of country FM systems in investment lending operations

(July 2009). A comprehensive Procurement Risk Assessment and Management System (P-RAMS) has been developed to assist task teams in managing and mitigating risks more effectively. More broadly, in the context of IL Reform, the Bank developed a comprehensive and integrated risk analytical framework, the Operational Risk Assessment Framework (ORAF) that is being used for all investment operations from July 1, 2010. The ORAF assessments are informed by FM and PR analytics and FM and Procurement staff are key members of the task team in undertaking the risk assessment, which influences project design and resource allocation. Using the ORAF, teams reassess risk periodically during implementation and make adjustments accordingly. As indicated in last year's response, the FM Sector has issued interim guidance note on "ORAF – FM" in September 2010.

14.2 Original Response. Ongoing/Agreed. Within the overall framework of measures announced for strengthening the Bank's PFM work (outlined in the July 2005 memorandum issued by the Vice Presidents of the PREM and OPCS Networks), carrying out PEFA assessments has necessitated better coordination among the FM, Procurement, and PREM teams. In addition, work on revised guidelines for CPARs is under way. Staff learning has been, and will continue to be, a major area of emphasis. Since December 2005 PFM training sessions on the "strengthened approach" have been regularly provided for FM, Procurement, and PREM staff, both in Washington and overseas. Training sessions on the "strengthened approach" delivered in collaboration with the PEFA program have included workshops for Bank staff and bilateral donors (September 2005; June and November 2006; January, May, October and November 2007) and training events for multilateral development banks (December 2005 and December 2006). More training programs are planned for Bank staff and other development partners on the PFM performance measurement framework and the "strengthened approach," in addition to the Bank's regular core PFM courses that focus on PFM concepts, applications, and cases. The forthcoming Fiduciary Forum will devote a substantial time to PFM learning. Management will consider its agreed actions to be complete with the issuance of updated guidance to staff on CPAR preparation, and the continued implementation of the learning program for staff. Management will report on the state of its PFM work in its Annual Reports to the Audit Committee.

MAR 2011: A joint memorandum for staff was issued on July 25, 2005, that endorsed the use of integrated PFM work and the use of the PEFA Framework and strengthened approach. Further guidance on implementation of this memo has not been seen as necessary. Training on the PEFA tools and the strengthened approach are jointly delivered on a regular and on-going basis.
FM, Procurement, and PREM share membership on each other's Sector Boards. The FM and Procurement anchor units are under the same Director in OPCS who also chairs joint sector board meetings. All of these provide the basis for strong coordination, especially on activities that benefit from such coordination. In addition, the two sector boards (FM and Procurement) organize a joint Fiduciary Forum every two years. The last Fiduciary Forum was held in March 2010. The Fiduciary Forum included joint plenary sessions dealing with common issues before the FM and Procurement communities and benefitted from participation by PREM and other units (e.g. INT).
The joint work on the ORAF (mentioned in 1.1) strongly evidences the true collaboration between the FM and Procurement sectors and the sector/country teams, not only at the project level but also at the sector and country levels.

14.3 Original Response: Ongoing/Agreed. Building on the investment over the past few years, Management has taken steps to strengthen the Bank's PFM work, emphasizing (a) country ownership of PFM reforms; (b) prioritizing and sequencing of PFM reforms; (c) better measurement and monitoring of PFM performance and progress using the PFM Performance Measurement Framework developed by the PEFA partnership program; (d) coordinated work by the three Bank operational teams (FM, PR, and PREM-Public Sector Governance); and (e) coordination with other development partners (see "Strengthening the Bank's PFM Work," July 25, 2005, Memorandum issued by the Vice Presidents of the PREM and OPCS Networks). These measures are being implemented. Management will continue to emphasize these aspects, thus helping improve the outcome and impact of the Bank's PFM work. Management notes that this is a continuing, longer-term effort and will consider it complete when the "strengthened approach to PFM work" is followed in a majority of active countries. Management will report on the state of its PFM work in its Annual Reports to the Audit Committee. The Annual Reports for FY07 include capacity building as a follow-up to CFAAs and CPARs as a central theme.

MAR 2011: After the mainstreaming of the PEFA framework among key donors, including the Bank, there are increasing efforts in helping partner countries prepare a single integrated action plan of PFM reforms, which then becomes the basis for donor support. These central principles were clearly articulated in the above-cited joint VP memo to staff. However, as the focus of our work at the country level differs, each sector manages the development of tools it uses to determine risk associated with the work in the sectors. We have all come together in the PE Working Group that sup-

ports the PEFA tool and work closely when applying the indicators at the country level.
For procurement, the OECD/DAC benchmarking tool has become an integral part of the CPAR, allowing countries to prepare a single action plan and better integration of procurement findings with PSM issues. This has been further emphasized in the methodology developed for selecting pilot countries in the UCS procurement piloting program. The assessments and action plans cover issues not only related to procurement but also issues related to inter alia, financial governance, budget preparation, internal and external controls and contract management within the broader public sector and governance frameworks.
Wherever feasible, the Bank is encouraging Integrated Fiduciary Assessment (IFAs) pairing Financial Management and Procurement as one of the customized diagnostics being used at the country level.

IEG RESPONSE 2011

14.1 Agreed. However, the ORAF is at the project level.

14.2 The continued utilization of individual diagnostics such as the CFAA and the CPAR calls for continued vigilance in undertaking such diagnostics within an integrated PFM framework. Thus, the need for integrated guidance remains. However, this recommendation is retired.

14.3 Previously, Management had noted that "this is a continuing, longer-term effort and [that Management] will consider it complete when the "strengthened approach to PFM work" is followed in a majority of active countries." It would be helpful if the explanation could provide more evidence that the strengthened approach is indeed being followed in the majority of the countries. For example, how many IFAs have been prepared?

15. A DECADE OF ACTION IN TRANSPORT: AN EVALUATION OF WORLD BANK ASSISTANCE TO THE TRANSPORT SECTOR, 1995-2005

LIST OF RECOMMENDATIONS

15.1 Ensure that the focus of the Bank's transport operations goes beyond intercity highways and gives more attention to issues of growing urgency, including environmental damages, energy efficiency and climate change, traffic congestion, safety, affordability, and trade. This could entail a trade-off between a portion of the traditional highway business and the newer, more complex challenges.

15.2 Prepare a Bank Group transport strategy with a sixfold emphasis:

- Greater attention to air and water pollution and realizing environmental gains;
- Achieving greater synergies across relevant sectors–building on the merging of the Bank's ESSD and Infrastructure Networks;
- Enhancing knowledge sharing and analytical and advisory services and their contribution to country strategies;
- Continuing to support private sector participation through close coordination among the Bank, IFC, and MIGA;
- Increasing attention to governance and corruption issues; and
- Redeploying staff and budget resources accordingly.

15.3 Build up the sector's monitoring and evaluation efforts and align them with the new strategy:

- The development over the next year of relevant intermediate indicators applicable to the broad range of projects;
- The launching of an enhanced program of rigorous impact evaluations for selected programs;
- A comprehensive self-evaluation of the experience with SWAps within 3 years; and
- An independent overview of the SSATP Program within 2 years.

STATUS OF IMPLEMENTATION

Recommendations	Level of Adoption		Status Rating	
	Mgmt	IEG	Mgmt	IEG
15.1 Ensure that the focus of the Bank's transport operations goes beyond intercity highways and gives more attention to issues of growing urgency, including environmental damages, energy efficiency and climate change, traffic congestion, safety, affordability, and trade. This could entail a trade-off between a portion of the traditional highway business and the newer, more complex challenges.	**High**	**High**	**Complete and Archived**	**Complete and Archived**
15.2 Prepare a Bank Group transport strategy with a sixfold emphasis	**High**	**High**	**Complete and Archived**	**Complete and Archived**
15.3 Build up the sector's monitoring and evaluation efforts and align them with the new strategy	**Substantial**	**Substantial**	**Incomplete and Archived**	**Incomplete and Archived**

MANAGEMENT RESPONSE 2011

15.1 Original **Response:** Management agrees with the recommendation and its implication, which is at the core of the transport strategy update now being finalized under the title Safe, Clean, and Affordable Transport for Development. This implies specific enhancements to sector activities to promote increased road safety and appropriate policy response to linkages among transport, energy efficiency, vehicle emissions, short-term public health impacts, and long-term greenhouse gas outcomes, and to overcome physical or service quality transport bottlenecks to regional and international trade in goods and services. However, this evolution, already under way, should not be at the expense of support for high-return and in-demand highway operations.

MAR 2011: While the sector saw some rebalancing between modes in FY08, with roads & highways coming down to 57%, FY09 showed a return of the prominence of the road sub-sector, largely the consequence of the Kazakhstan Roads project, the largest-ever loan made by the Bank in Transport at $2.2 billion, which was by itself 35% of FY09 total transport lending. But the robustness of the rebalancing trend is evident in FY10, which ended up with more than $9 billion in lending, with roughly 50% for Roads and Highways, 30% for Urban Transport, 15% for Railways, and 5% distributed between Ports and Air Transport. Moreover, the energy efficiency and climate change aspects are much more proactively included in projects, in particular in Urban Transport where issues of congestion and modal shift monitoring are now systematically addressed. Once the policy paper *Towards a Low-Carbon Transport Sector* is published in FY11, we can expect this trend to be mainstreamed across the whole transport portfolio. Generally speaking, more integration is also taking place between Transport and Urban operations in the context of promotion of the sustainable cities concept, where urban transport, mobility and overall climate impact are deeply interwoven. Similarly, transport projects are reaching out more systematically towards social inclusion objectives (accessible transport for all, including people with disabilities), health targets (road safety as a global public health issue, fight against the spread of HIV-AIDS), and trade competitiveness aspects (trade logistics and facilitation), with a particular growth noticeable in cross-border and regional operations. Implementation of this recommendation is therefore considered complete.

15.2 Original Response: Management agrees with the recommendation and will address it as follows:
(i) The Transport Strategy Update will spell out the necessity to widen the application of key environmental issues and mainstream them into the lending portfolio.
(ii) The sector will continue to strengthen coordination between transport professionals and other Bank Group units in all relevant areas such as urban planning, rural development, energy, gender, health and education, private sector participation, trade, and transport facilitation.
(iii) The Transport Sector Board will encourage concentration of resources to obtain maximum impact by a series of Transport Flagship Reports designed to provide policy and practical guidance while maintaining operational application for development effectiveness. Also, to provide better support to countries preparing poverty-reduction strategies and Bank country teams preparing Country Assistance Strategies based on those strategies, the Transport Sector Board will lead the preparation of specific guidelines on how to address transport sector issues in public expenditure reviews. And to help scale up urban transport operations, the Transport Sector Board will lead the production of operational guidelines on how to implement the vision spelled out
in Cities on the Move.
(iv) The update to the sector strategy will reconfirm the continuation of the ongoing collaboration both within Bank teams and with IFC and MIGA units to make the most of each entity's advantage in mobilizing the appropriate private sector skills and resources in support of sustainable transport development operations.
(v) Special attention will be given to working across infrastructure sectors to reduce corruption risk in Bank-financed projects, while supporting wider country initiatives to reduce corruption in the transport sector as a whole, and to producing sector-based operational guidelines to enhance project resilience to corruption.
(vi) The Environmentally and Socially Sustainable Development Network will lead a strategic staffing and budget review for transport to make the most of network integration, taking into account the skills mix needed under the updated strategy and reflecting operational demand.

MAR 2011: Following the March 10, 2008 CODE meeting where the Transport Business Strategy 2008-2012 was discussed, the strategy was published and launched on May 21, 2008. Presentation and discussion sessions have been organized with large audiences including a wide variety of stakeholders from both the public and private spheres, in London in May 2008, in Manila in September 2008, and in Paris in November 2008. More dissemination activities have taken place throughout CY09 and CY10, and adjustments to the skills mix in the Bank Transport community have been implemented with new hirings carried out in the field of urban transport, logistics, railways, road safety and social inclusion, both in the Regions and in the Anchor. Implementation of this recommendation is therefore considered complete.

15.3 Original **Response:** Management agrees with this recommendation, as progress and accountability in transport and development require more effort to improve measurement of the performance of transport systems, of the results of Bank-financed transport projects, and of the impact of alternative transport policies.
Specifically:
(i) The transport anchor is leading the development of transport results indicators, both at the sector and project level; these will be implemented across projects and subsectors.
(ii) As part of the Development Impact Evaluation Initiative, in collaboration with the Development Economics Department, the transport sector will pilot impact evaluations of selected rural transport operations.
(iii) Management agrees and will plan accordingly, because increasing Bank transport lending made through programmatic approaches is one of the proposed priorities of the updated transport strategy.
(iv) Management agrees and will plan accordingly in coordination with SSATP donors and partners.
Management will consider all of its agreed actions complete after the discussion by Executive Directors of the transport strategy update, the launching of the pilot rural transport impact evaluations, and the self-evaluation of SWAps. The SSATP program is a partnership, so management's commitment is to encourage and support partners to undertake the recommended action. Management will report on implementation results in the context of the sectoral component of the planned regular operational results reports.

MAR 2011(i) Intermediate indicators for projects and programs are being mainstreamed as a result of the dissemination of the Transport Business Strategy. (See also the required Core Indicators included in roads projects as of July 1, 2009.) The Transport Sector Board is following up on operational implementation as part of regular portfolio monitoring activities, using the strategy's Implementation Action Plan as a baseline. (ii) A comprehensive independent evaluation of the Global Road Safety Facility was carried out in FY09 and concluded positively on the development impact of the program, while suggesting some administrative strengthening, which has been implemented in FY10, in particular with the hiring of a full-time Program Coordinator. (iii) Comprehensive evaluation of experience with SWAPs: because of a strong demand from the Regions to start with a review of the experience with output and performance-based contracts in the sector, an exercise that is now underway, the SWAPs review will be undertaken in FY12. (iv) As per the second long-term development plan of SSATP, approved in November 2007, an independent strategic review of the program was planned to be undertaken in CY2010. However, delays in hiring a new Program Manager, who just came on board in April 2009, led to postponement in the launching of the plan's activities, so the independent review will now take place in CY2011.

IEG RESPONSE 2011

15.1 IEG agrees that in FY10 there is evidence of a strong re-balancing between the various transport modes in the portfolio as recommended by IEG. It is unlikely that the percentage for roads will fall much lower than 50 percent because of strong client demand, especially in the Africa Region which is still more rural than urban in nature. More attention has also been given to energy efficiency and climate change aspects and there is now good integration between transport and urban operations. The level of adoption is rated high and is therefore completed.

15.2 This recommendation concerning strategy was rated high last year and is considered completed.

15.3 Although substantial progress has been made with this recommendation on monitoring and evaluation, the work is still incomplete. IEG notes that mainstreaming of the core indicators and regular portfolio monitoring has been mainstreamed and that the administrative strengthening recommended in the IEG evaluation of the Global Road Safety Facility has been carried out. However, IEG confirms that two activities are still outstanding. The independent strategic review of the SSATP has been delayed and is only scheduled for completion in FY11, while the SWAp review is only scheduled for FY12. The level of adoption is thus rated substantial.

16. WORLD BANK ASSISTANCE TO AGRICULTURE IN SUB-SAHARAN AFRICA

LIST OF RECOMMENDATIONS

16.1 Focus attention to achieve improvements in agricultural productivity:
- Establish realistic goals for expansion of irrigation and recognize the need to increase productivity of rain-fed agriculture through improvements in land quality, as well as water and drought management.
- Help design efficient mechanisms, including public-private partnerships, to provide farmers with critical inputs, including fertilizers, water, credit, and seeds.
- Support the development of marketing and transport infrastructure.

16.2 Improve its work in agriculture:
- Increase the quantity and quality of analytical work on agriculture and ensure that policy advice and lending are grounded in its findings.
- Support public expenditure analyses to assess resource availability for agriculture and to help set Bank priorities.
- Rebuild its technical skills, based on a comprehensive assessment of current gaps.

16.3 Establish benchmarks for measuring process:
- Improve data systems to better track activities supported by the Bank.
- Strengthen M&E to report on project activities in various agro-ecological zones and for different crops and farmer categories, including women.
- Develop a system to coordinate agriculture activities in a country with road access, market proximity, and soil conditions.

STATUS OF IMPLEMENTATION

Recommendations	Level of Adoption		Status Rating	
	Mgmt	IEG	Mgmt	IEG
16.1 Focus attention to achieve improvements in agricultural productivity:	**Substantial**	**Substantial**	**Complete and archived**	**Complete and archived**
16.2 Improve its work in agriculture:	**Substantial**	**Medium**	**Complete and archived**	**Incomplete and archived per the 3 year rule**
16.3 Establish benchmarks for measuring process:	**Substantial**	**Medium**	**Complete and archived**	**Incomplete and archived per the 3 year rule**

MANAGEMENT RESPONSE 2011

Original Response:

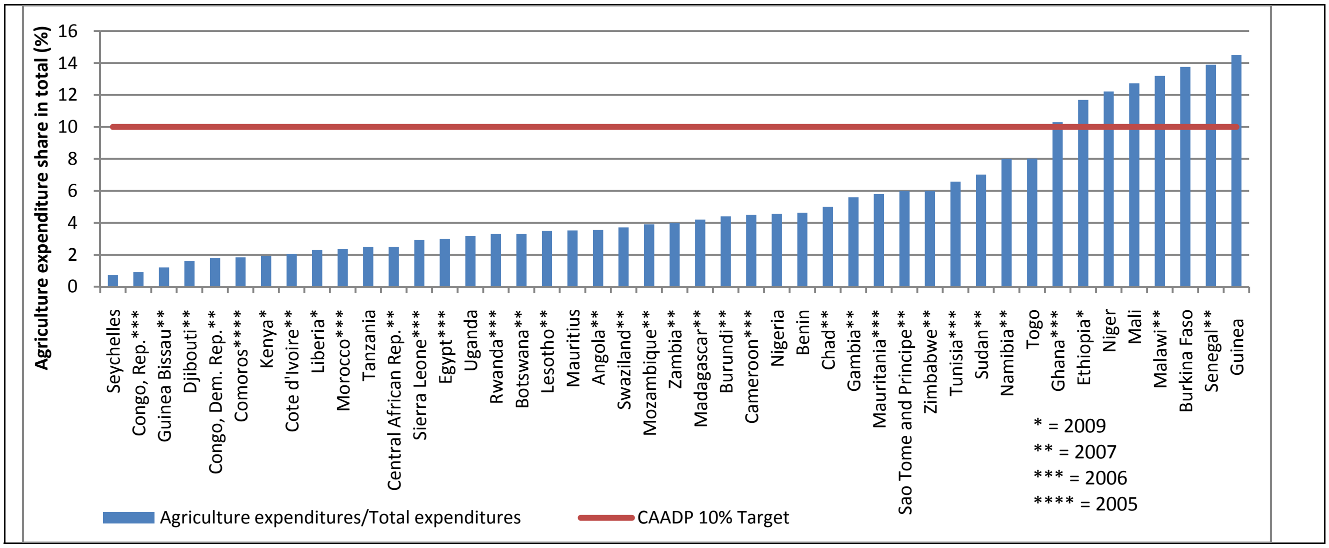
16.1 Agreed with the following qualifications: Management agrees to take the following actions, which fit with the spirit of IEG's recommendations but are grounded in the world of country ownership, alignment, and harmonization in which the Bank works:
• The Region has developed a draft Business Plan for Irrigation that identifies priority countries and projects in which irrigation can be expanded in the period fiscal 2008–12. The plan will be discussed with partners and, with their agreement, embedded in future Country Assistance Strategies.
• Through agricultural technology operations and support to farmer organizations, the Region is supporting matching grants and various forms of smart subsidies for purchase of improved inputs from the private sector. It is using policy-

based operations to assist countries with the regulatory framework for input supply.
• In fiscal 2007, executive directors approved more than $2.5 billion in new lending to Sub-Saharan Africa for infrastructure, much of which serves rural areas. Management notes that, for example, it is now common practice for African governments seeking support from the Bank in the transport sector to involve the agriculture ministry in identifying priority investments.
Going forward, explicit attention will continue to be given in fiscal 2008–10 to synergies between infrastructure and commercial agriculture in Bank support.

16.2 Agreed with the following qualifications: The priority in Africa is assistance to countries in developing their own comprehensive programs to improve agricultural productivity.
• The Bank will concentrate on assisting governments to design, cost, and mobilize the resources needed to implement comprehensive programs of agricultural development.
• As an analytic priority, by fiscal 2010 the Region will assist clients in at least five countries to assess agricultural public expenditure and identify expenditure gaps relative to growth targets for the sector. This work is innovative and methodologically complex, and will be pursued jointly with the Agriculture and Rural Development Department and with other development partners and in the context of the CAADP Roundtable process.
• The Region regularly reviews skill needs and gaps. At present the major gap is in knowledge of issues related to sectoral public spending, both operational practices and analysis.

16.3 Agreed with the following qualifications:
• All projects from the Africa Region presented to the Board for approval now require baseline data for the results framework.
• A set of core indicators at the national level has been developed to monitor progress under the Africa Action Plan (AAP).
For agriculture, these indicators include five-year moving average data on growth in agricultural GDP, productivity per hectare, and productivity per worker.
• The Region is experimenting with M&E systems based on GIS (Geographic Information Systems) tracking of data. This may allow collection of information on agro-ecological zones and links with transport.
All of the actions noted above in response to the three IEG recommendations are elements of the agricultural productivity component of the AAP (one of the flagship operational constituents of the AAP). Management will consider its agreed actions complete with their successful implementation over the next three years. Management will report agricultural productivity results to executive directors as part of overall monitoring and reporting on the AAP.

MAR 2011: The information provided in the Management Response 2010 remains valid, and activities are ongoing, consistent with commitments made in the context of the original Management Response (where Management's commitments were based on some qualifications to agreement with parts of IEG's recommendations, given the country ownership and partnership context in which the Bank operates generally, including in Sub-Saharan Africa). The Comprehensive Africa Agriculture Development Programme (CAADP) process, supported by the CAADP Multi-Donor Trust Fund (MDTF), has gained momentum under strong support of the AU, ECOWAS, and COMESA. The process has been held as a model for countries in other regions that wish to seek financing pledged by the G8 countries at L'Aquila, and subsequently. Details can be found at http://www.nepad-caadp.net/. Twelve African countries submitted proposals to the Global Agriculture and Food Security Programme MDTF, accounting for about two-thirds of requested resources, and five of these were accepted for funding. Details can be found at http://www.gafspfund.org/gafsp/content/call-proposals-october-2010. The contribution of the WB to these efforts is recognized by clients and partners. Sectoral spending is being tracked, as shown below, and studied in detail in PERs in selected countries. Results frameworks for new WB projects include core indicators where relevant and impact indicators disaggregated by gender. Regional projects in West and East Africa support generation and dissemination of agricultural technologies, including availability of improved seeds. National projects support adoption of technology through matching grants and/or vouchers to defray costs of fertilizer and seed. Although work under way in each of the three areas of recommendation above is adequate to warrant a rating of "high," ratings of "substantial" are maintained in recognition that the agricultural scale-up in Sub-Saharan Africa, as illustrated below, is a long term process that will require continued attention.



