

Why, What, and How of World Bank Group Strategy

What Evaluations Tell Us about the Promise and Potential Pitfalls of Reform

By Navin Girishankar
Lead Evaluation Officer, Independent Evaluation Group

In the fall of 2012, President Jim Kim launched a series of consultations as well as a wide ranging diagnostic of the why, what, and how of World Bank strategy and reform. Over the past five years, evaluations by the Independent Evaluation Group (IEG) generated a wealth of lessons that can inform future efforts in change management. This brief synthesizes IEG evaluation findings and provides a high-level narrative on evolving client demand and the Bank's country-based model. It also provides some pointers, based on corporate evaluations, for building a genuine "solutions bank" — one that is more focused and more effective in eradicating extreme poverty and boosting shared prosperity.

A. The "Why" — Emerging Development Challenges, Evolving Client Demand

1) In the year prior to the 2008-09 global crisis, the Bank's clients made impressive progress towards poverty reduction, even in the face of increasingly complex country-level and global challenges.

- The 1990s and early 2000s saw progress towards poverty reduction and broader indicators of well-being (reflected in the Millennium Development Goals). **The accelerated pace of poverty reduction** was associated with strong economic growth, particularly in lower-income countries (IEG 2012c).
- **Achieving progress, however, has required countries to navigate an ever more complex matrix of challenges** — for instance, tackling fragility, crime, and violence; guarding against vulnerabilities to shocks; and developing national responses to global challenges such as the climate crisis and spread of communicable diseases (IEG 2006, IEG 2008a, IEG 2011f, IEG 2012a, and IEG 2012c).

2) By the late-2000s, food, fuel, and financial crises, as well as natural disasters, threatened earlier gains and underscored the need for countries to manage risks and to promote resilience to shocks

- The first signs of the global crisis in the developing

world were sharp contractions in private capital flows and trade. While the severity of the crisis varied by country, **an estimated additional 114 million people worldwide fell below the \$1.25 a day poverty line by the end of 2010** (IEG 2010b).

- These crises helped underscore the importance of buffering the poor from macro shocks through effective sovereign risk management and **countercyclical policies**, and from micro shocks through **social safety nets** (SSNs). SSNs provide liquidity, offer short-term employment, and discourage negative mechanisms for coping with setbacks (IEG 2010b and IEG 2011d).
- **Resilience to shocks depends, in part, on country efforts to secure the economic and social fundamentals of sustainable development:** for instance, fiscal and debt sustainability; structural reform and promotion of a robust investment climate; investment in human development and infrastructure; good governance; and environmental sustainability (IEG 2010b and IEG 2012d).

3) Even prior to the crisis, client demand was evolving as were the expectations of the Bank Group. This trend has accelerated with the emergence of new development partners and South-South exchange.

- **Both middle- and lower-income country clients expect the Bank to deliver cutting-edge knowledge products and capacity development support, innovative financial instruments, and partnerships with new actors** such as civil society, emerging donors, and the private sector. Both middle- and lower-income countries value the Bank's knowledge products — in particular technical assistance designed to help implementation, institutional strengthening, and knowledge transfer. There is also growing interest in expanding the use of guarantees and other risk management instruments to promote private flows (IEG 2008c, IEG 2009, IEG 2011a, and IEG 2011g)
- Shareholders from developing and developed

countries have consistently called for the Bank to **continue to engage on global issues, including through its Global and Regional Partnership Program business line.** The Bank has 85 global and 35 regional programs with shared governance — another dozen are under development. Almost half are knowledge, advocacy, and standard-setting networks that generate and disseminate knowledge in their sectors (IEG 2011h).

B. The “What” of the Bank’s Country-Based Model — Strengths and Strains

1) In response to these evolving demands, the Bank has relied on its core strength — the country-based business model — to good effect. This model provides a tried and tested platform to align lending with country priorities, ensure continuity in policy dialogue, harmonize with other partners, respond nimbly to crises and fragility, and generally fulfill multiple roles for the benefit of its clients (for example, financier, knowledge broker, trustee, and global partner).