IEG RESPONSE 2011

16.1 Focus attention to achieve improvements in agricultural productivity. IEG's recent evaluations confirm that both the focus on agricultural productivity and agricultural lending more broadly have increased in Africa during the last few years. IEG also recognizes the country ownership, alignment and harmonization context in which the Bank has scaled up its support for African agriculture. It will be particularly important to give greater attention to the adequacy of funding for operations and maintenance and to working with clients to ensure sustainable financing for irrigation, transport and research and extension services to contribute effectively to the development of the sector. The recent (2010) IEG Agriculture and Agribusiness evaluation found that sustainability remains a considerable concern for projects focusing on promoting agricultural growth in Africa. Further, most cultivation in Sub-Saharan Africa is carried out under rain-fed conditions. Yet, by not tracking projects that are promoting rain-fed agriculture, as noted by IEG's Agriculture and Agribusiness evaluation, the Bank is missing an opportunity to deal strategically with the subject. IEG agrees with Management on the "Substantial" rating of this recommendation and a status rating of "Complete and archived."

16.2 Improve its work in agriculture. The fact that sector spending is being tracked and studied in PERs is an important step forward. However, several institutional constraints could handicap the effectiveness of the Bank's increased effort in the sector and need urgent attention. Analytical work critical for the diagnosis of issues and the suggestions of possible solutions, has declined. A FY 10 ARD Review of the Agriculture and Rural Development Portfolio found that the number of ARD AAA in Africa declined from an average of 18 a year over FY06-08 to 12 in FY09 and 6 in FY10. Bank Management, in their response to IEG's recent Agriculture and Agribusiness evaluation (2010), note that the number of Bank analytical products declined from a peak of 183 in 2000 to 131 by 2008 which was a period when lending more than doubled. According to Management, the number of agricultural sector staff within the institution has remained relatively constant, and more time spent on project preparation and supervision to meet rising demand and improve portfolio quality, has reduced the resources available for analytical work and this trend has actually worsened since the end of the review period of the Agriculture and Agribusiness evaluation i.e. FY 2008. IEG's Agriculture and Agribusiness evaluation had also found that for the years over which data was available the decline in technical skills was most pronounced in Sub-Saharan Africa. Recent ARD updates on implementation of the World Bank Group Action Plan (we are assuming that is what the powerpoint shared with ARD Board members for a Board briefing is) note that the ARD Sector Board *will* conduct periodic staffing reviews in the context of ongoing and emerging business work programs. However, it is not clear whether similar reviews informed the scale up in lending that has already taken place in Africa. IEG rates adoption as "Medium" and status rating as "Incomplete and archived per the 3 year rule."

16.3 Establish benchmarks for measuring process: Management had noted in their response in 2010 that the Bank is improving M&E at the project level and has made significant investment in impact evaluations. The fact that improvement of M&E in Bank projects in Africa is being given priority is an important step forward. However, the FY 10 ARD Review of the Agriculture and Rural Development Portfolio found that ARDSB projects in Africa, MNA and SAR have problems with M&E between six to 10 percentage points higher than other projects in each region. Inadequate tracking

of rain-fed agriculture activities already noted above remains a serious concern. Further, in their original response to the Agriculture in Africa evaluation Management had also noted that a set of core indicators has been developed for the agriculture sector at the national level to monitor progress under the Africa Action Plan. A recent review of the agriculture sector undertaken as a part of the IEG evaluation of the Africa Action Plan found reporting to be poor on these core indicators. While recent ARD updates on implementation of the World Bank Group Action Plan note that informal internal networks have been used to strengthen synergies across Bank units it is too early to tell whether and how the effort is contributing to coordinating agriculture activities in a country with road access, market proximity and soil conditions. IEG rates adoption as “Medium” and status rating as “Incomplete and archived per the 3 year rule.”

17. THE DEVELOPMENT POTENTIAL OF REGIONAL PROGRAMS: AN EVALUATION OF WORLD BANK SUPPORT OF MULTICOUNTRY OPERATIONS

LIST OF RECOMMENDATIONS

17.1 Establish regional program strategies and integrate them into Country Assistance Strategies

- Develop, in consultation with clients and donor partners, medium-term assistance strategies that identify opportunities for high-priority regional programs and the support they would require.
- Integrate regional programs into relevant Country Assistance Strategies.
- Provide adequate analytic and advisory assistance to help countries assess the benefits and costs of regional approaches to the achievement of their natural development priorities.

17.2 Work to strengthen the international architecture for financing regional development programs

- Engage with partners to put together the financing packages required for individual programs based on each partner's comparative advantage and harmonize assistance processes.
- Align the allocation of its loan, credit, and grant resources with the execution of its regional program strategies.

17.3 Increase the impact of the Bank support for regional partnerships

- Enter in such partnerships only when their program objectives are aligned with its regional strategic plans.
- Maintain its support only on the basis of positive findings of periodic evaluations.
- Require credible plans for sustaining program activities.

17.4 Strengthen corporate incentives and capacities to provide effective regional program support

- Build a base of knowledge on regional program experiences and incorporate lessons into program design, implementation, and evaluation.
- Develop guidance for staff on legal frameworks for regional programs and determine if changes are warranted in the Bank's legal and policy frameworks.
- Prepare periodic reviews on how the Bank is implementing its regional program strategies and partnering with other donors and the results achieved.

STATUS OF IMPLEMENTATION

Recommendations	Level of Adoption		Status Rating	
	Mgmt	IEG	Mgmt	IEG
17.1 Establish regional program strategies and integrate them into Country Assistance Strategies	Substantial	Substantial	Completed and archived	Completed and archived
17.2 Work to strengthen the international architecture for financing regional development programs	Substantial	Substantial	Completed and archived	Completed and archived
17.3 Increase the impact of the Bank support for regional partnerships	Substantial	Medium	Completed and archived	Incomplete and archived
17.4 Strengthen corporate incentives and capacities to provide effective regional program support	Medium	Medium	Completed and archived	Incomplete and archived

MANAGEMENT RESPONSE 2011

17.1 Original response: Agreed in part. Management agrees on the need to be strategic in the use of its resources in support of regional programs. However, there is no regional equivalent of a country poverty strategy and few regional organizations with strong credibility among member governments. There are also large differences across Regions in terms of country numbers, country size, geographic features, and the prevalence of opportunities for regional activities. In some cases, being prepared to support regional activities when opportunities arise, without a formal written strategy, may be the best approach. Therefore, management plans to leave the decision on whether or not to develop a formal regional program strategy up to Regional vice presidents and their management teams, and to monitor experience, including in Regions that do not opt for regional strategies. When Regions do prepare regional or subregional strategies they will be expected to consult with client and donor partners in the process. All Regions will be asked to follow best practice in selecting, budgeting, delivering, and evaluating regional programs, building on experience with priority setting for Regional ESW.
Management will consider its agreed actions complete when each Region reviews its approach to regional programs and partnerships, drawing on best practice experience in identifying priorities for Regional ESW. Regions will report on their approach as part of their fiscal year 2008 Regional Briefing to executive directors.

MAR 2011. Management only agreed in part to the above recommendation. It did not agree to develop formal regional program strategies across the board, given the wide variation across Regions. Instead, it committed to leave the decision of whether or not to develop a regional program strategy to each Regional unit and report results to Executive Directors, notably in the context of overall Regional strategy discussions. Management considers its actions against its commitments as, at a minimum, substantial. Management continues to work proactively and systematically on regional program strategies, formally in some cases and informally in others.

The Sub-Saharan Africa Region has opted for a formal strategy, given the well-known relative importance of regional action in the Sub-Saharan African context. The Regional Integration Assistance Strategy (RIAS) for Sub-Saharan Africa, reviewed by the Board in 2008, continues to guide the regional investment and analytical program in the Africa region. An update of the RIAS is being prepared for presentation to the board in February, 2011 to review the continued relevance of the RIAS strategic pillars and make adjustments as needed to reflect economic, political and analytical developments since the RIAS was drafted. A sub-regional implementation action plan (IAP) has been prepared for West Africa in collaboration with client countries, regional bodies and donor partners. The IAP adapts the continental-level strategic pillars identified in the RIAS to the specific context of West Africa and identifies a corresponding support program to guide implementation. Based on the experience in West Africa, IAPs will also be prepared for Central Africa and Eastern and Southern Africa (based on the EAC-COMESA-SADC tripartite arrangement). Regional solutions and regional integration have also been identified as one of the key implementation tools for the new Africa Region Strategy to be presented to the Board this Spring. Ongoing analytical work such as the Africa Infrastructure Country Diagnostic (AICD) and Southern Africa Investment Climate Assessment have been used to illustrate concrete, quantifiable benefits of regional solutions, helping foster greater demand at the national level.

The South Asia Region has identified regional integration as part of its overall regional strategy and has a Program Director for Regional Integration. Regional programs, projects and strategies to expand regional cooperation in South Asia are explicitly or implicitly incorporated in several country strategies in South Asia (Afghanistan, Bangladesh, Pakistan, Nepal, India). Two regional projects are in an advanced stage of preparation (scheduled for Board in FY11) and, aided by the flexibility provided by horizontal APLs (which allows achieving regional integration in bilateral project steps), the pipeline of regional projects is growing. The evolving regional program leverages the Bank groups country and sector-level engagements and relationships, and seeks to respond quickly to providing design and implementation support to promising project opportunities emerging from bilateral and multilateral political processes. Upstream analytical work seeks to inform the political processes about costs and benefits of regional cooperation (or lack thereof), and foster discussions and confidence at different levels (using these processes to identify "low-hanging" project-type activities (some of which are then developed for investment support). Regional integration and associated projects/programs are a cross-cutting theme of the Bangladesh CAS (FY11-14) while the country strategies for Afghanistan, Pakistan, Nepal, and India all include lending operations to improve cross-border cooperation (e.g. in energy, trade, transport); With IDA financing of critical electricity transmission infrastructure in Afghanistan (complementing financing from India and ADB), Uzbekistan initiated supply in April 2009 of 40 MW of electricity to Kabul and towns along the Uzbekistan-Kabul transmission corridor, markedly improving lives and economic activities. Supply was increased to 140 MW in 2010; In Afghanistan, building on the IDA-funded Emergency Customs and Trade Facilitation Project (2003), the IDA

funded Customs Reform and Trade Facilitation Project (May 2010) and non-lending support for Customs-to-Customs cooperation between Afghanistan and Pakistan have helped ease trade bottlenecks and have shaped the recently-signed (October 2010) Afghanistan-Pakistan Trade and Transit Agreement. Other activities are underway, such as Strengthening Regional Cooperation in Wildlife Protection Program; Creating a Northeast Electricity Transmission and Trading System; Northeast Trade and Transport Facilitation Program; Creating a Central Asia-South Asia Regional Electricity Market (CASAREM); Central Asia-South Asia (CASA) Electricity Transmission Project and the The South Asia Water Initiative (SAWI), supported by DfID, AUSAID and NORAD, and the associated Abu Dhabi Dialogue, continues to ramp up its facilitation of knowledge generation and sharing among think tanks, government officials, etc. in Afghanistan, Pakistan, Nepal, India, Bangladesh Bhutan and China around water resource development, management and sharing; The DfID-supported South Asia Food Security and Nutrition Initiative (SAFSNI), started in 2010, is identifying regional approaches to improving food security and innovative approaches to addressing malnutrition.
In MENA there is now a Director for Regional Strategy and Programs, with a small team, created in early FY11. MENA's regional programs form part of the Arab World Initiative, launched in 2007 as one of President Zoellick's six strategic themes, and substantially increased in scope and accelerated in implementation in the past 12-18 months. Integration of AWI into country partnership strategies has been recently enhanced, most notably in the latest CPS for Jordan. AWI covers multiple regional cooperation programs covering a range of sectors and themes: notable examples include the Quality of Education Initiative, Arab Financing Facility for Infrastructure, Concentrated Solar Power Scale-up, Micro and SME Financing Facility, Mashreq Cross-border Trade Facilitation and Transport Program, and a number of regional reports. Initiatives are designed on both a pan-Arab and sub-regional level. AWI is subject of regular formal discussion with the Arab Governors as well as with the Arab financing institutions, Islamic Development Bank, and OPEC Fund, as well as other donors, and most of the programs are multidonor. AWI has also engaged with the League of Arab States (an MoU governing cooperation was recently signed), and was endorsed by the January 2011 Arab Heads of State Summit on Economic and Social Development. AWI has also recently launched its own website.

ECA's Post-Crisis Strategy features sub-regional approaches to many issues with a specific focus on creating regional institutional frameworks particularly for lower income countries in the Region. The Central Asia Regional Partnership Framework will be presented to the Board in FY11 together with the sub-regional Hydrometeorology Modernization Project. A major element of the Framework is ECA's approach to water and energy management in the sub-region that was summarized in the Board discussion of ECA's Post-Crisis Strategy. Several sub-regional programs are under implementation and are featured in Country Assistance Strategies where relevant. These include Roma Inclusion, Corporate Financial Reporting Reform in Central and Southeastern Europe, and Management of Water and Energy Resources in Central Asia. The sub-regional portfolio has expanded. Ongoing projects include the Lake Akhoder Integrated Ecosystem Management project in Albania and Montenegro; the Central Asia AIDS Control project; and the Neretva/Trebisnjica River Basin Management project. In addition to the Hydrometeorology Modernization Project, the FY11 pipeline projects include the Southeast Europe and Caucasus Catastrophe Risk Insurance Facility, and the Tien Shan Ecosystem Development Project and Improving Blood Safety Program in Central Asia.

While most EAP programs continue to be country-focused, the Region has developed a number of partnerships with regional organizations, including ASEAN, the EAS grouping, APEC, the Pacific Forum, GMS/MRC and ESCAP, notably supporting the strengthening of regional organizations. In particular, EAP works closely with ASEAN and APEC to strengthen regional approaches on intra-regional trade integration, the green growth agenda and finance, food security, aging and fiscal sustainability, growth and innovation and gender and development. In 2011, the APEC support program is being continued at the request of the US government focusing on public investment management, infrastructure, financial inclusion, women's empowerment and gender. In 2010, EAP strongly supported Korea during its role as G20 Chair. EAP maintains a strong relationship with the Pacific Forum, providing analytical support, TA for sub-regional initiatives in the Pacific and assistance in preparing the regular meetings of officials, Ministers and Heads of State. Specific support to GMS/MRC relates to energy, power and water initiatives. For ESCAP, (the UN's regional development arm), WB participates in conferences/workshops and provides TA across the range of issues it covers.

In LCR, too, most programs continue to be country focused. However, LCR is currently working on sub-Regional strategies for Central America and the Eastern Caribbean and supports sub-Regional organizations in each case.

17.2 Original Response: Agreed in part. As noted above, Regions that decide to prepare regional or subregional strategies will be expected to consult and coordinate with partners. This consultation and coordination will include discussions on financing mechanisms. On a task-by task basis, the Bank will engage with partners on financing packages for individual operations. Management will include regional support issues in its overall work with clients and donors on alignment and harmonization of assistance processes. With regard to the Bank's own loan, credit, and grant facilities, management sees this alignment as taking place in the context of the work outlined above on best practice in selecting, budgeting, delivering, and evaluating regional programs, building on experience with priority setting for Regional ESW. Management will consider its agreed actions complete with discussion of regional support internationally in connection with ongoing work on alignment and harmonization and the work outlined above by Regions. Management will report to executive directors in the fiscal 2008 Regional Briefings and the next update on alignment and harmonization.

MAR 2011 Management agreed only in part to this recommendation and did not commit to a major initiative on the international aid architecture for regional programs. However, it did, as committed, work with clients and donors on financing issues in the context of individual operations and more broadly in many cases.

In Africa, efforts to engage donor partners, at both the individual operation level and a wider strategic level have allowed the Bank to leverage significant co-financing and collaboration for priority regional operations, particularly in infrastructure. Much of the co-financing and collaboration has come from traditional multilateral partners (AfDB, the EC, EIB and EBRD) with well established relationships on regional programs. In addition to these traditional players, there has been a concerted effort to attract partnerships with the private sector through PPP arrangements (particularly in ICT and energy) and bilateral donors such as USAID. Umbrella frameworks are increasingly being utilized to harmonize donor efforts around major initiatives, allowing for shared analysis, alignment with the priorities identified by regional institutions and national governments, and allocation of responsibilities and financing based on comparative advantage of participating donors. Work under such donor coordination frameworks is quickly moving from planning to implementation as the first phase of the Bank's $500 million commitment under the North-South Corridor program in Eastern and Southern Africa will be submitted to the Board for approval in FY11, and work under the Comprehensive African Agriculture Development Program (CAADP) framework has begun in all four sub-regions in Africa. The Bank has also worked to increase the flexibility of its own financial instruments for regional programs. The first regional IDA grants to regional institutions will be submitted for board approval in January 2011. IBRD resources will be leveraged for the first time in Africa in a regional operation to support the inclusion of Gabon under the Central Africa Backbone APL program. The possibility of a regional policy lending instrument is also being explored.

Over the past year, ECA has worked to mobilize international financing to support the management of energy and water resources in Central Asia. Also, ECA and the EurAsEC Anti Crisis Fund (ACF) have prepared and will shortly enter into an agreement to strengthen ACF's capacity to monitor and evaluate the impact of their programs.

As mentioned above, Bank teams have collaborated with Government of India and the ADB in the Uzbek-Afghan power supply project (IDA under the Emergency Power Rehabilitation Project), and Bank teams are leveraging donor support for the South Asia Water Initiative and the South Asia Food Security and Nutrition Initiative. DfID is supporting the preparation of the Northeast electricity and trade/transport projects (and may consider expanding its support for trade and infrastructure integration in the region); Proposed IDA support for the Nepal-India electricity transmission project is driven by growing private investor interest in developing Nepal's hydropower resources to serve electricity demand in Nepal and India; The IDA focus on new electricity transmission and trade/transport integration opportunities between Bangladesh and India rides on bilateral agreements and financing arrangements; IDA strategy for enhancing regional cooperation between Central Asian Republics, Afghanistan and Pakistan ride on bilateral and multilateral programs (and potential financing) to improve social and economic conditions in Afghanistan and Pakistan as part of broader strategies to enhance security and political stability in the sub-region. ADB's decision to exit from the CASA Project in 2008-9, ostensibly due to other priorities, caused a set-back in project preparation and has left a gap in project financing. The World Bank, IFC and the US State Department have stepped in to fill the gap in preparation funds; the Islamic Development Bank remains committed to financing about 20% of project costs and other financiers will be approached in 2011 to fill the financing gap left by ADB
See above for the many donor and client alignment activities in MNA.

17.3 Original Response Agreed in part. Management will work to increase the impact of its support for regional partnerships. (As noted in the full Management Response, management has questions regarding the sample size and methodology and whether the evidence is sufficient to conclude that partnerships are typically less successful than regional projects.) The work outlined above on sharing best practice in selecting, budgeting, delivering, and evaluating regional programs, building on experience with priority setting for Regional ESW, will cover regional partnerships.
With advice from IEG, management has moved to require an independent evaluation every 3–5 years of programs that receive Development Grant Facility funding, using an evaluation template developed in consultation with IEG; and IEG

selectively reviews these evaluations. On evaluation findings, it may not be cost effective to drop important initiatives on the basis of one poor evaluation. In some cases, management may want to use the findings to strengthen the initiative, setting clear targets for measuring progress against an action program, rather than abandon the partnership. With regard to sustainability, management sees the need to experiment. In some cases, innovative ideas need to be tested and validated before addressing issues of sustainability. Moving too quickly on sustainable funding may make it more difficult to exit. The same applies to the program objectives of regional partnerships. While it should be true in most cases that these partnerships are aligned with regional plans, there are times when a Region may see the potential in an experiment outside of that framework, as long as the experimental nature of the partnership is made explicit.
Management will consider its agreed actions complete after each Region reviews its approach to regional programs and partnerships, drawing on best practice experience on identifying priorities for Regional ESW. Regions will report on their approach as part of their fiscal 2008 Regional Briefing to executive directors.

MAR 2011: Again, Management only agreed in part to this recommendation and was quite explicit regarding the actions to which it committed. Notably, since it did not commit to regional strategies across the Board, it could not commit to aligning those strategies with regional partnerships—especially given the nacent state of regional partnerships in many cases. It also continues to question the cost-effectiveness of dropping programs on the basis of one evaluation when restructuring might be more appropriate. More broadly, Management continues to believe that support for regional activities require learning and experimentation to develop better models and to support what are in many cases still nacent regional organizations. Against its commitments, Management believes that it has delivered at least at the substantial level.

Partnerships in Africa have been strengthened most concretely in the past year through decentralization of the Africa Regional Integration Director to Addis Ababa, seat of the African Union, NEPAD and headquarters of the Economic Commission for Africa, allowing for more regular and direct engagement with leadership and opportunities for partnership with these institutions. A new 15 million GBP partnership with DFID and Finland has also been formed under the Support for West Africa Regional Integration Program (SWARIP), administered by the Bank to harmonize and coordinate donor partner interventions in support support regional integration in the sub-region, in particular strengthening of the regional bodies, supporting trade integration and facilitation – a key pillar of the Regional Integration Assistance Strategy for Sub-Saharan Africa, and boosting the knowledge base on the benefits and costs of integration to allow for greater selectivity of interventions and build constituencies for reform. Additional partnership information highlighted in response 11.2 (above).

Regional partnerships in South Asia (for example South Asian Association for Regional Cooperation) have established broad frameworks for regional cooperation in areas such as energy and trade but are still at early stages of securing the necessary political support to be effective partners in promoting regional cooperation. The Bank approach for the moment is more bottoms-up, building on robust country-level programs and relationships in certain sectors to leverage potential high-impact and confidence-building opportunities across borders. The Bank is presently a more active partner in the CAREC (Central Asia Regional Economic Cooperation)program than in SAARC although it has participated in selected SAARC for a/conferences. CAREC includes Afghanistan and recently inducted Pakistan as a member.

The proposed Russia Capacity Building Trust Fund, which will be effective towards the end of FY11, includes funding for the preparation of sub-regional projects.

17.4 Original Response Agreed. The Africa Region, through its Regional Integration Department, together with the Global Programs and Partnerships Unit in the Concessional Finance and Global Partnerships Vice Presidency, will take the lead in building the knowledge base on operations and partnerships, respectively, and sharing experience across Regions. Sector families will play a vital knowledge management and knowledge-sharing role, notably on issues such as regional transport, energy, and water management. In connection with this work, the Bank's Legal Vice Presidency is developing good practice guidance for lawyers on legal frameworks and implementing arrangements for regional operations and a related database on legal issues, and their resolution with regard to regional operations. Management will consider this action complete with the establishment of the knowledge base on regional operations, including the good practice guidance on legal frameworks, and the continued expansion of the knowledge base on regional partnerships. Management will report to executive directors on progress in connection with its update on the IDA pilot program in fiscal 2008.

MAR 2011: Periodic reviews of regional programs Bankwide and in the Africa region are serving as a means to evaluate progress and take corrective measures to address problems identified. The most recent assessment, the IDA15 mid-term review of the regional IDA program found that "Following-up on the recommendations at the IDA14 Mid-Term Review (MTR) and the 2007 IEG report, Management has implemented several actions to address challenges facing the implementation of regional projects. These include: improving strategic alignment of projects with regional strategies and CASs; strengthening management oversight and operational support in legal, procurement and financial matters; improving projects' results-orientation and analytical underpinnings; and building the institutional capacity of regional institutions. While progress has been made in these areas, important weaknesses remain." Those weaknesses included a high proportion of problem projects and low disbursement rates, particularly for infrastructure projects. In response, action plans were developed for all problem projects (in line with the findings of the 2009 portfolio review where applicable) and close monitoring of procurement and disbursements was adopted, raising the disbursement rate of the regional portfolio from 6.5 percent in FY09 to 14 percent in FY10. Further emphasis has also been placed on quality at entry and capacity building of implementing agencies, and increasing resources to support supervision.

As previously mentioned, an update of the Regional Integration Assistance Strategy for Sub-Saharan Africa (RIAS) is underway, to be presented to the Board in February 2011. The update will provide an opportunity to further review the effectiveness and strategy guiding support to regional operations going forward.

Just as a reminder, the work promised by the Bank's Legal Department (LEG) was completed shortly after the IEG evaluation and is available to all LEG staff for their work in support of regional operations. Beyond what was promised originally, Management also plans to propose to the Board the extension of eligibility for access to the Project Preparation Facility to regional entities in connection with its update of investment lending policy

IEG RESPONSE 2011

The Management Response cites continuing positive trends and initiatives in the analysis and financing of regional (multi-country) programs in the Africa Region and increased regional analytical work and operations in other Regions. With this expansion in regional programs work, as well as progress in the integration of regional programs in CASs—as cited in the case of AFR, SAR, and ECA, and the development of new regional (or sub-regional) integration strategies or frameworks in several Regions, IEG considers management to be 'substantially' responsive to its recommendations to capture the development potential of regional programs for its clients overall. IEG agrees with management's assessment that more needs to be done at the corporate level to support these kinds of programs.

IEG rates Recommendation **17.1** as 'substantial' reflecting trends in regional operations, CAS integration, and funding for upfront analytical work in most Regions. Implementation status is rated "incomplete and archived" reflecting the continuing effort needed to broaden the integration of regional operations into CASs.

IEG rates Recommendation **17.2** as 'substantial' reflecting primarily the availability and use of IDA15 funds on a grant basis, as well as the co-financing initiatives made notably by AFR, EAP, MENA, and SAR. IEG notes, however, that Management might usefully have indicated that the funding for the needed analytical work is heavily dependent on trust funds. Implementation status is rated "incomplete and archived" reflecting the dependence on trust fund financing which is itself unpredictable over the medium and long-term that is typically required for regional programs.

IEG rates recommendation **17.3** 'medium' reflecting the growing number of evaluations of regional partnership programs, but the absence of evidence on plans for sustaining regional program activities. Implementation status is rated "incomplete and archived" reflecting IEG's "medium" rating for the level of adoption to-date.

IEG rates recommendation **17.4** 'medium' reflecting the improvements cited in strategic alignment, CAS integration, and management oversight, but the absence of evidence on steps taken at the corporate level to resolve Regions' concerns with the adequacy for these kinds of operations of lending instruments and process, Bank systems, and implementation support (particularly for operations involving low capacity countries). Implementation status is rated "incomplete and archived" reflecting both Management and IEGs "medium" rating for the level of adoption to-date.

18. DEVELOPMENT RESULTS IN MIDDLE-INCOME COUNTRIES: AN EVALUATION OF THE WORLD BANK'S SUPPORT

LIST OF RECOMMENDATIONS

18.1 Draw on MIC capacity

- To promote greater country ownership of the Bank's work, and to create better opportunities for the Bank to learn from MICs and share their experience with LICs, Bank support needs to more systematically draw upon and develop each country's own expertise. To this end Management should require that country assistance/country partnership strategies and significant analytic and advisory activities (AAA) assignments plan clearly to do this.
- The Bank ought to identify incentives and obstacles to MICs' involvement in the governance of global programs. This could involve producing an inventory of governance arrangements for global programs which it supports, and conducting a formal consultation exercise with MICs (and other developing countries).

18.2Demonstrate Best Practice

- To deliver the maximum impact from the Bank's limited financial role in MICs, in partnership with clients the Bank's projects and programs must be selected to go beyond conventional approaches and clearly demonstrate how they will add to best practice development activity in the respective country setting. They should also show whether, when, and in what way they are expected to play a catalytic role, being scaled up using resources beyond those initially provided by the Bank.
- Country programs, prepared in full partnership with MIC clients, must pay renewed attention to achieving greater effectiveness in three pressing and complex issues: combating corruption; reducing inequality; and protecting the environment. Programs need to draw on the full range of Bank and other resources available to meet these challenges.
- The Bank could more actively share best practice and encourage arrangements for knowledge transfer across countries, regions, and sectors. Three specific measures to do this would be: (i) giving more weight to this goal in strategically managing staff rotation; (ii) ensuring that research and policy work goes beyond general principles and focuses on specific country-by-country needs; and (iii) reviewing the performance of the networks on this dimension.

18.3Become More Agile

- To help the Bank more quickly and easily adapt its services and areas of focus for MICs' evolving needs, it needs to set up a program to test new approaches for a selected group of countries. The first element of the program would be a much more decisive push on the existing slow-moving pilot for the use of country systems in the execution of Bank lending, and significantly increasing the number of countries and projects actually implementing the new approach on-the-ground by mid-FY08.
- The trial program would do well to go further and offer the selected MICs, each with strong institutional capacity, a new menu of support incorporating features such as fast-track procedures, faster response times, and more flexible strategies.
- The Bank should continue efforts to expand the choice of services it offers. This can be done by accelerating the development and deployment of: (i) new financial instruments such as those helping countries manage and reduce vulnerability to external shocks; (ii) existing and new products which help tackle subnational challenges; and (iii) new arrangements-with clear, consistent, and user-friendly guidelines-for fee-for-service technical expertise, including that for project design and supervision.

18.4Make the Most of Bank Group Cooperation

- The Bank Group must develop a more pragmatic approach to cooperation across the Bank, IFC, and MIGA, to successfully offer clients a more effective package from its combined resources. This approach could include new incentives or channels for cooperation such as piloting single country management arrangements. In cases where joint country strategies are appropriate they should be prepared more rigorously, and followed through with performance monitoring designed to trace through the net gains from cooperation. Any new approach must be communicated to and gain the support of staff, who ultimately determine the extent and success of such cooperation.

STATUS OF IMPLEMENTATION

Recommendations	Level of Adoption		Status Rating	
	Mgmt	IEG	Mgmt	IEG
18.1 Draw on MIC capacity	High	Substantial	Completed and Archived	Completed and Archived
18.2 Demonstrate Best Practice	High	Substantial	Completed and Archived	Completed and Archived
18.3 Become More Agile	High	High	Completed and Archived	Completed and Archived
18.4 Make the Most of Bank Group Cooperation	Substantial	Medium	Completed and Archived	Incomplete and Archived

MANAGEMENT RESPONSE 2011

Original Response

18.1 ***Substantially agreed.*** Management is preparing a note on World Bank responsiveness to demand for global public goods, to be discussed with executive directors in fiscal 2008. That note will include its plans for involving MICs (and other developing countries) in setting priorities and in drawing on MIC expertise. Part of this process will involve consultations with MICs. Management will also prepare a guidance note for staff on country partnership strategies with MICs that will address the issue of systematically drawing on and developing MIC country expertise, notably with regard to strategy development, economic and sector work and other AAA, and global program priorities. Lastly, management is preparing a partnership program to increase the use of MIC expertise and institutions. The fiscal 2008 Country Assistance Strategy (CAS) Retrospective will report on implementation. Management will consider the above agreed actions completed with that report.

18.2 ***Substantially agreed.*** Management support MICs through four actions: (i) stronger country partnership strategies developed jointly with MICs; (ii) improvements in the range of services offered to MICs, notably financial services and the blending options, with a goal to better leverage Bank support; (iii) stronger links between Bank research and MIC needs; and (iv) better management of the pool of Bank expertise across all networks to ensure timely delivery of cutting-edge support. However, although all MICs want and deserve innovative options, in many MICs there will remain a demand for more standard support that the IBRD will need to meet. Management will consider the agreed actions complete with the full report to executive directors in the fall of 2007 on implementation of the action plan to strengthen the World Bank's engagement with IBRD countries.

18.3 ***Substantially agreed***

Management is taking a range of actions to increase the Bank's agility in support of partner countries. The Bank will offer MICs an expanded menu of support options through a more flexible portfolio of access to expertise and financing. A major step, outlined above, is giving more flexibility to country teams in producing and implementing country partnership strategies, encouraging them to use it, and monitoring that use. Work on country systems, which will add to agility and reduce the cost of doing business, is advancing with Board endorsement in June 2007 of a plan to accelerate progress. To provide greater agility, management will continue to improve internal Bank procedures with a streamlining of investment lending during fiscal 2008. As partners' needs have changed, IBRD's role in providing financial services to MICs has evolved considerably beyond traditional lending. To help countries manage risks from interest rate, currency, and commodity price volatility, IBRD currently offers flexible loan products as well as derivative/risk-management tools for application to IBRD and in some cases non-IBRD liabilities. It offers related debt management advice and wealth management/ advisory services to assist countries in protecting their development resources. Management is accelerating the implementation of the provision of customized financial solutions support to borrowers through an enhanced internal review process. The Deferred Drawdown Option instrument is being reviewed to improve its effectiveness. As part of its MIC strategy the Bank has been engaged in developing new market-based solutions to help countries deal with catastrophic events, with a recent launch of the first ever Regional insurance facility, for Caribbean countries, as the initial result of this effort. Work is under way to mainstream and scale up public sector financing at the subnational level under a newly established department, as a joint initiative of the IBRD and the International Finance Corporation.

Finally, management will develop a consistent framework for interested partners to draw on the Bank for fee-based advisory services and technical assistance in project implementation. Management will consider the above agreed actions complete with the report on the use of country partnership flexibility in the CAS Retrospective; the approval of the streamlined policy for investment lending; continuation of ongoing efforts to customize financial solutions and expand choice of financial services, such as those for managing external shocks and subnational financing; and the introduction of the new framework for fee-based services for interested partners. Management will report on overall progress periodically to executive directors, starting with the report to executive directors in the fall of 2007 on implementation of the action plan to strengthen the World Bank's engagement with IBRD countries.

MAR 2011 The Management Response in 2007 indicated that management was in basic agreement with all the IEG recommendations, and outlined the actions to which it committed. Management has continued to fulfill its commitments as follow-up to the Action Plan to Strengthen Bank Engagement with IBRD Partner Countries, which adopted recommendations endorsed by the Development Committee in September 2006. The Bank has continued to produce higher quality, more focused and flexible CPSs, reflecting a flexible portfolio of expertise (best practices) and financing. Through a combination of AAA and knowledge embedded in its lending, the Bank has supported innovations that, when replicated on a broader scale, have provided benefits that far exceed the direct benefits of the individual projects. Management has also made significant improvements in the range of services offered to MICs, and links between Bank research and MIC needs have been strengthened. Management considers all the agreed actions completed.

A new Bank‘s Knowledge Strategy, which was discussed last April, will have important bearing on our engagement with middle income countries. The implementation of the Knowledge Strategy will help strengthen partnerships with think tanks and regional/country institutions and expand collaboration with clients in knowledge products and project designs. It also help country offices to reinforce local ownership of the knowledge agenda and help to surface innovations and implementation lessons; and for the Bank to open its communities of practice to external partners, and integrate outside partners more closely into Global Expert Teams. The Bank has already established partnerships with researchers and analysts of MICs such as the China Center for Economic Research, the New Economic School (NES) in Moscow, the Economic Research Forum (ERF) in Cairo, and others. A South-South Experience Exchange Facility has been set up with the aim of deepening South-South experiences (from UMICs to LMICs/LICs).

Cooperation across the WBG has also been strengthened. The majority of IBRD CASs are prepared jointly with IFC. The pilot IDA-IFC CAS has been completed and joint Bank/IFC guidance for staff is being widely disseminated and also used in the CAS Academy, thus reaching a key target group. IBRD countries are also increasingly making use of the foreign investment services of the joint IFC-Bank unit, FIAS. Crisis-response cooperation is exemplified by Bank-IFC joint support for Eastern European countries.

The global financial crisis compelled Management to rethink its relationship with many MIC clients, and the Bank, working with IFC and MIGA, has demonstrated agility, best practice, and ability to draw on MIC capacity in responding to the MICs' immediate and pressing needs, without neglecting their longer term development priorities. Work is underway to lay out a framework to strengthen World Bank's engagement with middle-income countries in the post-crisis period.

IEG RESPONSE 2011

18.1 Draw on MIC capacity. The evaluation called for the Bank to more systematically draw upon and develop each country‘s own expertise by integrating this objective into country strategies and preparation of analytical work. In its original response, Management was to consider actions complete upon delivery of the FY2008 CAS retrospective. A CAS retrospective was delivered in September 2009 (FY2010), and it mentions in passing that the Bank has engaged in "more joint (with the country) knowledge generation," but without any evidence supporting that claim.

The February 2010 Knowledge Strategy calls for putting some of this recommendation into practice, for instance, asserting that "at the country level, the Bank will strengthen partnerships with think tanks and regional/country institutions and expand its collaboration with clients in knowledge products and project design." While new partnerships with researchers and analysts are welcomed and should be commended, and more country strategies in middle-income countries are now formulated as partnership strategies and there seems to be a shift toward the treatment of clients as true partners, Management does not provide evidence that it has drawn upon MIC expertise in a systematic way in the service of projects or analytical work. Because there is some evidence of partnership at the strategic level and a plan to utilize local capacity at the level of individual projects and analysis, adoption is considered **substantial**. It should be noted, however, that drawing on MIC capacity is an ongoing challenge, and so the recommendation will only be fully adopted once this full partnership has become standard practice among Bank staff.

18.2 Demonstrate best practice. The evaluation called on the Bank to deliver the maximum impact from the Bank's limited financial role in MICs by demonstrating how projects and programs will go beyond the conventional and add to best practices, while showing clearly whether, when, and in what way they are expected to be scaled up using resources beyond those provided by the Bank. In its original response, Management was to consider agreed actions complete with the report to the Executive Directors on implementation of the action plan to strengthen engagement with IBRD partner countries. This update was delivered to the Board, but it did not address the core issues raised in this recommendation. Here, Management claims that "the Bank has supported innovations that, when replicated on a broader scale, have provided benefits that far exceed the direct benefits of individual projects," but provides no evidence to underpin this claim. To IEG's knowledge, there is no new guidance on how country programs should contribute to good practice in a country, support innovation, or scale-up operations using non-Bank resources. On the other hand, there has been a rebound in the share of IBRD operations that are rated Highly Satisfactory by IEG—projects that are considered good practice and often worth replicating—rising from 3% of operations closing in FY2003-05 to 5% in operations closing in FY2007-09. While this falls short of the level of nearly 10% achieved in the late 1990s, it does indicate a substantive reversal of the previously downward trend. This achievement, combined with anecdotal evidence of spillover effects in some countries from previous years, provides the basis for a **substantial** rating.

18.3 Become more agile. To help the Bank more quickly and easily adapt its services and areas of focus for MICs' evolving needs, the evaluation called on the Bank to test new approaches for a selected group of countries, including on using country systems, offering a new menu of support (including fast-track procedures and more flexible strategies), and expanding its choice of services (including new financial instruments, sub-national support, and fee-for-service activities). The Bank has gone a long way in this regard. On the new menu of support, the Bank has revised its procedures for investment lending and expects preparation of low-risk operations to proceed at a faster pace. Moreover, the CAS Retrospective notes that country strategies in MICs have become more flexible, allowing for adaptation as country circumstances and demands evolve. Its expansion of services has been impressive, with a growth of fee-for-service activities and new financial instruments. But the pilot program for using country systems has continued to face delays in implementation. All things considered, the Bank responded with agility to the global financial crisis in MICs, utilizing some new-found flexibility in CASs and accelerating preparation timeframes. The level of adoption of this recommendation is **high**, but this should not be considered the end of the implementation of this recommendation: the Bank should continue to develop new ways to stay agile as the needs of its clients and its operating environment continue to evolve.

18.4 Make the most of Bank Group cooperation. The evaluation called for a more pragmatic approach to cooperation across the Bank Group—focusing on those few areas in a given country where cooperation might have a substantial impact on development and tracing through activities to outcomes. Management asserts that Bank Group cooperation has been strengthened. It notes that most CASs in IBRD countries are prepared jointly with IFC, but the FY2010 CAS Retrospective found that "while the majority of Bank CASs is prepared jointly with IFC, there are few good practice examples of Group-wide collaboration at the strategy level" (although these few examples were in MICs). Management indicates that joint Bank/IFC guidance is being been widely disseminated based upon lessons from a pilot exercise for IDA countries, but it remains true that no comparable agenda has been developed for operations in middle-income countries and it is unclear whether experiences in IDA countries can be extended to MICs. With limited evidence of a concerted effort at understanding where and when Bank Group cooperation is working, but some examples of good practice, the level of adoption of this recommendation is rated **medium**.

IFC
MANAGEMENT ACTION RECORD 2011

19. IFC IN PAKISTAN

LIST OF RECOMMENDATIONS

19.1 Pursue a more diversified portfolio • IFC should pursue a more diversified portfolio in terms of sectors and subsectors, to help broaden IFC's reach, to help manage both business cycle risks and portfolio concentration risks, and to help grow investment operations. Furthermore, IFC should try to increase the use of quasi-equity instruments in the context of possible low domestic interest rates continuing and limiting the spreads and profitability of its senior loans.

STATUS OF IMPLEMENTATION

Recommendations	Level of Adoption		Status Rating	
	Mgmt	IEG	Mgmt	IEG
19.1 Pursue a more diversified portfolio	High	High	Active (To be made inactive)	Active (To be made inactive)

MANAGEMENT RESPONSE 2011

Management Response:

We appreciate this recommendation. IFC has recently initiated an investment and TAAS program that will, among others, result in a more diversified portfolio. IFC is carrying out a comprehensive mapping and business development exercise across the sectors of the economy and a number of investment opportunities are under review. The private sector is a major source of investment in the country's health and education sectors and IFC expects to invest in these sectors in the near future. With the recent liberalization and opening of the country's telecommunication sector, IFC is in the process of providing investment support to companies in the sector. Following the country's economic revival, there is a growing demand for private equity attributable to privatization (energy, industry/services), new projects (telecom, power, infrastructure, manufacturing), restructuring of existing projects, and trade sale activity (multinationals repositioning by selling non-core assets, generational changes in private companies and local groups repositioning). IFC is expected to invest in a private equity fund to help address this gap which should have a significant demonstration effect in the country's equity sector. In addition to that, IFC is pursuing select quasi-equity investments as appropriate opportunities come up.

Management Comment 2011:

In 2009/10, IFC continued working on diversifying its portfolio in Pakistan, in spite of serious security and political risks. In 2009, Pakistan was faced with serious macroeconomic challenges resulting from global financial crises, increase in fuel and food prices and the Country had to go to IMF for a bail out. Also, the Country faced acute power and energy deficit, which in turn adversely impacted the manufacturing and agribusinesses. Another issue faced by IFC in Pakistan is its inability to provide local currency financing to companies with revenue base in local currency. The Central bank so far has not agreed to this.

Our FY 09/10 strategy focused on playing a counter cyclical role by supporting our existing clients, removing constraints in energy sector and providing access to finance to MSMEs through GTFP and direct investments.

Our portfolio diversification took place within the sectors. For example in 2004, 100% of CIN portfolio comprised investments in thermal power generation mainly based on fuel oil. By 2010, only 28% of our CIN portfolio was in thermal power generation (that too in gas fired projects and not fuel oil based), whereas the remaining 82% was in transport and logistics power distribution sectors. Going forward, further diversification in the power sector in taking place by replacing fuel oil based generation with renewable based generation and increased footprint in the transport and logistics.

Similarly, in 2004 our financial markets focus was on supporting the financial infrastructure of the Country, whereas by 2009/10 it had shifted to providing A2F to MSMEs in manufacturing and agri sectors through trade finance and direct interventions through equity positions/sub debt in banks supporting MSMEs.

The Advisory arm of IFC continued to complement the investment work in the financial markets and other areas.

Our business development efforts in the health and education sectors had yielded two mandates, which are currently in process.

We now have short term instruments available and are working to use these through financial intermediaries to diversify our portfolio in the real sectors especially manufacturing, health and education and agribusiness.

Compared to other countries in the MENA region, in 2010 Pakistan's committed portfolio was one of the most diversified with 38% in infrastructure, 15% in oil, gas, mining and petrochemicals, 15% in general manufacturing and 32% in financial markets.

IEG RESPONSE 2011

Investments. In FY09-FY10, investment commitments were more diversified than FY04, comprising development finance (59%), pulp & paper (11%), chemicals (12%), hydro renewable energy generation (8%), port operations (7%), and natural gas distribution (1%). In contrast, investments in FY04 comprised general banking (56%), technical services (39%), and private equity funds (5%). In early FY11, $30m in quasi-loans have been committed, comprising 6% of total net commitments. In contrast, there were no quasi-loans in FY04. IFC's trade finance amounted to $638m comprised 80% of net commitments in FY09-10, and has been was made available since FY06 to help clients overcome liquidity constraints in view of the continued political and security risks in Pakistan.

Advisory Services. There were 7 advisory services in FY09-10, and are diversified in number per business line: access to finance (2), sustainable business advisory (3), and investment climate (2). In terms of total funding managed by IFC, the advisory focus is clearly on SBA (64%), followed by IC (23%), and A2F (13%). By sub-sector, the SBA and A2F advisories are focused on MSMEs and the manufacturing sectors.

20. IEDR 2007

LIST OF RECOMMENDATIONS

20.1 Develop a deeper, more differentiated Country Approach

- As IFC decentralizes, it has the opportunity to adopt more tailored country strategies to complement its strong sector and regional approach. This strategy might include, in consultation with the Bank and country governments, the development and pursuit of a set of country-specific private sector development indicators (such as for the level of private, gross, fixed capital formation; banking sector capacity; and private provision of infrastructure).

20.2 Place an emphasis on Rural Development

- In its country strategies, IFC may consider flagging opportunities to work on the nexus of rural poverty and sustainable natural resources, on which poor people depend, and to identify and develop high-impact agribusiness and rural microfinance projects with widespread demonstration effects, while simultaneously providing leadership in promoting socially and environmentally sustainable practices.

20.3 Pursue new initiatives and mechanisms to enhance cooperation with the World Bank in areas of synergy

- To enhance cooperation with the World Bank in areas of synergy, IFC could (i) consider new incentives and mechanisms to complement the CAS process (with the Bank); and (ii) identify investments at approval that were facilitated by Bank policy or regulatory assistance, and track them throughout the project cycle (through DOTS or other means) in order to judge their success.

20.4 Manage the trade-offs inherent in the decentralization process to achieve the highest possible work quality

- IFC will need to monitor the decentralization process closely to ensure that its work quality remains robust, and support this with a rigorous training program for new investment staff.

20.5 Ensure sound risk-management system and develop risk-mitigation products

- IFC will need to make continued efforts to improve its risk-management systems and to prepare for the next correction in the international markets, including perhaps the extended use and development of new risk-mitigation products.

STATUS OF IMPLEMENTATION

Recommendations	Level of Adoption		Status Rating	
	Mgmt	IEG	Mgmt	IEG
20.1 Develop a deeper, more differentiated Country Approach	High	High	Inactive (already implemented)	Active (rated)
20.2 Place an emphasis on Rural Development	Not Applicable (already implemented)	Substantial	Active (to be made inactive)	Active (to be made inactive)
20.3 Pursue new initiatives and mechanisms to enhance cooperation with the World Bank in areas of synergy	High	High	Active (to be made inactive)	Active (to be made inactive)
20.4 Manage the trade-offs inherent in the decentralization process to achieve the highest possible work quality	High	Substantial	Active (to be made inactive)	Active

Recommendations	Level of Adoption		Status Rating	
	Mgmt	IEG	Mgmt	IEG
20.5 Ensure sound risk-management system and develop risk-mitigation products	High	High	Active (to be made inactive)	Active (to be made inactive)

MANAGEMENT RESPONSE 2011

Management Response:

20.1 Management agrees with the recommendation to develop a more differentiated country approach. Current IFC strategic processes already involve developing country level strategies that feed into Country Assistance Strategies (CASs) and into IFC's regional strategies that form part of IFC's Strategic Directions Paper. Because of the commonality of certain characteristics, regional departments are also able to group countries with similar needs and issues for the purpose of developing a coordinated approach. For example, in Sub-Saharan Africa, countries are grouped in four categories: (i) post-conflict (such as the Democratic Republic of Congo and Liberia); (ii) natural resource rich (such as Nigeria and Tanzania); (iii) middle income (such as South Africa and Mauritius); and (iv) others (such as Mali and Niger). Similar approaches are used in other regions. Building on this base of activity, IFC is seeking to strengthen its country focus. As discussed in IFC Strategic Directions, FY08-10: Creating Opportunity (chapter 2), IFC is working to develop greater systemic approaches to its activities, which will be done at the country or sector level. In addition, increased IFC staff country presence through its phased decentralization should also facilitate a more country-focused strategic approach. With respect to the suggestion to develop macro private sector development targets, we need to study this more carefully to determine what is feasible and meaningful, considering the difficulty in attributing country-wide macro indicators to IFC operations. IFC could also benefit from IEG-IFC findings on which private sector development target indicators have worked in other institutions. In the meantime, IFC is working on advancing its metrics on outcomes and impacts that can clearly be attributed to IFC's projects, advisory activities, and systemic approaches. These metrics could serve as IFC targets, but they will have to be tried on perhaps one or two countries on a pilot basis. There may be some issues with respect to the burden on clients for certain types of reporting. Therefore, IFC will need to assess the feasibility of this approach. In addition, IFC has on-going work with the World Bank in providing broad indicators that countries may use to track private sector development. The joint World Bank/IFC annual Doing Business report is one example which has been increasingly used by many countries in setting targets in their reform agenda for improving investment climates. Another joint World Bank/IFC initiative in indicator setting is the on-going development of the "Private Sector at a Glance" tables. These one-page per country tables cover almost 60 key private sector indicators encompassing: (i) economic and social context (such as inflation rate and size of labor force); (ii) investment climate (such as ease of doing business ranking and number of procedures to start a business); (iii) private sector investment (such as private participation in infrastructure and net private FDI); (iv) regulation and taxes (such as time dealing with government officials and corporate tax rate); (v) finance and banking (such as total financial system deposit and bank branches per one hundred thousand people); and (vi) infrastructure (such as paved roads and electric power outages).

20.2 In the FY08–10 Strategic Directions paper, IFC incorporated agribusiness into the five strategic priorities. Over the past five years, IFC's commitments in the agribusiness sector have grown significantly and development outcomes have also improved. IFC is now intending to further increase its involvement in this sector by, for example, developing wholesale financing solutions using financial intermediaries, processors, and traders.IFC is also doing some rural microfinance. However, beyond agribusiness and a few rural microfinance projects, further study is needed to understand how to be effective in rural areas, given that the results so far appear to be mixed. Management would welcome IEG-IFC's input on lessons learned from successful models of private sector rural finance to inform this recommendation. With respect to the suggestion of providing leadership to promote socially and environmentally sustainable practices, IFC addresses this through its sustainability pillar. Following Board approval and formal launch of the performance standards in 2006, IFC's focus has been on sound implementation of the performance standards. To maintain its environmental and social sustainability leadership, IFC will continue to provide support for the further adoption and implementation of the Equator Principles. In addition, IFC is committed to scaling up its activities in renewable energy and energy efficiency sectors.

20.3 Management agrees with the recommendation of enhancing cooperation with the Bank. Leveraging the strengths of the whole World Bank Group will become more important as IFC aims to increase its development impact and increase its systemic interventions. In past years, IFC has taken several steps in this direction, from increased focus by IFC Senior Management (including inviting senior World Bank staff to IFC's strategy discussions), to including World Bank Group cooperation as part of the performance appraisal for managers in Sub-Saharan Africa, to a World Bank Group review of advisory services to assess synergies. In addition, the World Bank and IFC have a joint Vice Presidency Unit (VPU) for Financial and Private Sector Development; the Vice President of this VPU is also IFC's Chief Economist. There are also joint departments in a number of core sectors: oil, gas, mining, information and communication technology, and subnationals.Going forward, IFC envisages increasing cooperation with the World Bank as the Corporation adopts systemic and programmatic approaches to scaling up activities. Typically, a systemic approach to a sector would start with upstream advisory work on the business-enabling environment and/or privatization, often building on efforts of the World Bank and the government. IFC can then participate in the financing of associated projects, as appropriate. In addition, IFC and World Bank cooperation will be enhanced by the implementation of IFC's phased decentralization program. This should provide more opportunities for increased World Bank-IFC staff contacts in the field. With respect to the recommendation to identify and track performance of investments with World Bank/IFC cooperation, IFC will consider this along with the other work it is doing on metrics, such as DOTS, systemic metrics, and advisory metrics. An important issue to consider is the extent to which the performance of projects can be partly attributed to good World Bank Group cooperation.

20.4 Management agrees with the recommendation of ensuring that work quality remains high as IFC implements its phased decentralization. IFC is taking a number of steps to help ensure sustained work quality. More experienced/senior industry staff will be located in regional operations centers to mentor and provide leadership to more junior investment staff. Credit officer(s) will similarly be stationed in operations centers and will be involved in field-based investment decisions. Field presence of environment and social specialists will be increased to further mainstream sustainability into IFC's investment work, mitigate environmental and social risks, and ensure sustainability in clients' operations. In addition, as discussed below, IFC is undertaking several steps to enhance its risk management function in connection with the decentralization. Finally, the decentralization is being undertaken in a phased approach, first in Asia, and then in other regions over three years. This approach allows IFC to learn from experience and revise implementation processes, as needed, based on these experiences. IFC is also developing a knowledge management initiative to maintain global expertise as decentralization deepens. This would include department-level training at entry (on-boarding) and structured activities for sharing knowledge. This initiative would complement the current IFC induction program and credit courses, which have proven to be effective.

20.5 Management agrees with this recommendation. IFC has in the past responded well to such crises by supporting its portfolio projects and undertaking countercyclical investments such as trade financing, as well as debt and equity funding. IFC's FY08-10 Strategic Directions paper acknowledges that current conditions in markets where it operates could change should there be financial crises. IFC's growth strategy takes into consideration the need to maintain financial capacity to accommodate the impact of possible financial crises. IFC stands ready to play a countercyclical role, with instruments such as trade lines and other support, including advisory services, to select clients.IFC is undertaking several steps to improve overall risk management and thereby better prepare IFC for the next crises. As part of the decentralization initiative, the risk-management function will be transformed to facilitate improved client service and efficiency, while retaining appropriate checks and balances on decentralized decision making. Steps in this direction include: (i) the ongoing Business Process Review to streamline and strengthen operational procedures; (ii) shifting credit review and, eventually, most aspects of risk management decision-making to the field; (iii) enhanced corporate tools for risk management, including improved risk-rating systems; (iv) integration of development-impact metrics with financial risk-return metrics; (v) enhanced reporting of all metrics; and (vi) strengthening of information technology (IT) for more efficient and effective document processing and management.

Management Comment 2011:

20.1 IFC rated the Level of Implementation of this recommendation in CY2010 as "High" with a Status of "Active (to be made inactive) largely because IFC has taken the action to implement this recommendation, i.e., lessons from the enhanced joint CAS pilots have been endorsed by IFC management for mainstreaming, In FY2010, both Bank (through OPCS Vice Presidency) and IFC adopted a new approach to joint CASs based on lessons learned from the CAS pilots, Furthermore, as indicated in the Management Response, IFC's current strategic processes already involve developing country level strategies that feed into Country Assistance Strategies (CASs) and into IFC's regional and sub regional strategies that form part of IFC's Corporate strategies (Road Map). In addition, IFC regional departments regularly prepare strategy presentations on select countries for internal discussion with members of senior management.

20.2 In last year's update of the implementation status of this recommendation, IFC demonstrated (and IEG concurred) its growth over the years in investment commitments and advisory services in agribusiness, rural MSMEs through FIs and renewable energy/energy efficiency in agribusiness. Going forward, IFC's overarching poverty reduction theme and continued focus agribusiness/food security and access to finance should further enhance rural development. For example, on a global scale, IFC will address food security in the context of the World Development Report 2008 and the WBG Agriculture Action Plan FY10-12, and implementation will focus on, among others, food security – with the aim to raise agricultural productivity growth. In addition, the WBG's/G20's Global Agriculture and Food Security Program (GAFSP) private sector window that IFC is developing is intended to help reach large numbers of farmers with a combination of seed or first loss money, debt, equity and grants for innovation, and advisory services. On a regional scale, IFC's new agribusiness strategic thrust in Africa, for example, focuses on increasing rural incomes, improving food security, and diversifying exports through inclusiveness, wholesaling, processing, and large-scale agriculture.

20.3 WBG cooperation remains essential in achieving WBG corporate goals. IFC continues to build on its close cooperation in the areas of strategy, policies and systems, and projects. At the corporate strategy level, IFC's focus areas and current initiatives support the WBG's strategic priorities as defined in the WBG Post Crisis Directions paper. At the sector and thematic levels, IFC is an integral part of the WBG's strategy in, among others, climate change, knowledge management, investment climate, palm oil, water, and food security. At the country level, IFC and the WB are implementing enhancements to the Country Assistance Strategy process in accordance with the recommendations of the IDA-IFC Secretariat. In policies and systems, IFC is actively engaged with the World Bank in a number of areas, including the ongoing compensation review and development of WBG integrated communication platform as part of the WBG Information Management and Technology (IMT) strategy. Further, the World Bank (WB) and IFC business continuity management teams continue to work closely together to develop and coordinate effective responses to business disruptive events globally and to jointly develop management tools and systems that meet the requirements of each organization. The IDA-IFC Secretariat was mainstreamed in December, 2010 with a number of accomplishments and recommendations poised to increase WBG collaboration through existing WB and IFC structures. The WB and IFC staff continue to stay engaged in sector, thematic, region, and country issues through regular consultations.

On knowledge management, IFC and the Bank continue to learn from each other and explore common approaches to knowledge retention and expertise via membership on several of each others' committees and practice groups. The Bank's and IFC's decision in 2010 to acquire licenses for the technology underlying iCollaborate (a platform that supports knowledge-sharing, innovation and virtual team work) paved the way for the Bank Group to work together on a common collaboration platform – a historic first.

On AS coordination, IFC has an internal policy mandating consultation with WB whenever the client is government. In addition, IFC's Investment Climate and Access to Finance Business lines are under the oversight of a joint WBG VP, further reinforcing coordination.

20.4 IFC continues to build on the progress in ensuring continued focus on work quality while implementing IFC 2013. Reassignments of key directors, managers for investment and portfolio, and investment/portfolio staff, were completed in the Fall of 2010 with minimal interruptions in operations. These were complemented by the simultaneous reallocation of investment projects and realignment of IT and budget support. Client relationship management was enhanced with relationship manager assignments completed for more than 1,900 clients/partners (two-thirds of IFC's total) to date. These steps all contribute to bringing IFC supervision closer to the clients for improved client responsiveness and enhanced overall supervision.

On knowledge management, the recently established Knowledge Strategy Committee (comprised of VPs and Directors) is overseeing a strategic agenda for KM synergies across regions, investment departments and Advisory Services business lines in order to leverage organizational changes. A Global Knowledge Office has also been created and is responsible for executing the knowledge strategy and work program, via a multi-pronged approach: (i) benchmarking existing knowledge in key business networks; (ii) using social media technology to collaborate; (iii) monitoring department-level KM programs through systemic metrics; (iv) incentivizing KM work via Knowledge-related performance objectives; (v) professionalizing the Knowledge Officer career stream; (vi) building capacity through a KM practice group; and, (vii) providing communication and outreach regarding KM best practices throughout the organization.

20.5 In line with IFC's decentralization strategy (as reconfirmed in the IFC 2013), there is an increased shift of risk review functions to key field offices and a mapping of DC-based risk specialists to regions. In recent years, IFC increased risk management staffing and placed credit risk and special operations officers and other risk oversight disciplines in the Hong Kong, Istanbul and Johannesburg regional hubs in order to improve the timeliness and quality of the risk decision process. At the same time, risk standards and controls will continue to be centrally managed. Risk governance has been enhanced by the establishment of Regional Operations Committees (ROC) and a Regional Risk Director role, to align with the 2013 reorganization, and by the creation of a Development Impact Department (CDI). Business processes and IT framework have been realigned in accordance with 2013 institutional structure.

IEG RESPONSE 2011

20.1 As assessed in 2010, IEG considers implementation to be at an early stage.

20.2 ***Investments.*** In FY09-10, at least 53 new investments amounting to $1.35b (9% of total net commitments) were committed in agribusiness, renewable energy, and rural development projects. Of $1.35b, $0.96b (71%) was committed in agribusiness, $0.345b (26%) in renewable energy, and $0.52b (4%) in rural development. By number of projects, the focus was on agribusiness (38), followed by renewable energy (12), and rural development (3). By sub-sector, the 53 projects are widely spread across the value chain: agriculture (10), food (11), transport & warehousing (8), fertilizers (3), retail distribution (2), renewable hydro (5), renewable wind (2), renewable bio-mass (2), renewable solar (2), renewable electric power through FI (1), rural finance (1), rural funds (1), and electric power to rural areas (1). Source: MIS Extract File as of end-June 2010.

Advisory Services. In FY09-10, at least 64 new advisory projects with donor funding amounting to $62.3m (17% of total funding) had clear agribusiness (34, $28m), renewable energy (12, $22.4m), and rural finance & development components (18, $11.9m). Agribusiness projects included food safety and agri-financing. In Africa, at least 10 projects with a total of $7.4m donor funding were undertaken, comprised of agribusiness (4, $3.2m), renewable energy (1, $1.4m), and rural finance & development (5, $2.9m). Source: Advisory Services Database as of end-June 2010.

Summary Lessons Learned on Rural Finance: *These were culled from financial market XPSRs evaluated by IEGPE*

- ***Vietnam:*** In transition economies, neither under-estimate the speed at which competitors can establish themselves, nor the extent of the competitive pressures which could arise from below market pricing policies, particularly where the State dominates a large portion of the financial sector and price signals do not work adequately.

- *India:* **An integrated approach to micro-finance including fee based advisory services can be a sustainable business model with higher development impact.** An integrated approach to micro-finance including fee-based advisory services, rather than just micro-credit, can be a sustainable business model while at the same time having a higher development impact. This approach, however, can be fairly resource intensive, including higher staff quality, leading to higher operating costs and a slower asset growth.
- *India:* **A commercial approach to microfinance is possible with the right combination of sponsor, governance, management and operational policy.** The success of Basix underscores the viability of a commercial approach to micro-finance. Professional management, good corporate governance standards, committed sponsors & management, best practice operating policies and strong risk management systems are key ingredients for a successful commercial micro-finance operation.
- *India:* **Economies of scale cannot necessarily be realized if a microfinance company's customers are spread over a large geographical area.** Operating costs for micro-finance institutions may be less sensitive to the scale of operations especially if the target market comprises rural customers over large geographical areas. Given the high transaction costs of such microfinance operations, quick scaling up of activities will not provide the expected efficiency gains. Estimation of operating costs for microfinance institutions should be conservative given their potentially significant impact on the overall profitability.
- *Serbia & Montenegro:* **Robust credit analysis expertise, strong commitment, and first-mover advantage are critical factors for a bank to successfully grow its business in a high risk sector.** Robust credit analysis expertise and strong commitment are critically important factors for a bank to successfully grow its business even in the high risk sector.

20.3 IEG agrees that management has taken many steps to identify and enhance synergies with the World Bank as well as with MIGA.

20.4 IEG recognizes management's progress with regard to the implementation of systems such as knowledge management and the placement of credit of credit officers in field offices. However, feedback from staff has been mixed. IFC's senior management team correctly responded by establishing an IFC 2013 Task Force to systematically solicit feedback and hear the concerns of IFC staff. As of March 24, 2011, management has not laid out a clear as to how the ongoing implementation of the IFC 2013 plan will be affected or modified to accommodate staff suggestions and concerns.

20.5 IEG agrees with Management's assessment.

21. MSME-FI - 2007

LIST OF RECOMMENDATIONS

21.1 Encourage development of specific and prudential regulatory regimes for microfinance intermediaries in developing countries

- IFC needs to take a more proactive approach in encouraging other development partners who have substantial engagements with the developing country governments, to promote the establishment of specific and prudential regulatory regimes, and associated government supervisory capacity, for microfinance intermediaries in developing — particularly frontier — countries, in order to create conditions that will facilitate the transition of MFIs out of donor dependency, especially through their development of a savings deposit base and achievement of economies of scale by expanding their client base and the establishment of branch offices.

21.2 Enlarge the scope of technical assistance to MSME-FIs

- IFC could enlarge the scope of its technical assistance to MSME-FIs beyond the present focus of improving lending techniques and loan portfolio risk management, to also help selected MSME-FIs who have achieved good risk management practices to: (i) better meet the need for savings and other banking services (for example, remittances) by poor households and small businesses; (ii) implement best practice liquidity management procedures; and (iii) in the case of MFIs, help expand their client base to also reach small-size enterprises.

21.3 Give a high priority to improving ESHS supervision and ESHS compliance for MSME-FI projects

- IFC give a high priority to improving the environmental, safety, health and social (ESHS) supervision, as well as the ESHS compliance rate, of MSME-FI projects. In particular, IEG recommends that IFC set a goal to be achieved within a defined period of time, to improve its satisfactory ESHS supervision rate, and the ESHS compliance rate, of MSME-FI projects.

STATUS OF IMPLEMENTATION

Recommendations	Level of Adoption		Status Rating	
	Mgmt	IEG	Mgmt	IEG
21.1 Encourage development of specific and prudential regulatory regimes for microfinance intermediaries in developing countries	High	High	Active (to be made inactive)	Active (to be made inactive)
21.2 Enlarge the scope of technical assistance to MSME-FIs	High	High	Active (to be made inactive)	Active (to be made inactive)
21.3 Give a high priority to improving ESHS supervision and ESHS compliance for MSME-FI projects	High	High	Active (to be made inactive)	Active (to be made inactive)

MANAGEMENT RESPONSE 2011

Management Response:

21.1 Management agrees with IEG's assessment on the importance of the appropriate regulatory framework for microfinance institutions. IFC, mostly through its Donor Funded Facilities (e.g., PEP MENA, MPDF, PEP China, PEP in Central Asia) has been selectively involved in a high-level dialogue with governments, often in collaboration with the Consultative Group to Assist the Poor (CGAP), to help develop a favorable regulatory environment for microfinance. IFC's microfinance strategy stresses, however, that the Corporation should selectively engage in these types of advisory assignments and only with the objective of helping to remove binding constraints that hinder access to finance in target markets. Overall, this is a role that CGAP is best positioned to fulfill in view of its mission and staffing profile. Regarding the second part of the recommendation that MFIs need to develop a savings deposit base and to achieve economies of scale by expanding the client base and branch offices, we believe that microfinance institutions have an important role to play in providing payment and savings services to the poor. It is an important aspect of expanding access to finance, beyond microcredit. Nonetheless, this should also be done selectively, given that not all markets have clear prudential frameworks for MFIs' deposit-taking function and, even in markets that have the necessary frameworks, not all MFIs are suitable institutions to raise funding through deposits, in particular from their client base, which tends to be of lower income. Because deposits can represent lifetime savings for some clients, it is important to distinguish those financial institutions that have the risk management capabilities, governance structure, and capital base to raise deposits and act in a fiduciary responsibility, from those that have insufficient institutional capabilities.

21.2 Management agrees that IFC's technical assistance should be made available for a wide range of challenges faced by MSME-FIs. However, IFC should not be routinely prescribing strategic changes to our client institutions. Whether additional banking services should be offered to poor households and small businesses is a business judgment best left to the management and board of each FI. Should IFC face demand from its client institutions to help them develop new banking products, or to better manage their liquidity, then it would be appropriate for IFC to consider providing technical assistance responding to that specific need.

21.3 IFC Management gives a high priority to improving the ESHS standards of all projects, including those through MSME-FIs, and this was the rationale behind the comprehensive policy changes brought about with the new IFC Sustainability Policy Framework, which has been in implementation since May 2006. Among other features, IFC Sustainability Policy Framework includes a sophisticated risk-based appraisal and supervision of FIs. This risk-based approach allows IFC to be more cost effective by allocating more resources in high-risk projects than in low-risk projects, instead of taking a one-size-fits-all approach. The risk-based approach entails an analysis of the FI's portfolio and is carried out during appraisal, to establish the risk level of the FI. The portfolio analysis and the performance of the FI's Environmental Management System are captured in an Environmental and Social Risk Rating (ESRR) measure that is established at appraisal and will be tracked by IFC during project supervision. .Under the 2006 framework, IFC actively engages with the client FI upfront, during the investment appraisal stage, and an ESHS plan is established and included in the covenants of the investment agreement between the client FI and IFC. This new approach is a significant improvement over the 1998 policy in which the client was required to establish an Environmental Management System after attending training conducted by IFC. IFC's ability to conduct training for clients in all regions/countries was limited due to staffing and geographical constraints. IFC now makes available one-on-one guidance to high-risk clients, while moving the standardized training to an e-learning platform for greater efficiency. Furthermore, the team strength of ESHS specialists working on FI projects has doubled since 2006, and there is a formal supervision plan which entails 100-percent annual supervision of high-risk FIs as well as poorly performing ones. With the above measures already operational, we expect to see a substantial improvement in the ESHS performance of FIs going forward. This view is consistent with IEG's independent finding in the report, which indicates that the new IFC ESHS Safeguard Policies and Performance Standards, IFC's ESHS mainstreaming initiative, and the creation of an ESHS specialist team dedicated to financial markets operations are expected to improve ESHS supervision of financial intermediary projects.

Management Comment 2011:

21.1 On the policy-level, IFC continues to cooperate closely with the World Bank and CGAP in providing the appropriate financial infrastructure to support sustainable, inclusive and responsible microfinance. This cooperation has been amplified through the selection of IFC and CGAP, in November 2010, as key implementing partners of the G20 Global Partnership for Financial Inclusion. In addition to its own work in tackling enabling environment barriers to sustainable microfinance (such as support for the establishment of credit bureaus and collateral registries), in partnership with IDB and EIB, IFC has commissioned two annual benchmarking surveys of the microfinance business environment: *Global Microscope on the Microfinance Business Environment.* Regarding savings, IFC is actively supporting the microfinance sector in a number of ways, including rolling out an advisory program to support mobile banking. Meanwhile, a risk management toolkit tailored to MFIs has been developed to assist MFIs with financial and credit risks, thereby helping to stabilize and strengthen financial institutions so that they become profitable deposit taking institutions.

21.2 Overall, IFC advisory support to MSME-FIs has been increasing. Total project spend of IFC advisory services in the MSME-FI space (delivered by the Access to Finance business line) were $41 million in F10, compared to $30 million in FY07. By FY14, the equivalent expenditures are expected to be in the region of $68 million.

Within this increased business, IFC has expanded its product offerings in a number of important directions:

- In the non-credit space, rolling out a program of support to retail payment institutions, which are supported by complementary macro level work of the WB A2F team to improve remittance systems.
- In risk management, helping clients address liquidity management, internal control, and capital risks through advice on best practices. And also introducing a risk management toolkit—covering liquidity risk management, among others--for MFI CEOs and risk managers.
- Supporting microfinance networks, as opposed to single institutions, so as to increase financial inclusion reach, but also to create the conditions for MFIs to move into the SME space.
- Introducing a new, weather based micro-insurance product (Global Index Insurance Facility)
- Increased its support for housing finance.

21.3 Starting FY08, IFC (through CES) has managed E&S support and prioritized supervision for FI projects through development of an annual workplan and supervision strategy. Supervision scores have improved substantially with numbers for FY08 at 170% of plan (actual: 51, plan: 30) and for FY09 at 152% of plan (actual: 125, plan 82). As a result, the knowledge gap, the percentage of non-reporting projects in the portfolio, has been reduced dramatically for FI projects. The knowledge gap went from 18.3% in FY08 to 6.8% over FY09 to 5% in FY10. It is presently at 2% with efforts underway to continue to reduce this over FY11. IFC's decision to support capacity development initiatives for FI clients resulted in the development of the Sustainability Training & E-Learning Program (STEP) for FI clients. This web-based, capacity development initiative was released in May 2009 and is designed to help FIs better understand E&S risk management and sustainability-related business opportunities. To date, 505 participants have enrolled, 275 of which are clients. Other capacity development initiatives include the CES and CGF sponsored study on "The Factors Affecting the Environmental, Social, Health & Safety Performance of Financial Intermediaries in 6 Sub-Saharan Countries," conducted by Triodos Facet. The study is being finalized and the recommendations will be developed into a wider capacity building program for FIs in CAF. Finally, Financial Institutions Resources Solutions and Tools FIRST[26] for Sustainability, the IFC-supported web site for clients, is in the final stages of development. Once launched in May 2011, FIRST will become a global one-stop resource for FIs on E&S risk management. The dissemination and implementation of FIRST will be achieved through the establishment of a global partnership network of regional capacity building partners that will be developed by the end of FY14. CESI has doubled the team supporting FI projects from FY08 to date. The team is also highly leveraged through the use of short-term consultants who also support investment operations

IEG RESPONSE 2011

21.1 During the period, IFC has continued to support financial inclusion and regulatory environment for microfinance intermediaries both at policy and micro level. As indicated in the management comments, IFC increased its role in these areas through two new partnerships with other development partners (i.e., EIB, IDB and G20). These partnerships intend to help countries put into practice the principles for financial inclusion and provide a basis for benchmarking the business conditions for microfinance industry, including regulatory framework and capacity.

In FY10, IFC supported microfinance institutions with 28 new advisory services projects. These services mainly sought to expand access to finance to underserved and rural populations, improve operational effi-

[26] Financial Institutions Resources Solutions and Tools

ciency and competitiveness of microfinance institutions as well as help those institutions introduce new products or diversify their products.

Microfinance industry in many developing countries still lacks established regulatory regimes. Moreover, recently, microfinance industry is under scrutiny by development community because of the regulatory issues of the industry and ambiguous impact on poor. Therefore given that IFC has made progress towards reaching this recommendation, IEG archives this specific recommendation but suggests further engagement beyond the scope of the original recommendations.

21.2

- MSME-FI projects is the largest services in both value and numbers in access to finance portfolio. At the end of FY10, around 60 percent, (148 out of 248 projects and $94 million of $158 million) of the projects in the portfolio were direct support to SME banking and microfinance institutions. Even though, support for MSMEs dominates access to finance portfolio, the impact of them on poverty is not clear. Going forward IFC needs to balance between sector wide approaches that deepen financial markets and direct approaches to MSMEs.

- IFC has increased its scope of MSME-FIs products, particularly knowledge products. For example Benchmarking Best Practices In SME Banking, Housing microfinance toolkit, Global Microscope (Microfinance business environment), WB-IFC remittance price database are some of the MSME-FI related products.

- Access to Finance business line has committed to achieve by 2013 greater financial inclusion by providing more diversified financial services and by deepening. In addition, two of the IFC development goals target MSMEs; “increase access to financial services for MSME clients” and “help MSMEs to increase their revenues”. These suggest IFC’s continued commitment to outreach to MSME clients with an increase scope of assistance.

21.3 Since 2006, CES staff for FI sector has increased from two to seven E&S specialists and eight consultants, which is reflected in improved supervision work quality for FI projects that is now statistically at the same level (success rate 72% between 2008-2010) as in real sector projects (77%). IFC has established a number of standard requirements for FI sector projects; in the 2010 XPSR sample four quarters demonstrated good performance in meeting host country laws and exclusion list, but only half of applicable FIs complied with IFC’s requirement for subprojects to meet EHS guidelines, and SEMS implementation is still a problem area. Thus capacity building is necessary to improve Environmental and Social Effects success rate in FI projects that was on average about 64% between 2008 and 2010. However, IFC should not rely only on web-based solutions; hands-on training by CES specialists during site visits to FIs and their subprojects, and regional or country-wide training and capacity building are also needed (see also IEG comment 20011-STD036REC02).

22. PEP-ECA 2007

LIST OF RECOMMENDATIONS

22.1 Improve the quality of M&E indicators, data collection methods, and cost accounting.

- Improving the quality of M&E indicators, data collection methods, and cost accounting. Project-specific M&E targets should be tailored to country situations and conditions as part of project preparation, verified as part of the project approval system, and monitored during project implementation. More rigorous survey techniques and data collection methods should be developed to establish baselines and enable comparisons across time and across countries where possible. The proper utilization of the indicators and techniques should be closely monitored to derive lessons and ensure data quality. A more comprehensive expenditure accounting and tracking mechanism should be introduced, which would not only enhance M&E, but provide a useful project management tool for benchmarking costs of different activities and developing Advisory Services pricing and client contribution strategies. This would also provide data for analysis of benefits and efficiency of the programs and their components.

22.2 Account for the full cost of Advisory Services interventions

- Accounting for the full cost of designing, implementing, and supervising the Advisory Services intervention, including IFC's overhead and administration costs. This will derive the entire cost of the Advisory Services intervention and enable more thorough assessment of the effectiveness of the Advisory Services intervention, and adequate comparison among various projects and programs.

STATUS OF IMPLEMENTATION

Recommendations	Level of Adoption		Status Rating	
	Mgmt	IEG	Mgmt	IEG
22.1 Improve the quality of M&E indicators, data collection methods, and cost accounting.	Medium	Medium	Active (rated)	Active
22.2 Account for the full cost of Advisory Services interventions.	Substantial	Substantial	Active (rated)	Active

MANAGEMENT RESPONSE 2011

Management Response:

22.1 IFC has made major advances in M&E since the review period. IFC has identified and implemented sets of standard performance indicators of output, outcome, and impact for each product under its five business lines and is developing incentives for the use of these indicators. IFC has undertaken 20 experimental trials to understand the impact of selected projects better, and the findings are being fed back to advisory staff. IFC is also undertaking project reviews, conducted using external experts, to improve program design and implementation where 11 such reviews have been completed. Furthermore, IFC is currently developing a tailored approach to advisory cost-benefit analysis as a means of better linking M&E to project cost accounting.

22.2 21.2 IFC already has a major program under way to upgrade its advisory project budgeting further. This program, once complete, will see IFC apply a standardized approach to all of IFC's advisory project budgeting. This approach will also ensure that every IFC advisory budget accounts for all program elements, including the costs of design, implementation, and supervision.

Management Comment 2011:

22.1

- IFC has developed the standard performance indicators of output, outcome, and impact for each product under each business line.

- IFC is piloting a set of Development Goals (IDG) which will guide IFC to reach a double bottom line of financial sustainability and development impact.
- IFC is developing an evaluation framework aimed at identifying evaluation priorities; integrating the impact assessment in the project life cycle and feeding the evaluation results into the decision making process.
- IFC is developing a new financial management system (AS FM System) for IFC's Advisory Services aimed at better tracking the project cost for each component. This AS FM System will help the project managers carry out the cost-benefit and cost-efficiency analysis.

22.2 In FY11, IFC AS streamlined its cost allocation methodology and reduced the 9 standard AS activities to 3 common categories of Project Expenses, Program Management & Support and General & Administrative Expenses. A detailed methodology on allocating staff time and other direct expenses was developed and training was rolled out to AS staff in all units and regions. A methodology on allocating overheads will be implemented in FY12. Once completed, these two improvements will allow a full understanding of project costs on a consistent basis.

IEG RESPONSE 2011

22.1 On the first recommendation STD032REC04, indeed major improvements have been made in terms of developing and rolling out standard core indicators (SCI) for output, outcome and impact for each product. However, there are problems that still need to be addressed with the SCI:

a. these SCI are often blindly adopted by teams because they are largely required and as such they are not always appropriate in terms of relevance to the individual project objectives and frequently other, non SCI, are needed to actually assess a project's achievement but which are not included. The outcome of this situation is that sometimes projects are claiming credit for SCI results which cannot be attributed to the project (because they did not undertake activities aimed at influencing such SCI) and the SCIs cannot help shed light on what the project actually set out to achieve. In such cases a more customized approach in terms of indicator selection.

b. definitions of these indicators are still unclear in some areas and even problematic in some instances because they are interpreted and measured inconsistently across staff and teams. More detailed definitions and examples of usage are still needed.

c. data collection, baseline and reporting is still problematic. Presumably the new idesk system for AS to be rolled out will offer a chance to correct a lot of these issues, but the proof will be in the pudding.

22.2 The new system to be launched sounds promising. However IEG cannot validate the improvement until the system is fully rolled out and the quality of such information in PCRs is demonstrated and validated via IEG reviews.

23. INDONESIA 2007

LIST OF RECOMMENDATIONS

23.1 Help enlarge the role of the private sector in infrastructure development
- IFC can help enlarge the role of the private sector in infrastructure development by advocating more transparent contracting practices, and by partnering with the WB and other MDBs to pursue contracting process reforms to make these transparent and politically sustainable

23.2 Help develop a long-term local currency debt market
- IFC can focus on helping Indonesia develop a long-term local currency debt market; but to do so, needs to work with the WB and other development partners to encourage further reforms in the bond market and the life insurance and pension systems

23.3 Diversify agribusiness project operations
- IFC can scale-up and diversify its agribusiness project operations and continue to focus on stronger linkages with SMEs, farmers and rural communities, while insuring sustainable ESHS practices

23.4 Scale up support for SMEs
- IFC can scale up its support to SMEs in underserved regions of the country through regional SME-oriented commercial banks

23.5 Improve ESHS supervision
- IFC can improve the ESHS compliance rate of the Indonesian portfolio with better ESHS supervision

STATUS OF IMPLEMENTATION

Recommendations	Level of Adoption		Status Rating	
	Mgmt	IEG	Mgmt	IEG
23.1 Help enlarge the role of the private sector in infrastructure development	High	Substantial	Active (to be made inactive)	Active
23.2 Help develop a long-term local currency debt market	Medium	Medium	Active	Active
23.3 Diversify agribusiness project operations	High	Substantial	Active (to be made inactive)	Active
23.4 Scale up support for SMEs	High	High	Active (to be made inactive)	Active (to be made inactive)
23.5 Improve ESHS supervision	High	Substantial	Active (to be made inactive)	Active (to be made inactive)

Management Response:

23.1 IFC agrees that competition and transparency is central to achieving the type of efficient infrastructure services that Indonesia's development needs, and that this is particularly important during the contracting process. IFC is committed to supporting infrastructure development and was one of the major sponsors and organizers in an "Infrastructure Summit" held in Jakarta in November, 2006, attended by top government officials and representatives of the private sector. Among the outcomes was proposal by the Government of Indonesia to have IFC prepare and structure the first 10 infrastructure projects in cooperation with the country's Project Planning Department (KKPPI). IFC has been working with the World Bank and the Government in identifying model transactions to be prepared for examination, and the quality of the procurement process is a key issue for joint review with the Government.IFC believes that the reforms are most likely to be adopted broadly when the benefits are demonstrated through actual projects. IFC is in the final stages of agreeing on a major advisory services mandate to bring infrastructure best practice to the bidding for a large power project. IFC is also working on other advisory roles in the power sector and is cooperating with the World Bank and the Government of Indonesia to establish a specialized financial institution, currently called the Indonesian Infrastructure Financing Facility (IIFF). Those activities and transactions will seek to demonstrate the gains from transparent and competitive contracting processes.

23.2 In the financial sector, IFC has been supporting the consolidation and strengthening of the banking sector, and strengthening the capacity of rural banks and microfinance institutions. IFC has disbursed nearly $150 million in long-term Rupiah loans, most of which will be used for local credit to SMEs. With respect to the local currency bond market, the World Bank, the Indonesian Ministry of Finance, and the Capital Market Supervisory Authority (BAPEPAM) have held a series of conferences and a policy dialogue on non-bank financial markets, including Rupiah bonds in 2007. The dialogue has revealed a number of policy and capacity issues for which IFC can play a role in filling the gaps. These include tax policy, the lack of an active secondary market, the lack of liquid repurchase and derivative markets, and a need to strengthen mechanisms for registration, trading and settlement, Addressing these issues will help build the confidence of institutional investors in the local currency bond market, thereby increasing its liquidity particularly for corporate issuers. IFC will consider how it can effectively play a role in building these markets through demonstration transactions as well as advisory support.

23.3 Management agrees and is strongly supporting linkages between SMEs and lead firms in key domestic commodity based sectors, focusing on supply chains in agriculture, fisheries and forestry. IFC will expand its focus on value chain approaches in all IDA countries in East Asia starting with Vietnam, but extending to Indonesia and Cambodia, as the benefits both in terms of development impact and investment are clear. In that context, IFC will make sure that those projects will pursue environmentally sustainable practices.In Indonesia, the linkages advisory work has led to increased sales in markets for several agricultural products. As an example, IFC has supported a cluster of 20 SMEs to increase sales of acacia furniture based on sustainable harvested wood. IFC will seek to scale up this work in other agribusiness supply chains. To ensure focus, the Country Manager is now responsible for both investments and advisory services.

23.4 IFC has a focus on this area. Management considers rural banking crucial, and it will ensure that greater attention is given to SME development in "non-Java" regions of the country. Management has started in Java as there are financial intermediaries that can be utilized. Efforts are being undertaken to reduce or eliminate policy impediments to effective rural banking, including restrictions on support from foreign parties and limitations on the number of branches per province. Similar to the commercial banking sector, IFC is working on efforts to consolidate the many small and weak institutions into more effective ones that can make the technology and human capital investments needed to effectively serve SMEs sector in the regions. Only in the event that the Government improves these policies (on which IFC is providing help) will IFC be in a position to scale up SME operations in outlying areas. Until then, IFC's involvement will be limited.

23.5 In Indonesia, a number of investments went into jeopardy during and post crisis, and legal action had to be sought against sponsors. This has contributed to the lower than average EHS compliance rates. Management agrees that improvements in supervision can be gained and it has been implementing an increased supervision program for the past 18 months. Management is increasing the number of projects physically visited and has been steadily increasing the knowledge of the portfolio. The on-going decentralization is expected to further strengthen client contacts and help collect, monitor and improve EHS in the client companies.

Management Comment 2011:

23.1

1.IFC has been providing advisory services for structuring and implementing the Central Java IPP Project transaction since May 2008. Prequalification of applicants was completed in November 2009 resulting in seven qualified bidders. Consultations with bidders on the PPA, the RFP and the guarantee structure took place. The PPA is complete and final draft is ready for issuance, subject to coordination with the Guarantee Agreement. The Presidential regulation on guarantees (delaying the earlier target bid date of August 2010) was issued on Dec 29, 2010. Consequently, the bid submission date has been extended to end of March 2011, financial close in June 2012, commercial operations of both units in Dec 2016 (one unit in June 2016). 2. IFC is discussing with government counterparts a mandate to advise on the structuring and tendering of a number of geothermal sites. 3. Together with the Government of Indonesia, the World Bank, ADB and DEG, IFC invested in IIF in 2009 to launch this new NBFI to provide long term capital and advice for infrastructure development.

23.2 IFC has been leading discussions with the Government to allow supranationals to issue long term local bonds to broaden and deepen the bond market. In so doing, IFC is working with Government agencies to address specific technical constraints. IFC is leading a combined approach with IBRD and ADB. The response from the Government had been delayed at the Tax Authorities. However, repeated enquiries and meetings have led to progress and now the Ministry of Finance is finalizing its position regarding an approval.

23.3 There are 6 investment projects, involved in the grains and milling sector, fruits and vegetables, and other food sectors. IFC investment services committed portfolio in agribusiness amounts to US$ 95.65 million. In addition, there are 3 advisory projects: ALFI (2 commodities: peanuts, cocoa) which aims to link smallholder farmers to lead firm supply chains to increase farmers and lead firms' revenue and improve environmental and social sustainability; ECOM which focuses on establishing a Farmer Training Center (FTC) and building the capacity of farmers on sustainable coffee practices; and Agribusiness Investment Climate, aiming to promote increased investment by firms and smallholders in sustainable agribusiness by identifying and removing key impediments in the enabling environment for sustainable cocoa.

23.4 There are projects with 8 MSME-oriented financial institutions in frontier regions. Investment projects result as of September 2010: Bank Internasional Indonesia's SME portfolio amounted to US$ 1.34 billion; Bank Danamon's microfinance portfolio amounted to US$ 4.9 billion, with a year on year growth of 41%; Bank Danamon's SME portfolio amounted to US$ 2.06 billion, with a year on year growth of 26%; WOM Finance's portfolio amounted to US$ 540 million, with the number of loans disbursed in 2010 estimated at 489,000; OTO Finance's portfolio amounted to US$ 1.13 billion, with the number of loans disbursed in 2010 estimated at 933,000; BTPN's microfinance portfolio as amounted to US$ 470 million; Advisory Services project results: Sahabat Bank's number of outstanding loans: 125,937 valued at US$ 52,544,900; Investment & advisory project results: Bank Andara's number of outstanding loans to Microfinance Financial Institutions: 192, valued at US$ 16,796,400; Hana Bank's portfolio as of Sep 2010 amounted to US$140 million.

23.5 Environmental supervision has been enhanced. IFC performed 59 ESRRs from FY2006 to FY-2010 for the 22 active Indonesian investment projects. Projects that present a sufficient level of portfolio risk are visited, at a minimum of one supervision visit per year.

IEG RESPONSE 2011

23.1 IFC has been very active expanding its infrastructure presence in Indonesia through advisory and investments. It successfully implemented in partnership with WB and other MDB's, a specialized financial institution to support infrastructure and has been working with the government to implement a BOO power project. However, progress remains to be monitored as no projects have been approved under the facility and the Java transaction has not been finalized yet.

23.2 While efforts have been done to develop a long-term local currency debt market, results are yet to be seen in these areas.

23.3 ***Investments.*** In FY09-10, there were no new investment commitments in Indonesia's agribusiness sector. However, there are active projects in the agribusiness portfolio totaling $240m, particularly in crop production ($1.30m), forestry ($0.92), and food & beverages ($238.7m). Source: Committed Balances, MIS Cubes.

Advisory Services. In FY09-10, out of 12 advisory projects undertaken in Indonesia with a total donor funding of $11.41m, there were 5 projects in the agribusiness sector with a total donor funding of $6.66m (58% of total donor funding), composed of sustainable business (2, $2.18m), access to finance (1, $0.10m), ESS (1, $3.76m), and investment climate (1, $0.62m) advisory. Source: Advisory Services Database as of end-June 2010.

23.4 ***Investments.*** In FY09-10, there were 6 new operations in the financial markets sector for $212m focused on servicing MSMEs in frontier regions, of which 1 (Andara) would be through a financial intermediary. As of FY10, there are active projects in IFC's Indonesia financial markets portfolio that provide microfinance ($5m), and banking services to MSMEs ($72.5m).

Advisory Services. In FY09-10, there was one A2F advisory undertaken with a total donor funding of $1.14m to increase access to financing for rural & MSME clients in frontier regions.

23.5 In Indonesia, the Environmental and Social Effects success rate of 11 projects evaluated 2005-2009 was 88%, much above the 33% success rate of six projects evaluated between 2001 and 2003 and above IFC's long-time average 67% across all regions. Thus projects' Environmental and Social Effects in Indonesia have improved significantly during the past years. However, in three projects out of 11 evaluated 2005-2009, there was not sufficient information for Environmental and Social Effects rating and thus they were rated No Opinion Possible (NOP).

24. IEDR 2008

LIST OF RECOMMENDATIONS

24.1 Measuring Advisory Services Performance

- IFC should continue, with input from IEG, to strengthen the steps it is taking to improve the data on the performance of advisory services operations, including efforts to improve understanding among staff about results measurement, quality assurance by managers, as well as performance monitoring beyond project close.

24.2 Additionality in Lagging Regions, Sectors, and Client Groups

- IFC should carry out further analysis of additionality in lagging regions, sectors, and client groups, in order to identify what specific steps are required to enhance performance.

STATUS OF IMPLEMENTATION

Recommendations	Level of Adoption		Status Rating	
	Mgmt	IEG	Mgmt	IEG
24.1 Measuring Advisory Services Performance	Substantial	Substantial	Active (rated)	Active (rated)
24.2 Additionality in Lagging Regions, Sectors, and Client Groups	High	High	Active (to be made inactive)	Active (to be made inactive)

MANAGEMENT RESPONSE 2011

Management Response:

24.1 Management agrees with the recommendation to strengthen measures to improve the data on performance of advisory services operations, in consultation with IEG-IFC. IFC is currently taking a number of steps to improve the quality of data in the project supervision and completion reports, through further streamlining of core indicators by product line, promoting baseline data collection, increasing oversight by evaluation staff, and increasing training and knowledge sharing. Together with IEG-IFC, the IFC results measurement team is organizing a two-day course on monitoring and evaluation of private sector advisory programs at the International Program for Development Evaluation Training in June 2008. As part of knowledge sharing, two annual conferences are organized each year, in which lessons learned from evaluations and evaluation methodologies are shared among the broader World Bank Group, donors, academics, and other multilateral development banks. Partnerships in evaluation have been established with leading experts from institutions such as the MIT Poverty Action Lab, and with foundations such as the German Marshall Fund. Forums on results measurement are being held for donors and multilaterals as well as for foundations in May 2008. Competencies for monitoring and evaluation staff are being developed to strengthen the cadre.IFC will continue to consult with IEG-IFC on developing guidance for identifying, at approval, projects that would require post-completion monitoring so that appropriate frameworks and plans can be established at the outset. IFC would welcome IEG-IFC's efforts to institute a mechanism to provide feedback to staff on Project Completion Report (PCR) ratings as soon as possible, as is being done in the case of the Expanded Project Supervision Report (XPSR) system on the investment side. (PCRs and XPSRs are IFC's project-level self-evaluation reports for advisory services and investment operations respectively).

24.2 We note the report's conclusion that its review of IFC's additionality raises a number of questions. In this regard, we support the suggestion to do further evaluation of IFC's delivery of additionality with a view to identifying areas where IFC's additionality can be enhanced. This review should consider both analyses of areas where IFC has been strong and areas where IFC has been lagging.

Management Comment 2011:

24.1

- To strengthened IFC focus on measuring and evaluating development results, a new department - Development Impact Department (CDI) was created in Sept 2010. The new department consolidates two teams currently dedicated to results measurement for the Investment Services and Advisory Services, aligning their measurement and evaluation systems.
- Quality review of project Approval, and Supervision and Completion reports is regularly conducted by CDI. The results are shared with AS management and staff via quarterly operations reports. These results also constitute an important part of biannual portfolio reviews.
- PCR review meeting has been introduced by to ensure and improve the project quality completion report.
- Agreement with IEG has been reached regarding projects that should be excluded from a DE rating.
- A working group is set up in developing the post completion monitoring framework and guidelines.
- All existing practices and guidelines regarding the AS operations governance are in the process of formalization.
- CDI is developing a corporate guideline on data aggregation.

24.2 DOTS 2, launched in October 2009 includes a mechanism for tracking IFC's additionality. Data on expected additionality for all active projects committed from FY08 to the present. As these projects mature, additionality achievement ratings will be determined from each active project. IFC will therefore be able to better analyze and articulate the value it adds, and faster feedback to management will better inform strategy, operations, and incentives.

IEG RESPONSE 2011

24.1 IEG recognizes that much has been done to improve M&E system shortcomings, but that implementation has yet to show fruits of efforts**.**

24.2 DOTS 2 now captures additionality at the beginning and also tracking during the project cycle. Not yet reporting in Annual Report / PPAR.

25. GUARANTEES 2008

LIST OF RECOMMENDATIONS

25.1 Revisit its approach to risk-sharing facilities (RSFs) to increase flexibility and improve the attractiveness of the product.

- The rigid approach to structuring RSFs has limited IFC's ability to fully exploit the benefits of partnering with local and international financial institutions. This rigidity and high transaction costs have discouraged utilization of the instrument. More flexible structures should be considered to make the product more attractive to partner financial institutions. IFC has accumulated the data and the experience to give it the comfort needed to simplify processes and to give flexibility to partners to use their strengths while at the same times strengthening those processes intended for risk management and social and environmental safeguards.

25.2 Scale-up successful models in energy efficiency, education, and capital market development based on the use of guarantee structures.

- IFC has developed models based on guarantee structures in the areas of energy efficiency, SME financing, education, and capital market development. Limited replication has taken place so far. IFC needs to assess its experience with these products, simplify, standardize, and bring them closer to market practices to enhance prospects for scaling up in line with its programmatic approach.

STATUS OF IMPLEMENTATION

Recommendations	Level of Adoption		Status Rating	
	Mgmt	IEG	Mgmt	IEG
25.1 Revisit its approach to risk-sharing facilities (RSFs) to increase flexibility and improve the attractiveness of the product.	High	Substantial	Active (to be made inactive)	Active (to be made inactive)
25.2 Scale-up successful models in energy efficiency, education, and capital market development based on the use of guarantee structures.	High	Substantial	Active (to be made inactive)	Active (to be made inactive)

MANAGEMENT RESPONSE 2011

Management Response:

25.1 Agreed with respect to simplifying the process - IFCs position with respect to first loss in RSFs is not about willingness to take risk but about the appropriateness of the project structure. Whether an off- balance sheets securitization or an on –balance sheet RSF, the approach risk is the same. However there are some broader issues with respect to the implementation and replication of RSFs in a timely and efficient manner that management is addressing. As management develops more of these structures, it is becoming more efficient with respect to processing and documentation, and management is now working to simplify and standardize these structures to the degree possible.

25.2 Agreed on scaling up in these sectors, not agrees on limiting scope to guarantee products - IFC is pursuing programmatic approaches as a way to increase the development impact and additionality of operations by extending IFC activities beyond the individual project into a program of projects and advice. A key approach to this is through wholesaling, where IFC is combining its financial sector and industry expertise to enable the wholesaling if IFC financial products for specific industries through local banks. The education sector is one of the key areas where this is being done. In energy efficiency, IFC has been a leader in the development of financing programs through financial intermediaries designed to deliver environmental benefits, including clean energy. Management expects to scale up in this area .A number of capital market products that include guarantees are being explored that would address such needs as access to housing finance and agribusiness and which will be facilitated using short- term finance, local currency financing, and risk - sharing products.

Management Comment 2011:

25.1 Simplification and standardization achieved as follows:

A. Models:

- IFC's Structured Finance Dept (CSP) completed the development, validation by the Integrated Risk Dept, and deployment of the (1) Generic RSF Model used for extensive risk analysis specifically for Investment Review Meetings and (2) simplified loss allocation model for external client proposals.

- IT infrastructure for the deployment was launched in April 2010 (see this link-->http://ifchq14.ifc.org/ifcint/treasury.nsf/Content/SF_CSPAnalyticTool) where we are able to have model version control and monitor usage.

- CSP also produced and launched 7 e-Learning Modules for the RSF product and made them available in Learning Management System as part of its knowledge-sharing and mainstreaming efforts. To date, there have been 115 registrants, 86 of whom completed all modules. The learning modules have been effective in expanding the understanding of RSFs, as 70% of the 86 individuals completing all of the modules to date are based in country offices.

B. Due Diligence:

- CSP created 11 Generic Questionnaires and client data analysis guidelines. The CSP analytics team also developed generic SAS tools for organizing and calibrating data for use in the simplified model. These tools have been placed on a website for easy access by investment staff throughout IFC. In addition, a Vintage Tool Analysis (an Excel add-on) and user guide were also developed to make the Statistical Analysis Software (SAS) interface more user-friendly.

C. Credit Policy:

- IFC-internal approach for rating and pricing RSFs agreement has been reached based on the on the quantitative RSF models described above.
- IDA-IFC also have reached agreement on standard operating procedures to facilitate scaling up of RSF utilizing the IDA funds at Board requests

25.2

- In FY10, IFC's commitment using RSFs in energy efficiency and education sector doubled to $64mn compared to FY09 which amounted to $31mn.
- In FY11 YTD, IFC commitment amounted to $212mn under the Global Trade Liquidity Program (GTLP) II program—a trade-product utilizing the RSF framework—with additional mobilization of $429mn from third party.
- RSFs application expanded to include the telecom/distributor finance sector, for commodity hedging assets, and for surety bond assets with both individual companies and re-insurers
- For capital markets:
    - IFC credit enhanced Titulizadora Peruana's (TP)—a Peruvian securitization company—its first residential mortgage backed securities (RMBS) issue and the first after the crisis
    - IFC completed its first remittance-backed securitization transaction in El Salvador
    - IFC invested in a diversified payment rights (DPR) securitization by Akbank, an existing IFC client in Turkey. IFC investment allowed client to successfully relaunch its existing DPR securitization program after the financial crisis.

IEG RESPONSE 2011

25.1 The actions taken are in the spirit of the recommendation and the issue it seeks to address. They are also consistent with the agreed indicators. The actions seem to strike the right balance between careful managing of risks and simplification of procedures.

25.2 The actions taken are in the spirit of the recommendation and are appropriate given the issues they seek to address. They are consistent with the agreed indicators.

26. ESHS 2008

LIST OF RECOMMENDATIONS

26.1 IFC should continue to develop systems with its Community Learning initiative.

- IFC should continue to develop systems with its Community Learning initiative to improve accountability and transparency among Equator Principles signatories. It should also encourage and support environmental consultants and develop and institutionalize market-driven training to help them master IFC's Policy and Performance Standards on Social and Environmental Sustainability. IFC should focus its Advisory Services and capacity building efforts on regions and sectors with low environmental performance, especially on Sub-Saharan Africa and the textile, food and beverage, tourism, and agriculture sectors. IFC should continue supporting market transformation towards sustainability with its Advisory Services and direct and financial intermediary investments, emphasizing technology transfer and development in clean production, energy efficiency, and sustainable supply chain management.

26.2 Better coordination between IFC and the World Bank on policy dialogue.

- IFC and the Bank should better coordinate policy dialogue with governments to enhance structural reforms aimed at public private partnerships in water, wastewater, and waste management, reuse, and recycling sectors, and ensure that industry views in these and other environmentally relevant and sensitive sectors are present in the national and sectoral policy dialogues.

26.3 Reporting and monitoring of performance criteria in IFC projects.

- Reporting and monitoring of performance criteria in IFC projects should include specific emissions and mass flows in addition to the present system that monitors pollutant concentrations. These indicators should be determined before and assessed afterward for all relevant projects to track their impacts on such matters as the abatement of effluent discharges and dust and greenhouse gas emissions. For environmentally sensitive IFC agriculture and forestry projects, especially in areas of high biodiversity, carefully designed baseline studies should be done to identify indirect, induced, and cumulative (as well as direct) environmental and social impacts. Adequate plans to mitigate any negative effects should be designed, implemented, and carefully monitored. Sustainability of supply chains with certification schemes and third-party monitoring should also be enhanced.

STATUS OF IMPLEMENTATION

Recommendations	Level of Adoption		Status Rating	
	Mgmt	IEG	Mgmt	IEG
26.1 IFC should continue to develop systems with its Community Learning initiative.	High	High	Active (to be made inactive)	Active (to be made inactive)
26.2 Better coordination between IFC and the World Bank on policy dialogue.	High	High	Active (to be made inactive)	Active (to be made inactive)
26.3 Reporting and monitoring of performance criteria in IFC projects.	Substantial	Substantial	Active (to be made inactive)	Active

MANAGEMENT RESPONSE 2011

Management Response:

26.1 No Comments

26.2 The recommendation would have been more solidly grounded and of greater clarity if it were substantiated with the findings drawn from a systematic evaluation of IFC World Bank coordination. Regardless of this shortcoming, increased World Bank Group collaboration is strategic IFC goal, and IFC departments have laid specific plans to enhance Bank Group synergy. However, it is important to recognize that the Bank works on a country demand -driven basis, and such collaboration is dependent on specific country demand.

26.3 No comments

Management Comment 2011:

26.1 Quality assurance, outreach and knowledge product development are core elements of IFC's approach to social and environmental sustainability, all of which contribute to further strengthening the dissemination and adoption of the Performance Standards as a global public good. IFC has consulted with EPFIs Executive Committee throughout the process of review and update of the Performance Standards. The final report from the scoping study titled 'Factors Affecting the Environmental and Social Performance of Financial Institutions in Sub-Saharan Africa' identified the need for a market-wide capacity building program and put forth recommendations for a program tailored to the reality and needs of African FIs.

26.2 IFC has actively engaged in the development of the World Bank Group Environment Strategy and Energy Sector Strategy. IFC has contributed to 11 joint analytical papers that underpinned the Environment Strategy and contributed with integration of the private sector feedback from consultations events. The WBG Energy and Environment strategy were presented to the SDN Council in January 2011.

26.3 IFC is actively involved in the new WBG Environment Strategy and is leading several technical papers under the Pollution Management Thematic Group. The Quality Assurance unit is coordinating efforts with Development Impact Department to track Environmental and Social Performance (E&S) against 25 performance E&S performance indicators that are included in Development Outcome Tracking System 2 (DOTS 2).

IEG RESPONSE 2011

26.1 The agenda of Community Learning meeting on July 2010 focused mainly on Performance Standards update. However, Equator Principle Financial Institutions (EPFIs) have launched a Strategic Review late 2010 to address e.g. transparency in the EPs by requesting annual reports on EPFIs. However, as for IFC's projects with high E&S risks, IEG recommends a jointly agreed third party verification process for EPFIs. For example, a certified body or consultant would evaluate once in five years performance of EPFIs in regard to compliance with EPs (process, organization, SEMS, EP adherence) and select a random sample of subprojects for compliance analysis. The report summary would be disclosed at EP web page.

IEG welcomes the study 'Factors Affecting the Environmental and Social Performance of Financial Institutions in Sub-Saharan Africa', which aligns with IEG earlier studies on importance to build client capacity in countries with weak E&S regulatory regime and with clients who lack awareness on E&S issues. IFC should develop tools, guidance and best practices for E&S risk management for the financial sector in the region, using AS for local consultants and TA providers that are interested to assist FIs, and identify key local FIs who will participate in and support this work.

26.2 The World Bank Group Environment Strategy is expected to be completed mid 2011 and IEG will review after completion how WB-IFC coordination in policy dialogue with governments has been addressed in the Strategy.

26.3 IFC's E&S supervision relies heavily on client reporting, supported by E&S specialists site visits. IFC's key supervision tool is the Annual Monitoring Report (AMR) for real sector projects and Annual Environmental Performance Report (AEPR) for Financial Intermediary (FI) projects. The present AMR system does not provide IFC with consistent, reliable information on clients' performance. AMRs should be further developed in light of IEG's earlier recommendations and increasing portfolio of corporate loans and equity investments, where IFC proceeds are often used for multiple project sites instead for earlier clearly ring-fenced project finance. The present design and client's reporting with AMRs has not responded to these challenges. IFC should overhaul the AMR system focusing on a limited number of key indicators that can be easily benchmarked against industry best practices, IFC's and local requirements. The reports should summarize the overall corporate performance in projects with multiple facilities, using trend figures that would cover the project timeline. IEG is aware of the AMR update process and would like to continue dialogue with IFC management on updates.

27. NIGERIA 2008

LIST OF RECOMMENDATIONS

27.1 Infrastructure and non-oil growth

- IFC needs to diversify areas of intervention in Nigeria to: (i) help address development challenges related to poor infrastructure (in particular power and roads) and excessive dependence on the oil sector; (ii) contribute to trickle-down effects of oil-driven growth; and (iii) expand viable private sector activities beyond the present narrow confines of operations in terms of sectors. This would involve: (i) more strategic and effective deployment of advisory services, particularly in infrastructure and related areas; and (ii) close cooperation with the World Bank to help improve the business environment.

27.2 Country Strategy

- IFC needs to improve the process of developing country assistance strategies for key countries such as Nigeria by: (i) strengthening the country focus of IFC's strategy process including enhanced coordination with the World Bank; (ii) formulating country objectives in terms of expected development impacts; and (iii) linking objectives with the allocation of organizational resources.

STATUS OF IMPLEMENTATION

Recommendations	Level of Adoption		Status Rating	
	Mgmt	IEG	Mgmt	IEG
27.1 Infrastructure and non-oil growth	Medium	Negligible	Active (rated)	Active
27.2 Country Strategy	High	High	Active (to be made inactive)	Active (to be made inactive)

MANAGEMENT RESPONSE 2011

Management Response:

27.1 Agrees with the thrust of the recommendation - IFC is actively engaged in seeking effective means of engaging in the real sectors and expect a greater progress in the future as reforms continue to take hold. IFC agrees to focus thier efforts on infrastructure on the power sector and key services sectors. IFC has deployed its advisory services in a more strategic manner with the advent of PEP - Africa from 2005.

27.2 Agrees with the Recommendation - IFC has initiated a new country strategy process in Nigeria, piloting the structured strategy formulation framework that IFC uses at the corporate and regional/ sectoral department level in the country level. This process is expected to complete in the second quarter of FY09, and will then assess whether this provides, the best framework for the country strategy formulation. It is expected that this process would feed into the broader World Bank Group (and DfID) joint CPS. There is an ongoing dialogue with the Bank at the corporate level on how to make the private sector development focus and IFC role in joint Country Assistance Strategy (CAS)/CPS more effective, which we also expect the Nigeria experience to inform.

Management Comment 2011:

27.1 IFC began making progress on this objective, increasing real sector shares in FY 10, both in terms of volumes and projects:

Commitments $	2009	2010	2011 YTD
Nigeria all	547	689.4	638.5
Real Sectors	80	119.3	64
Real Sectors Share	14.6%	17.3%	10.0%

Commitments #	2009	2010	2011 YTD
Nigeria all	11	12	12
Nigeria FM	3	4.5	1.5
Real Sectors Share	27.3%	37.5%	12.5%

2011 YTD at 2/28/2011; full year results will show additional real sector projects.

However, beginning in FY 10 IFC purposely departed from this strategy and refocused on the financial sector to assist the country's emergence from a banking crisis. This resulted in less progress than planned, and will result in a decline in real sector shares in FY 11 in particular. Beginning FY 12, we will resume making progress, having completed the crisis response strategy.

27.2 IFC reformulated the Nigeria Country Strategy during FY 10-11 to respond to the banking crisis. This was done in explicit consultations and agreement with the WB, which also initiated additional financing to assist with the crisis response. The new strategy incorporates explicit development impact targets for financial and infrastructure sectors.

IFC reformulated the Nigeria Country Strategy during FY 10-11 to respond to the banking crisis. This was done in explicit consultations and agreement with the WB, which also initiated additional financing to assist with the crisis response. The new strategy incorporates explicit development impact targets for financial and infrastructure sectors.

Beyond Nigeria, IFC and the WB launched a new approach for developing joint WB/IFC CASs in FY11. This new approach builds on lessons learned from the six FY09-10 CASs that served as pilots for enhancing CASs. It includes a more focused and in depth strategy formulation on two to four priority sectors, participation in results matrix, and continued WB-IFC engagement beyond the CAS process. IFC's participation in the results matrix is consistent with the IEG recommendation of formulating country objectives in terms of development outcomes.

In addition, IFC's Road Map Paper includes brief summaries of strategies in key countries and country clusters. These summaries are based on recent CASs and on in-depth country and sub-regional ground up and top down internal strategy discussions in IFC.

IEG RESPONSE 2011

27.1 IFC's progress towards meeting the objective remains marginal and the modest trend seems to be even reverting in FY11. However, given the impending financial crisis and the size of the financial markets portfolio in Nigeria, it was appropriate for IFC to make determined efforts to protect its investment portfolio, particularly knowing the adverse effects that past crises had on IFC's portfolio. On the other hand, a crisis can present good opportunities for impact through new investments. So while the re-focused strategy has been adequate, a continue effort to a more diversified portfolio would have been appropriate as well. While the Mgmt response indicates that IFC has deployed AS in a more strategic manner with PEP-Africa, except for a few initiatives in Health, not much has been done to diversify the portfolio.

27.2 It has been positive to use country strategic thinking to reformulate the Nigeria Country Strategy, to have a new approach to Joint/IFC CASs in FY11 and to have included strategies of key countries such as Indonesia and Brazil in the IFC's Road paper. However, more time is needed to assess if changes with regards to country strategy focus and enhanced coordination are sustained and effective in the longer term.

28. BROE 2008

LIST OF RECOMMENDATIONS

28.1 Enhancing measurement of impact and additionality at the country level.

- IFC should consider developing more robust and consistent metrics for monitoring and assessing its additionality and development impact at the sector and country levels as IFC transitions to a more programmatic approach to interventions. To start, IFC may wish to focus on sectors and countries in which it has taken a programmatic approach, and there has been a critical mass of IFC activities.

28.2 Achieving better coverage of IFC's portfolio in reporting on results.

- IFC should aim to expand the coverage of IFC's portfolio in reporting on results. It should improve the portfolio coverage of reach indicators and report the development results of its entire mature portfolio.

STATUS OF IMPLEMENTATION

Recommendations	Level of Adoption			
	Mgmt	IEG	Mgmt	IEG
28.1 Enhancing measurement of impact and additionality at the country level.	Not Applicable (Already Implemented)	Medium	Inactive (already implemented)	Active (rated)
28.2 Achieving better coverage of IFC's portfolio in reporting on results.	Substantial	Substantial	Active (rated)	Active (rated)

MANAGEMENT RESPONSE 2011

Management Response:

28.1 IFC has made significant efforts to ensure that additionality considerations are an integral part of its business development and implementation activities. The underlying analytical framework for additionality was presented to IFC's board of Directors in November 2007. IFC had issued a additionality primer to help staff develop, assess, and communicate IFC's role and additionality systematically. IFC has also launched additionality training for staff as part of the more extensive credit training course. For tracking the additionality systematically, the enhanced version of DOTS (DOTS II) will be introduced later in the year. For assessing additionality at the macro level, IFC is following IEG- IFC's own methods for conducting sector and country - level evaluations, which are still evolving. Management does not agree that where IFC has sufficient critical mass, it makes sense to try assessing IFC's developing results at the country level. IFC is working through the IDS- IFC Secretariat on measuring results and to enhance the articulation of the role and expectations of IFC's activities in CAS, starting with a few pilots in Key IDA countries. It plans to work closely with IEG to enhance its contribute in the CAS Completion review process.

28.2 DOTS cover all the active companies in IFC's investment portfolio (over 1200), and internal reporting to IFC management covers all active companies. In the Annual Report, IFC focuses on the 6 - yeat time slice of operations, similar to IEG's approach for its Independent Evaluation of Development Results.The Annual Reports clearly articulates what is covered and why. Since DOTS covers projects untill closure, IFC will eventually report on both the active and closed projects, but in its current early stage, coverage of closed projects is too limited to be meaningful.IFC is committed to further increase the coverage of our portfolio with reach indictors, particularly in Sub Saharan Africa.The introduction of (DOTS-II) is expected to enhance the technological platform to enable staff and management to report, track and analyze reach information real time.

Management Comment 2011:

28.1 IFC rated the Level of Implementation of this recommendation in CY2010 as "High" with a Status of "Active (to be made inactive) given action IFC took to implement the recommendation, i.e. launch of DOTS2 which tracks IFC additionality in addition to development impact. To date, backfilling of additionality in DOTS2 for projects dating back to FY08 has been completed and inputting of additionality for FY11 projects is in progress.

28.2 With the implementation of DOTS 2, IFC reported at least 80% coverage for 10 out of 13 mandatory reach indicators for its active portfolio. All mandatory MSME reach indicators achieved at least 80% coverage.

The coverage ratios of the rest of the mandatory reach indicators were nevertheless very close to 80%. IFC is well on its way to achieve 80% coverage for all mandatory indicators (with some exclusion).

IEG RESPONSE 2011

28.1 **See IEG's 2010 comments above.** DOTS 2 has been introduced, however it will take some time for IFC to backfill information going back to FY08 and aggregate meaningful data.

28.2 Progress made in DOTS 2 for wider coverage. Continue to improve coverage.

29. IEDR 2009

LIST OF RECOMMENDATIONS

29.1 Improve execution of the Advisory Services (AS) pricing policy.

- Over the longer term, it would be important to seek client contributions that reflect value and impact, i.e. not just cost, to create a true test of client demand, incentives for better AS delivery, and ensure IFC is being additional.

29.2 Strengthen Advisory Services (AS) performance measurement and internal knowledge management.

- In the short term, it would be important to have more hands–on M&E support in the field, post–project completion follow up, capturing of lessons from dropped or terminated projects, and more arms– length facility, product and project reviews. In the medium term, it would pay to introduce an XPCR system (akin to the XPSR system for investment operations, and carried out later than the PCR to better capture impacts), more programmatic impact evaluation and impact research, setting results–based targets for AS in its corporate scorecard, and regular benchmarking of IFC AS activities and systems with other providers of knowledge services, including other multilateral development banks and commercial providers. In the longer term, the aim could be to establish a specialized research unit focusing on generating and bringing together private sector development knowledge work.

STATUS OF IMPLEMENTATION

Recommendations	Level of Adoption		Status Rating	
	Mgmt	IEG	Mgmt	IEG
29.1 Improve execution of the Advisory Services (AS) pricing policy.	Substantial	Medium	Active (rated)	Active
29.2 Strengthen Advisory Services (AS) performance measurement and internal knowledge management.	Medium	Medium	Active (rated)	Active (rated)

MANAGEMENT RESPONSE 2011

Management Response:

29.1 Management agrees that our pricing policy is an important tool to strengthen the impact of our AS interventions, but differs with IEG on parts of their analysis and recommendations. IFC has been charging clients for some of its advisory products for many years. Since 2007 this policy was broadened to embrace the full range of our advisory services. The policy was intended to strengthen the clients' commitment to implementing the advice. Moreover, since our AS is focused on addressing market failures, pricing approaches based on the value or impact of our AS will often not be relevant pr practicable. IFC intends to keep the operation of our AS pricing policy under regular review, and will continue to refine the implementation of the policy based on experience.

29.2 IFC agrees on the importance of effective performance management and internal knowledge management, and is committed to improving its performance in both areas. IFC introduced its M&E system for advisory in 2005. The M&E function in IFC is decentralized, with every region staffed with one or more M &E officers. Going forward. Management would be very supportive of the development of an XPSR instrument. Management has recently launched a major KM initiative for IFC as a whole. In addition, the joint World Bank. IFC Vice Presidency for Finance and Private Sector Development engages in a substantial research with internal and external partners. Against this background, management does not believe that a specialized IFC unit focusing on private sector development knowledge work is necessary over and above the current initiatives.

Management Comment 2011:

29.1 IFC AS continues to elaborate and refine its pricing and client contribution policy including drafting more specific procedures and guidelines for both operational and finance staff. Early in FY11, additional guidance was issued to staff for (i) Clarification of nature, form and valuation of client contributions; (ii) Requirements for recognition of in-kind and indirect contributions; and (iii) Use of legal agreements. A training program for all AS staff on client contributions and pricing will be rolled out in late FY11 / early FY12.

29.2

- A working group is forming to develop the post project completion framework for tracking the long term development impact of the AS operations.
- CDI is undertaking a comprehensive analysis of KM operations with an objective to develop an M&E framework to better track the results of KM operations.

At the Corporate level, a comprehensive knowledge strategy was formulated and presented to Management in 2010. Based on this, the Global Knowledge Office has been implementing a multi-pronged KM work program that is comprised of benchmarking and analytics, tools, technology, behavioral change, incentives, knowledge products (including lessons learned and flagship products), KM competencies, communications and outreach. The Knowledge Strategy Committee was elevated to a corporate committee with delegated authority in February 2011. An IFC Knowledge Strategy is expected to be presented to CODE and to the Board in FY12.

IEG RESPONSE 2011

29.1 IEG recognizes that progress has been made with regard to AS pricing. The institution-wide implementation of a pricing policy will be enhanced once the AS staff training can be effectively designed and implemented. This should provide more clarity to staff on how to categorize and assess appropriate and meaningful client contribution to AS projects. IEG should consider adjusting the status of this recommendation after the training has been conducted.

29.2

- This is a process which has begun and improvements are being made over time. Despite the introduction of standard core indicators, implementation has been difficult due to (i) lack of common definitions across regions of SCI, (ii) use of SCIs even if not relevant to a given project, which ultimately overstates results which are not attributable, (iii) general problems of attribution of results being claimed—for example, an advisory to FM project which claims 'credit' for all increased lending, instead of a realistic increment of lending, and (iv) too much focus on SCI at the expense of using indicators that more appropriately capture expected outcomes and impacts. Management is currently working on the attribution aspect with the introduction of the IDGs which is a step in the right direction, yet more can be done to strengthen definition and selection of indicators, as well as idesk data reporting.
- IFC has increased M&E presence in the field in all regions, yet the quality of M&E capacity, and the support they have from regional management, differs across regions. Hence effective improvements are more tangible in some regions, while others continue to lag.

30. IMPROVING EFFECTIVENESS AND OUTCOMES FOR THE POOR IN HEALTH, NUTRITION, AND POPULATION - AN EVALUATION OFF WORLD BANK GROUP SUPPORT SINCE 1997

LIST OF RECOMMENDATIONS

30.1 Expand support for innovative approaches and viable business models.

- Expand support for innovative approaches and viable business models that demonstrate private sector solutions to improve the health of the poor, including expansion of investments in low-cost generic drugs and technologies that address health problems of the poor.

30.2 Support public-private partnerships.

- Support public-private partnerships through Advisory Services to government and industry and through its investments, and expand investments in health insurance.

30.3 Improve collaboration and joint sector work with the World Bank

- Improve collaboration and joint sector work with the World Bank, leveraging Bank sector dialogue on regulatory frameworks for health to engage new private actors with value added to the sector, and more systematically coordinate with the Bank's policy interventions regarding private sector participation in health

30.4 Improve incentives

- Improve incentives and institutional mechanisms for an integrated approach to health issues across units in IFC dealing with health, including the way IFC is organized.

30.5 Enhance its results orientation

- Enhance its results orientation by developing clearly specified baseline indicators and an evaluation framework that adequately measures IFC's health sector objectives and results.

STATUS OF IMPLEMENTATION

Recommendations	Level of Adoption		Status Rating	
	Mgmt	IEG	Mgmt	IEG
30.1 Expand support for innovative approaches and viable business models.	Medium	Medium	Active (rated)	Active (rated)
30.2 Support public-private partnerships.	Substantial	Substantial	Active (rated)	Active (rated)
30.3 Improve collaboration and joint sector work with the World Bank	High	High	Active (to be made inactive)	Active (to be made inactive)
30.4 Improve incentives	Substantial	Substantial	Active (to be made inactive)	Active (to be made inactive)
30.5 Enhance its results orientation	High	High	Active (to be made inactive)	Active (to be made inactive)

MANAGEMENT RESPONSE 2011

Management Response:

30.1 Management agrees with working on innovative approaches and helping private providers to move down-market to serve lower-income groups and markets. IFC has several initiatives already under way to build on its work to date. Some examples include: • Health in Africa initiative. • Working with clients to invest expertise and capital from high-income to low- and lower-middle income countries, e.g., Saudi-German Hospitals, based in Saudi Arabia, opened hospitals in Yemen, Egypt, and Ethiopia with IFC finance, creating a South-South investment. • Output-based aid projects in Yemen and Nigeria, in which poor people get subsidized care in IFC-financed private facilities that otherwise would not exist. • Creating finance facilities for health care small and medium-size enterprises in low-income countries by use of structured finance, combined with technical assistance, that IFC pioneered with banks in Africa and elsewhere to finance education facilities, and building on that knowledge to apply it in health. • Working with clients to move down-market within their country, e.g., working with Apollo Hospitals in India to create hospitals in secondary cities.

30.2 IFC has supported pioneering health public-private partnerships (PPPs) in Romania and Lesotho and continues to work in this area. While health PPPs are a relatively recent development in emerging markets, there is increasing interest in health PPPs as a means to expand and improve services for the public. The work in Lesotho is at the leading edge for emerging-country health PPPs in several aspects. From the investment aspect, partners in health PPPs to date have often been construction companies rather than health providers and have not required capital from IFC. In some of the few cases where it is truly health services, rather than construction and facilities management, that have been provided by the private sector, IFC has financed providers of renal dialysis services and diagnostic services to public health systems. Many of IFC's clients who provide health services have prepayment schemes for health care in operation and this makes the most business sense. In some instances, by creating more low-cost local capacity, IFC health-provider clients have made it possible for health insurers to offer new products with lower premiums. Experience to date has shown that the business case for direct investment in stand-alone private health insurance does not exist to the extent envisaged when the 2002 IFC health strategy was devised. The few health insurance operations found to date that actually needed capital have needed only very small amounts, too small to be viable transactions. This segment of the sector is intended to be addressed by the health-sector financing facilities now being developed and in early implementation. For the balance, typically the health insurer is one arm of a larger insurer that is well capitalized from its other operations such as life insurance or is a subsidiary or joint venture of a well-capitalized foreign parent company.

30.3 In some situations, such as the Health in Africa initiative and the Lesotho healthcare PPP, IFC and the World Bank are collaborating very closely. In practice, there are times when this is practical and possible and times when it is not. The imbalance in the size of human resources working on health in the two organizations, with the World Bank having many more people dedicated to health, requires IFC to be judicious in how it allocates its resources to work with the Bank.

30.4 IFC is currently going through a period of reorganization aimed at achieving a number of goals. As part of this, industry clusters have been created and Health and Education are in the same cluster with Global Manufacturing and Services, which contains IFC's pharmaceutical activities. Communication and collaboration between teams working on health care and pharmaceuticals are frequent and ongoing. The market reality is that it is rare for one organization to invest in both health care provision and pharmaceutical manufacturing. The knowledge needed to work with these clients is also very different. Information is also exchanged between the Infrastructure Advisory group, advising on health PPPs, and the Health and Education investment department. Care has to be exercised that such information is exchanged only at appropriate points in project life cycles to avoid conflicts of interest that could arise in being both advisor to a bidding process and financier of a winner of a bid. Integrating these two functions too closely would create a conflict for PPP work.

30.5 At the project level, IFC has implemented the Development Outcome Tracking System toward the end of the period under review. Over time, this is expected to improve such results orientation and specifying of baseline indicators. IFC also agrees that where there is a sufficient critical mass of projects in the health sector in a specific country, it makes sense to try to asses IFC's development impact in the sector beyond aggregating project-level results. While recognizing that attributing sector development to IFC's intervention is an issue that needs to be carefully addressed, IFC is looking into ways of measuring results beyond the project level. Among others, the work IFC is undertaking with the IDAIFC. Secretariat in reviewing the CAS results matrix could lead to the establishment of a country-level sector development results framework that could be used in countries where IFC has a critical mass of projects in health. IFC is also exploring setting development impact and reach targets for investment departments, including health and education.

Management Comment 2011:

30.1 IFC remains committed to leveraging wholesaling facilities to reach a larger number of patients receiving medical care through small and medium size health care companies. In FY 2010, we committed four facilities: i) US$50 million to Banca Transylvania in Romania (IFC Project # 28708), which is expected to reach 6000 SMEs in health sector, of which 2300 are in rural and frontier regions of Romania., ii) US$25 million Bic Banco (Project # 28626), creating access to finance to 80 SMEs, (iii) US$50 million for FBN in Nigeria - Health, Education and Agribusiness (Project #28220), increasing access to finance to 455 SMEs and; iv) US$25 million for Yapi Kredi in Turkey (Project #29117), reaching about 550 SMEs. The investment part of the Africa Health Program led to the establishment of a new health focused Equity Fund for Health in Africa and debt facilities through commercial banks in most of the involved focus countries. These activities are occurring in parallel to a continuation of traditional IFC investment activities in Africa. We remain engaged in developing additional opportunities, especially in Africa. IN FY 2011, we committed US$11 million Vinati Organics in India (FC Project #29888), the world's largest supplier of a key active substance to make for ibuprofen, which is expected to increase access to affordable and quality drugs in India and Africa. In addition, we are actively exploring the use of shorter term supplier finance to support Life Sciences companies.

30.2 On the advisory side, as of 02/28/11, C3P (responsible for PPP transaction advice) had successfully closed 16 health PPP transactions (3 in FY11 to date), with 8 active mandates and 10 more in the pipeline (active discussions with client governments). Each transaction is estimated to result in additional access of 100,000-300,000 public patients annually (depending on the type of transaction) and private investment of $20-100 million. A new multi-donor advisory funding facility is expected to be established by end FY11, which will enable further scaling up. There will be even greater focus on IDA countries and targeted PPPs which reach the poor and enhance maternal/child health. C3P will also broaden its activities to include contracting for health services for communities linked with extractive industries and large agro-plantations.

30.3 The health in Africa program, in its third year, has led to a successful coordination across the World Bank group with policy analysis being undertaken jointly by the World Bank HNP staff and CIC health industry staff (integrating an investment climate, business environment and regulatory simplification focus) both in HQ and out of the Africa based hubs in Kenya and Senegal. The advisory services part of the program, which is highly client focused has also led to Bank Group work in Kenya, Nigeria, Ghana, Uganda, Tanzania, Burkina Faso and the Congo. The initiative is being expanded to India and South Asia. The investment part of the program led to the establishment of a new health focused Equity Fund for Health in Africa and debt facilities through commercial banks in most of the involved focus countries. These activities are occurring in parallel to a continuation of traditional IFC investment activities in Africa.

30.4 IFC underwent extensive restructuring in September 2010, as part of which Health and Life Sciences were brought together under the same industry managers at global and regional level. The relevant expertise from the former departments of Global Manufacturing & Services and Health & Education are now together within Consumer and Social Services, which falls within the new Manufacturing, Agribusiness & Services Department. C3P and CMGCS continue to collaborate and exchange information such as identifying potential private partners for PPPs being advised and having representation from investment present at concept reviews of PPPs.

30.5 In the 2010 update, IFC indicated that it has implemented the Development Outcome Tracking System (DOTS) with clearly defined indicators and baseline information that can be tracked throughout the life of the project. The projects are assessed based on four parameters (Financial, economic, environment and social, and private sector development performance). The indicators give a sense of the different stakeholders directly impacted by IFC client companies in implementing the projects. For healthcare, a key measure of reach is the number of patients that have been treated. The information is collected on an annual basis for each IFC investment in health and for advisory projects, and reported in aggregate in the IFC Annual Report.

IFC continues to use vigorously the DOTS to measure, track, and monitor the development impact of IFC's client companies in the countries they operate. The reach figures are collected on annual basis for both new investments and portfolio projects in health sector and reported in aggregate in the IFC Annual Report. In addition, as part of the IFC Development Goals (IDGs) implementation in June 2010, the number of patients reached has been included as one of the six IDG indicators with pre-defined targets for new IFC investments in health and advisory projects.

IEG RESPONSE 2011

30.1 IFC expanded its portfolio in Health, and many includes new approaches. Ultimate success of these approaches and lessons are to be assessed.

30.2 High PPP in health achieved. Support to health insurance by GBOPA. Progress to be monitored.

30.3 Health in Africa Program well collaborated between IFC and WB. Less visible outside of HiA,

30.4 Recent org change brought together the health operations in the same management. Collaboration observed in AS-infrastructure and Inv.

30.5 DOTS data are well used in IFC strategic discussions and now experimenting with IDG to mainstream the results data in the corporate scorecard.

MIGA
MANAGEMENT ACTION RECORD 2011

31. 2010 IER

LIST OF RECOMMENDATIONS

31.1 Create a MIGA Strategy with a Clear Value Proposition.

- As it approaches the next strategy period, MIGA needs to articulate a fundamental value proposition, and make this the basis for its next strategy. This value proposition would reflect market demand, be grounded in MIGA's core strengths and value-added – its skills, the nature of its guarantee instrument and its relationship with the WBG – be financially sustainable, and most importantly, be implementable. *(2010 IER)*

31.2 Strengthen and Align Incentives to MIGA's Strategic and Operational Goals.

- MIGA needs to put in place a suitable performance management system that aligns staff incentives to the achievement of MIGA's corporate goals and priorities, and enables the Agency to deliver its targeted development results and business volume. An appropriate incentive system aligned to delivering "value-driven-volume" that will fully support the implementation of MIGA's next strategy FY12-15 should be in place by the start of that strategy period. To that end, MIGA is strongly encouraged to assess whether its current performance management system and the incentives embedded in it is compatible with its corporate goals and commitment to delivering a far higher and growing volume of developmentally sound guarantees, and based on that assessment, take the necessary actions so that a suitable incentive system is in place that fully supports achievement of the Agency's business volume and development effectiveness goals. IFC's experience in aligning staff incentives with its institutional goals of delivering business volume and development outcomes may be relevant to MIGA's efforts to develop an incentive system that supports its "value drive volume" goals. *(2010 IER)*

31.3 Apply Lessons from (Self-) Evaluations to Future Guarantee Projects.

- MIGA needs to ensure that lessons distilled in evaluation and self-evaluations are applied to new operation by means of an effective feedback loop. To that end, MIGA needs to include lessons learned from past projects in MIGA's Underwriting Paper, develop a system that allows lessons distilled from evaluations to be easily accessed by all underwriting teams; incorporate "lessons learned" into the management review process for projects; and systematically disseminate evaluation findings and lessons. More generally, MIGA needs to establish a culture of learning and continuous improvement ("kaizen") with strong encouragement and leadership from management. *(2010 IER)*

31.4 Strengthen and Align Business Development to Support MIGA's Strategy.

- MIGA needs to revamp its business development function to reverse the current stagnation in guarantee issuance and enable the Agency to consistently meet or exceed its business volume, development effectiveness and strategic priority goals. An appropriately revamped business development function should be in place by the time of the next strategy period, FY12-15. To that end MIGA would benefit by reviewing its business development function with respect to the appropriateness of staff roles and responsibilities for business development, the adequacy and suitability of staff incentives for business development, and the cost-effectiveness of the activities undertaken, and based on the findings of such a review, taking the actions necessary to reverse the current stagnation and build up MIGA's guarantee business volume to allow selectivity, consistent with the Agency's accountability for meetings its targets for value-driven volume in the next strategy period. *(2010 IER)*

31.5 Measure Project-level Financial Results to Inform Strategy Development.

- To enable MIGA to grow its business in a strategic and financially sustainable manner, MIGA should start to measure project-level financial results so that is can ensure that any cross-subsidies benefit only those projects with high ex-ante development outcomes. Developing this system before the start of the next strategy period FY12-15 would enable MIGA to use information on project level profitability to inform its operations and strategy development. *(2010 IER)*

STATUS OF IMPLEMENTATION

Recommendations	Level of Adoption		Status Rating	
	Mgmt	IEG	Mgmt	IEG
31.1 Create a MIGA Strategy with a Clear Value Proposition		**Completed**		Completed (to be retired)
31.2 Strengthen and Align Incentives to MIGA's Strategic and Operational Goals.		**Not rated**		
31.3 Apply Lessons from (Self-) Evaluations to Future Guarantee Projects.		**Medium**		
31.4 Strengthen and Align Business Development to Support MIGA's Strategy.		**Not rated**		
31.5 Measure Project-level Financial Results to Inform Strategy Development.		**Not rated**		

MANAGEMENT RESPONSE 2011

Management Response:

Management Comment 2011:

31.1 MIGA's FYY12-14 Strategy has been submitted to the Board for review. This defines areas for priority focus for the Agency, which are derived from an analysis of MIGA's comparative advantages within the PRI market, juxtaposed with its role as a development institution.

31.2 Disagree.
This recommendation was not based on a rigorous evaluation framework, and is not particularly actionable.

MIGA would note that it works within the World Bank's HR policies, and utilizes the full range of performance management tools available through this framework.

Within the Performance Management system, every MIGA underwriter has annual business targets that are tied to sectoral work programs which are in turn based on MIGA's overarching strategic directions. Non-underwriting staff have performance targets that are based around providing service to the underwriting teams.

31.3 Fully agree with the principle: evaluation is a tool for learning (what works, what doesn't & why). And, learning is to inform strategy implementation, project origination, underwriting & monitoring.

<u>MIGA Self-Evaluation</u>
MIGA is only in year 2 of piloting self-evaluation. Completed 3 evaluations in FY10; expects to do 5 in FY11; plans for 7 in FY12. MIGA is learning how to do good evaluations by doing them. This has entailed heavy investment in program design, training, etc.

Dissemination of results will be a priority. To date, MIGA has discussed early learnings of the 3 completed evaluations in departmental briefings, BBLs, workshops on findings.

As the stock of self evaluations grows (and hence the representativeness of evaluated projects increases), it will be appropriate to distill common lessons. In this regard, MIGA will employ a range of tools, including short synoptic notes, searchable data bases, and in house workshops.

<u>IEG Evaluations</u>
Considerable scope exists for IEG to improve the dissemination of its evaluations. IEG has completed 40 evaluations since 2003, yet little progress so far in distilling and disseminating findings in ways which are readily accessible to MIGA staff. IEG's work program submissions to MIGA and to CODE stress the priority it attaches to expanding its knowledge activities, specifically learning of lessons through outreach to WB and IFC staff. It would be valuable to MIGA if IEG were to do the same with its evaluations of MIGA guarantees. We understand that this will become a larger priority going forward, which management very much welcomes.

MIGA will continue to pay careful attention to IEG evaluations and ensure that sector teams are closely involved in the review processes (e.g. the MIGA response to the recent IEG evaluation on Financial Sector Guarantees), which is an efficient learning method and feedback loop.

With both IEG and MIGA ramping up dissemination activities, staff will be in a position to draw relevant lessons for future guarantees.

Moreover, important lessons are not the sole purview of MIGA evaluations, but also in evaluations of WB and IFC operations as well as those conducted outside the auspices of the WBG. These are often sectoral or thematic, and MIGA teams draw on those.

31.4 Disagree.

MIGA has: created a cross-selling function with IFC; signed a business origination contract with the WB; launched its Agent & Finders Program; opened Asia Hub.

Management considers it important to take stock of these business development indicators before launching any new business development actions as recommended by IEG.

See response to 31.3.

31.5 Disagree.

With respect to using project-level financial results to develop MIGA's strategy, management believes that MIGA's role as a development institution warrants the Agency providing support for productive projects even if for some of these projects MIGA does not recover the full direct cost associated with underwriting. Profit maximization is not one of MIGA's objectives, and to seek to focus the Agency's activities on certain sectors or regions on the basis of profitability will leave MIGA in a position to reject smaller deals, which tend to be more common in smaller IDA economies.

However, MIGA always covers its incremental costs on each guarantee, as dictated by good management practice. MIGA tracks the direct costs associated with delivering every individual project (these variable costs are in the largest part staff time) and this data provides input into all of MIGA's pricing decisions.

Management believes that MIGA's business should best be operated on a portfolio basis, so that collectively all the premium revenues received cover all the costs expended.

IEG RESPONSE 2011

31.1 MIGA has submitted its Strategy FY12-14 with an explicit value proposition, [which was subsequently approved by the Committee as the Whole.]

31.2 Not rated.

The implementation of this recommendation is no longer tracked as MIGA management chose to disagree with it. It should, however, be noted that MIGA previously *explicitly* agreed with this recommendation. In MIGA's final Management Response to the report "Achieving Value Driven Volume – MIGA's Development Results and Institutional Effectiveness 2010" MIGA wrote "Management largely agrees with the first four of these recommendations" [Note: This recommendation was listed third, hence was explicitly endorsed by MIGA.]

31.3 Medium.

MIGA has taken steps to implement this recommendation.

MIGA has been operating its newly introduced self evaluation system as of FY09. The agency has so far submitted four self evaluation reports to IEG for validation and is committed to ramp up self evaluation further. Dissemination efforts of lessons learned from self evaluations are yet another step towards implementing this recommendation.

Scaling up the self evaluation system is yet outstanding so that eventually the share of projects self evaluated and evaluated becomes a representative sample of the MIGA's portfolio.

IEG hence rates the implementation status medium.

31.4 Not rated.

The implementation of this recommendation is no longer tracked as MIGA management chose to disagree with it. It should be noted that MIGA previously *explicitly* agreed with this recommendation. In MIGA's final Management Response to the report "Achieving Value Driven Volume – MIGA's Development Results and Institutional Effectiveness 2010" MIGA wrote "Management largely agrees with the first four of these recommendations" [Note: recommendation 12 was listed, hence was explicitly endorsed.]

31.5 Not rated.

The implementation of this recommendation is no longer tracked as MIGA management chose to disagree with it..

It should be noted that MIGA previously endorsed this recommendation, at least indirectly.

In MIGA's final Management Response to the report "Achieving Value Driven Volume – MIGA's Development Results and Institutional Effectiveness 2010" MIGA wrote "*With respect to the [referred] recommendation, relating to using project-level financial results to develop MIGA's strategy, management believes that MIGA's role as a development institution warrants the Agency providing support for productive projects even if for some of these projects MIGA does not recover the full direct cost associated with underwriting. […] Management agrees that it is important to be cognizant of the costs associated with individual projects, but believes it is important to have a business culture that provides room for the Agency to offer support for smaller investments, highly developmentally projects, and for investors with fewer options.*"

1/ IEG's assessment of the Status of Implementation is based on information provided by MIGA under the column "MIGA Management Comments".
RATINGS:
"Substantial" = MIGA has taken steps to adopt/incorporate the recommendation into policy, strategy or operations to a substantial degree;
"Medium"= MIGA has taken some steps to adopt/incorporate the recommendation into policy, strategy or operations, but not to a significant degree (or not in key areas);
"**Low"**= MIGA's actions and/or plans for adoption of the recommendation are in a very preliminary stage.

32. 2009 IER

LIST OF RECOMMENDATIONS

32.1 MIGA needs to underpin its engagement in conflict-affected countries with a game plan.

- Such a game plan would enable MIGA to enhance its development effectiveness in conflict-affected countries and would allow the Agency to utilize its administrative budget and capital more effectively. This includes developing some staff with specialist knowledge and expertise of the issues and needs of operating in a conflict environment; aligning MIGA's business functions--such as marketing, business development, client aftercare, and risk management--to effectively support this business; and assessing the financial implications of its engagement in conflict-affected countries. MIGA may also wish to assess its project-level risk management approach (i.e., contract exclusions) to assure itself of the consistency of its stated strategic priority and its actual implementation.*(2009 IER)*

32.2 Should MIGA decide to pursue Trust Funds in the future [to supports its post conflict engagement], it should enhance their efficiency and effectiveness.

- This includes implementing multi-country and un-tied Trust Funds with broad and flexible mandates that have no restrictions with respect to the eligible investments or investors. Trust Fund arrangements should be underpinned by realistic objectives (including with respect to expected demand) and a results framework. *(2009 IER)*

32.3 MIGA needs to better articulate and define its expectations and preferences with respect to technical assistance in the context of its mandate.

- The end of FIAS' current strategy period is an opportunity for MIGA to present a clearly articulated approach and value proposition for its technical assistance in the context of its mandates under the Convention for the period FY12 and beyond, and to define the commensurate funding. In addition, mechanisms to strengthen MIGA's influence on FIAS' strategy and priority-setting, as well as coordination at the operational level should be agreed. *(2009 IER)*

32.4 MIGA should strengthen and formalize its systems and standards for underwriting and introduce a robust quality assurance system for its operations as a key element of enhancing its overall institutional effectiveness.

- The need to formalize systems and standards and to introduce quality assurance is particularly acute in light of the expansion of MIGA's mandate following the recent approval of changes to MIGA's Operational Regulations, and MIGA's rapid pace of hiring new operational staff and team heads. Formal written guidelines, business processes and procedures can enhance the consistent application of underwriting standards across projects and teams, by providing clarity and transparency on the standards expected. A comprehensive induction program for newly hired operational staff, and structured ongoing training are needed to promote a common skills set and understanding of requirements. MIGA should also step up the implementation of self-evaluation of guarantee projects. *(2009 IER)*

STATUS OF IMPLEMENTATION

Recommendations	Level of Adoption		Status Rating	
	Mgmt	IEG	Mgmt	IEG
32.1 MIGA needs to underpin its engagement in conflict-affected countries with a game plan.		**Medium**		
32.2 Should MIGA decide to pursue Trust Funds in the future [to supports its post conflict engagement], it should enhance their efficiency and effectiveness.		**Medium**		
32.3 MIGA needs to better articulate and define its expectations and preferences with respect to		**Completed**		

Recommendations	Level of Adoption		Status Rating	
	Mgmt	IEG	Mgmt	IEG
technical assistance in the context of its mandate.				
32.4 MIGA should strengthen and formalize its systems and standards for underwriting and introduce a robust quality assurance system for its operations as a key element of enhancing its overall institutional effectiveness.				**To be retired**

MANAGEMENT RESPONSE 2011

Management Response:

Management Comment 2011:

32.1 Agree.

MIGA has been active in conflict affected countries and continues to refine its approaches to enhancing its contributions to such countries. MIGA's guarantees have included coverage for war and civil disturbance, which are prominent risks in conflict-affected countries. As part of MIGA's due diligence, this risk assessment of conflict-affected countries is the starting point of the analysis. Furthermore, MIGA's pricing framework and discussion of terms and conditions of contracts of guarantees is part of normal due diligence

In FY11, MIGA provided substantial analytical work on FDI and political risk mitigation in CA & F countries to the WDR11. MIGA's flagship 2011 focuses specifically on the same topic. To operationalize the findings of that analytical work as well as its own experiences over the past decade, MIGA is developing the Conflict Affected and Fragile Economies Facility (CAFEF) designed to provide a framework for MIGA to engage in CA&F countries, and to bring in partners in the process. It is currently envisioned that the proposal will go to the Board in FY12. Meanwhile, MIGA continues to be active in providing guarantees into CA countries.

32.2 Agree.
The aforementioned TF will be a multi-donor and multi country facility. MIGA is also expanding its current TF on E&S challenges so that it will become a multi-donor program.

32.3 Disagree that any additional action is required.

MIGA's EVP is a member of FIAS' Supervisory Committee and has a direct role in shaping the FIAS strategy. MIGA formally engages with FIAS each year in the formulation of FIAS' work program.

In addition, under the proposed CAFEF program, MIGA is currently in discussions with FIAS to strengthen collaboration, with FIAS' work on identifying country and sector specific political risks inherent in the investment climate informing MIGA's business development strategies in those countries.

Notwithstanding, the linkage between FIAS' TA work and MIGA's core business of guarantees is often indirect. The opportunities for meaningful coordination at the transactional level outside of CAFEF countries are limited.

32.4 Done. As stated in the 2010 MATR.

In addition, more recent activities:
In FY11, MIGA updated guarantee processing/underwriting procedures which further clarifies process, accountabilities and documentation requirements. MIGA also introduced a number of structural and procedural changes to enhance quality (already addressed in the 2010 MATR). In addition, MIGA now has a full fledged on-boarding program, in house workshops on a variety of aspects of underwriting, contract structures, docu-

mentation management, etc. For self evaluation, see #6..

IEG RESPONSE 2011

32.1 Medium.
MIGA's Conflict Affected and Fragile Economies Facility (CAFEF) will be an important element in its game plan for engaging in conflict-affected countries. However, elaboration and Board approval of the facility are still pending.

The Management comments provided are silent on developing staff with specialist knowledge and expertise on conflict-affected countries and aligning MIGA's business functions with the game plan and appear yet to be addressed.

Hence IEG rates the implementation status medium.

32.2 Medium.
The referred MIGA's Conflict Affected and Fragile Economies Facility (CAFEF) could indeed bring enhanced efficiency and effectiveness.

As elaboration and Board approval of the facility are still pending IEG still rates this implementation medium.

32.3 Completed –to be retired

32.4 To be retired.

33. 2008 IEG-MIGA ANNUAL REPORT

LIST OF RECOMMENDATIONS

33.1 Make significant progress in implementing initiatives related to development impact assessment and monitoring, recommended in previous evaluations of the Agency by IEG, including the development of self-evaluation.

- The Agency should give high priority to continuing the steps it is initiating to implement a monitoring and self-evaluation system that would allow it to gauge, understand, manage and report the development impact of its interventions. *(2008 IEG-MIGA Annual Report)*

33.2 .Improve its client relationship management, including after-care, to enhance MIGA's value added and increase client retention.

- Improving client relationships could be the most cost-effective marketing that MIGA could undertake to increase its business volume. Managing client relationship requires a focused and coherent business development plan implemented by a staff with expertise in the guarantee business and/or financial markets. *(2009 World Bank Group Guarantee Instruments)*
- Improve the effectiveness of its business development and client relationship functions. *(2008 IEG-MIGA Annual Report)*

STATUS OF IMPLEMENTATION

Recommendations	Level of Adoption		Status Rating	
	Mgmt	IEG	Mgmt	IEG
33.1 Make significant progress in implementing initiatives related to development impact assessment and monitoring, recommended in previous evaluations of the Agency by IEG, including the development of self-evaluation.		**Substantial**		
33.2 Improve its client relationship management, including after-care, to enhance MIGA's value added and increase client retention.		**Substantial**		

MANAGEMENT RESPONSE 2011

Management Response:

Management Comment 2011:

33.1 Done, as stated in the 2010 MATR.

In addition to previous comments, more recent activities include:
MIGA designed and vetted the Development Effectiveness Tracking System (similar to IFC's DOTS) in FY10 and began implementation in July 2011 which is applied to all projects entering the portfolio in FY11 and will be applied to all subsequent guarantees. The DEIS has been incorporated into all key documentation (DA, U/W paper, & model contracts).

By end FY11, 8 self evaluations will be completed and self evaluation guidelines revised, taking into account lessons learned in the first set of evaluations. In FY12, MIGA will continue to expand the number of projects it evaluates. This is a pilot program and further revisions will be discussed with IEG-PSD before mainstreaming it.

33.2 Disagree that additional action required.

This recommendation is vague and not particularly actionable.

Improving client relationship management is a continuing focus for MIGA in its efforts to maximize its value added. In FY09, 4 industry teams were created, headed by sector leaders with clear responsibilities for developing and maintaining client relationships in their sectors. In addition, MIGA launched an expanded its agent/finders program in FY09 with the specific objective of strengthening its client management function by developing a network of business intermediaries. This program presently includes 5 agents and 35 finders, based in 15 countries who support MIGA in scaling up its business development programs, increasing MIGA's presence in the field, and allowing MIGA to respond more effectively to clients' and prospects' needs.

In early FY11, MIGA established a hub in Asia, with dedicated staff in Hong Kong, Singapore, Tokyo and Beijing to enhance client relationships and support growing south/south investments in this dynamic region

Those initiatives are part of a comprehensive client management system which MIGA developed in FY10 and launched in FY11. This system supports a structured approach to managing client relationships, enhancing client retention and expanding acquisition of new clients. Accomplishments to date include: (i) implementation of a client tier system with allocation of staff responsible for managing specific client relationships, (ii) implementing CMS software which captures the tier system and interactions w/ clients as well as contract management.

Through the IFC-MIGA business development program, launched in FY10, a lot of work has been directed at enhancing client relationship management effectiveness and responsiveness. Tangible results include greater client orientation and efficiency with joint IFC-MIGA teams, development of new products (eg capital optimization-ProCredit), shared due diligence (eg E&S and Integrity due diligence), and joint Board approval. The program has built a strong pipeline through the IFC's global footprint and client relationships and is increasing awareness of the MIGA products and value-added to IFC clients and in IFC transactions. Since May 2010, 3 projects received Board approval and 17 transactions in 16 countries are under development/review.

IEG RESPONSE 2011

33.1 Substantial.
MIGA has taken steps to adopt / incorporate development impact assessment and monitoring into operations. The referred Development Effectiveness Indicator System (DEIS) is a step in the right direction, even though fundamental differences to IFC's DOTS are noted.

Self evaluation is another component in improving development impact monitoring. Scaling up of MIGA's self evaluation practice, as noted under recommendation 6 above, is still outstanding, even though it is acknowledged that MIGA envisaged to ramp up its self evaluation in the coming years.

IEG hence rats the implementation status substantial.

33.2 Substantial.

MIGA has taken steps to implement this recommendation through its various business development initiatives and sector strategies.

Despite considerable progress, the Management comments are silent on tangible results related to improving client relationship management, except for the IFC-MIGA business development cooperation for which indeed results were reported.

Pending on further tangible results to improve client relationship (e.g. increased client diversification, stronger client retention, or increased business volume), IEG rates the implementation status substantial.

34. 2006 IEG-MIGA ANNUAL REPORT

LIST OF RECOMMENDATIONS

34.1 MIGA needs to develop rules of engagement for all projects involving concessions and similar agreements.

- Considering that MIGA often gets involved in projects as an insurer after such agreements have been negotiated and signed, it needs to satisfy itself that the underlying business model, terms given to the concession holders, and tariffs are sustainable and reflect sound economic policy in order to ensure a positive development impact. *(2006 IEG-MIGA Annual Report)*

STATUS OF IMPLEMENTATION

Recommendations	Level of Adoption		Status Rating	
	Mgmt	IEG	Mgmt	IEG
				To be retired

MANAGEMENT RESPONSE 2011

Management Response:

Management Comment 2011:

34.1 Done. As stated in the 2010 MATR.

Disagree any further action required.

[IEG NOTE: Management comment of 2010 on this recommendation has been re-copied here for reader's convenience by IEG.] Done. At present, all projects underwritten are analyzed in detail in terms of their development impact, according to established guidelines and established practice among the members of the underwriting team responsible for this analysis. There is a specific set of guidelines for PPP's which the team at MIGEP utilized for this type of projects. MIGA Management will continue to exercise discretion in maintaining an adequate balance between the analysis needed to satisfy development impact criteria and market responsiveness.

IEG RESPONSE 2011

34.1 To be retired.
MIGA has taken steps to develop rules for engagement for concession projects.

IEG will evaluate MIGA's handling of projects involving concession agreements as part of the upcoming Infrastructure evaluation.

35. 2007 IEG-MIGA ANNUAL REPORT

LIST OF RECOMMENDATIONS

35.1 MIGA should carry out, on a pilot basis, a quality at entry self-assessment of a sample of new guarantees underwritten in FY07 to enhance institutional learning.

- IEG would provide the methodology, benchmarks and templates and will independently review and validate MIGA's self-assessments. *(2007 IEG-MIGA Annual Report)*

35.2 MIGA should strengthen and improve the quality and the documentation of the development impact analysis of SIP projects that underpins MIGA's support for them.

STATUS OF IMPLEMENTATION

Recommendations	Level of Adoption		Status Rating	
	Mgmt	IEG	Mgmt	IEG
35.1 MIGA should carry out, on a pilot basis, a quality at entry self-assessment of a sample of new guarantees underwritten in FY07 to enhance institutional learning.				**To be retired.**
35.2 MIGA should strengthen and improve the quality and the documentation of the development impact analysis of SIP projects that underpins MIGA's support for them.				**Not rated**

MANAGEMENT RESPONSE 2011

Management Response:

Management Comment 2011:

35.1 Disagree.

Management continues to be of the view that Quality at Entry analysis is not the appropriate or most effective way to enhance institutional learning. Rather, management has invested heavily in its self–evaluation program, which is becoming the principal formal tool for enhancing institutional learning on guarantees.

Management would also note that the main aim of Quality at Entry processes is to determine whether projects are being designed properly. As an insurer, MIGA has limited opportunities to affect project design. However, recent improvements in underwriting procedures have been implemented to enhance MIGA's efficiency as well as quality and accountability.

35.2 Done.
Same response as for 2010 MATR.
(In consonance with this view, management notes that IEG is proposing to review SIP projects on a programmatic basis rather than individually, reflecting the same difficulties of working with limited amounts of information that MIGA faces during underwriting.).
[IEG NOTE: Management comment of 2010 on this recommendation has been re-copied here for reader's convenience by IEG.] Done. IEG's recommendations in FY07 (cited here) were taken onboard by MIGA when it moved the SIP from a pilot program to mainstreaming it, and are reflected in the FY08 Board document to that effect. Notwithstanding this, MIGA continues to monitor the effectiveness of the program's objectives as, by design, it only aims to cover MIGA's variable costs associated with it. It is MIGA's management responsibility to ensure the continued cost-effectiveness of this program.

IEG RESPONSE 2011

35.1 To be retired.
In view of MIGA's efforts to introduce a self evaluation system this recommendation will be retired.

> IEG concurs with MIGA that ex-post self evaluation can partly full fills similar functions as Quality at Entry analysis in the context of institutional learning.

35.2 Not rated.
Starting FY12, IEG will review SIP projects on a programmatic basis and only then will be able to determine whether this recommendation has been implemented. Pending this review, the implementation is not rated.

36. 2003 REPORT ON OPERATIONS EVALUATION IN MIGA

LIST OF RECOMMENDATIONS

36.1 MIGA should ensure that closing notes are consistently prepared for all closed projects for institutional learning, analysis, and accountability, and to aid strategy formulation. *(2003 Report on Operations Evaluation in MIGA)*

STATUS OF IMPLEMENTATION

Recommendations	Level of Adoption		Status Rating	
	Mgmt	IEG	Mgmt	IEG
36.1 MIGA should ensure that closing notes are consistently prepared for all closed projects for institutional learning, analysis, and accountability, and to aid strategy formulation.		**Completed**		

MANAGEMENT RESPONSE 2011

Management Response:

Management Comment 2011:

36.1 Disagree.

Same response as for 2010 MATR.

[IEG NOTE: Management comment of 2010 on this recommendation has been re-copied here for reader's convenience by IEG.] MIGA does not believe that closing notes are the best mechanism to achieve institutional learning, analysis, and accountability, and to aid strategy formulation.

The current guidelines stipulate that these closing notes produced for all projects are designed only for a limited range of issues (such as investor's reasons for canceling). Institutional learning can be addressed in a more relevant, complete, and systemic way by self evaluation and development tracking indicators - see #7 (#9 *FROM 2010 MATR*).

IEG RESPONSE 2011

36.1 Implemented.
MIGA has taken steps to ensure Closing Notes are prepared for closed projects.

37. 2008 WORLD BANK GROUP GUARANTEE INSTRUMENTS

LIST OF RECOMMENDATIONS

37.1 Address internal weaknesses that reduce efficiency and slow responsiveness without lowering MIGA's financial, social and environmental standards.

- These include organizational issues in staffing, performance review, and incentives as well as consideration of matters such as inflexibility on guarantee contract terms and conditions. However, efficiency in its underwriting process must not come at the expense of quality, risk mitigation, safeguards, and development impacts of the projects it insures. *(2009 World Bank Group Guarantee Instruments)*

STATUS OF IMPLEMENTATION

Recommendations	Level of Adoption		Status Rating	
	Mgmt	IEG	Mgmt	IEG
37.1 Address internal weaknesses that reduce efficiency and slow responsiveness without lowering MIGA's financial, social and environmental standards.		**Medium**		

MANAGEMENT RESPONSE 2011

Management Response:

Management Comment 2011:
37.1 This recommendation is vague and not particularly actionable.

Enhancing efficiency in general terms is an ongoing responsibility. MIGA has taken important steps in this regard with respect to realigning the internal organizational structure, further streamlining internal business processes and decision making.

[IEG NOTE: Management comment of 2010 on this recommendation has been re-copied here for reader's convenience by IEG.] MIGA hired external consultants to validate the work of internal staff working groups on Business Process Reviews and on Integrated Risk Management. These have led, or are leading, to: (i) efforts to formalize "service" standards of the internal processes from the receipt of a definite application to contract signature and management; (ii) streamlined project review and approval processes; (iii) systematic on-boarding training; (iv) enhancing learning programs at various levels of staff at MIGA and introduction of specialized training events; and (v) updated and simplified document templates.

IEG RESPONSE 2011

37.1 Medium.
MIGA has taken steps to address internal weaknesses and efficiency issues as its process review and streamlining exercises may have an impact of efficiency and responsiveness.

With regard to MIGA's comment that this recommendation would be vague, IEG looks for tangible results / outcomes of these initiatives, e.g. the actual impact on efficiency, speed in responsiveness, and processing time.

IEG hence rates the implementation status medium.

Notes: These 16 recommendations tracked in the MATR derive from the IEG-MIGA and IEG joint reports listed below:

Independent Evaluation of MIGA's Development Effectiveness: Achieving Value-Driven Volume (2010)

Independent Evaluation of MIGA's Development Effectiveness: Enhancing MIGA's Risk Mitigation in IDA and Conflict-Affected Countries (2009)
World Bank Group Guarantee Instruments (2009)
IEG-MIGA Annual Report (2008)
IEG-MIGA Annual Report (2007)