- **World Bank Group operations have supported broad-based efforts to expand economic opportunity, improve human development, and strengthen governance in a diversity of countries.** Over 2008–10, 85 percent of operations that sought to expand economic opportunity — for example, through infrastructure and economic reform — showed relatively high effectiveness. Uneven results in human development reflect difficulties in improving health and education outcomes (IEG 2011c and IEG 2012c).
- Over this period, the International Bank for Reconstruction and Development/International Development Association (IBRD/IDA) also **responded with unprecedented speed and volume to the 2008-09 global economic crisis** with financial sector and fiscal support to a majority of countries suffering from high levels of stress. Performance of International Finance Corporation (IFC) investments was stable overall despite a challenging operating environment; and the Multilateral Investment Guarantee Agency (MIGA) reduced the financial sector concentration of its guarantees, following amendments to its Convention and Operational Regulations (IEG 2012c).
- **In lower-income countries, the Bank’s harmonization and alignment activities have helped reduce transaction costs to governments, build government capacity, and enrich policy dialogue.** Bank strategies have been aligned with

partner country development priorities, and the Bank has progressed in using country structures to implement projects. Yet less progress has been made in using country financial management and procurement systems due, in part, to weak country capacity and the Bank’s fiduciary regulations (IEG 2011g).

- **Knowledge transfer through economic and sector work (ESW) and technical assistance (TA) has been a mainstay of Bank business in middle- and lower-income countries as well as in fragile states.** It spent \$910 million (26 percent of its spending on country services) on these products during fiscal 2000-06. The majority of ESW and TA met their objectives at least to an average extent during fiscal 2000-06. Yet challenges remain in terms of technical quality; involvement of clients; sustained follow-up; tailoring of recommendations; and client preferences for TA over ESW (IEG 2008c).
 - **As the largest administrator of donor trust fund (TF) resources, the Bank has been able to extend the reach and concessionality of its country programs.** TFs accounted for about 11 percent of official development assistance (ODA), and have financed a substantial part of Bank business. While highly varied, country based activities financed by TFs included co-financing of Bank projects, post-conflict and post-disaster support, as well as capacity building and technical assistance (IEG 2011e).
- 2) Despite these strengths, the country-based platform faces challenges both in maintaining quality and ensuring coherence. Evaluations point to limitations in the Bank’s instrument array, weaknesses in Bank support for institutional capacity development, and the elusive pursuit of the results agendas.**
- **IDA/IBRD operations over 2008-10 saw a decline in project quality** at approval due, in part, to weaknesses in political economy assessments and poor results frameworks. While work quality in **IFC investments** remained strong, **weaknesses in project appraisal and structuring persisted.** Strategic **relevance of MIGA operations was high,** but quality enhancement was needed (IEG 2011c).
 - **The Bank’s allocation of lending resources to middle- and lower-income countries may require further scrutiny.** During the recent crisis, scaled up lending was not correlated with the differential stress experienced by these countries, while the lending of other international financial institutions (IFIs) and multilateral development banks (MDBs) was. The resulting limitations in capital

headroom point to the need for a more coherent approach that reflects corporate interests, and not purely individual country priorities. Similarly, past evaluations have raised concerns about the adequacy of IDA allocations to fragile states, and the degree of alignment between the distribution of trust fund disbursements and IDA allocations (IEG 2012d, IEG 2011e, IEG 2006, and IEG 2011f).

- **A longstanding challenge is how to build institutional capacity in the public and private sectors** — particularly in Africa and in fragile states. Support for **public financial management systems** improved, but priority should be given to reducing sectoral bottlenecks. Low **civil service pay** is a pervasive problem that urgently requires pragmatic solutions. Efforts to remove **administrative bottlenecks to the investment climate** expanded but needs to be systematically monitored. There is tremendous scope for innovation of the Bank's support modalities to **civil society** (IEG 2011f and IEG 2008b).
- On global public goods, the country-based model is effective when national and global interests dovetail and grants support country investments. **The greatest challenges for the Bank arise where local, national, and global benefits—actual or perceived—diverge significantly (for example, climate change).** Attention to global priorities in corporate strategies progressively falls off in sectoral or regional strategies, and further in country strategies (IEG 2008a; IEG 2011h, and IEG 2012b).

C. The “How” of Change Management – What We Know

As the Bank's leadership considers change management options, IEG evaluations point to gaps — as well as potential interventions — relating to strengthening the Bank's country and global engagements. These include the Bank's financial capacity, its risk management and control framework, organizational setup, and results-focus.

Financial Capacity

1) The Bank's financial capacity to respond to client demands may be constrained by IBRD's limited headroom, limited prospects for a General Capital Increase, and the fiscal pressures facing donors during the upcoming IDA17 replenishment. The magnitude of recent lending, the decline in global interest rates, the use of traditional instruments and their low rates has left the Bank with limited headroom to accommodate further crisis response in middle-income

countries, should it be needed (IEG 2010b and IEG 2012d).

2) Trust funds are an important complement to IDA, but have their own limitations in terms of financing country-based aid. As far as concessional resources are concerned, total trust fund contributions exceeded their IDA contributions in each of the last three replenishment periods. However, the bulk of this increase was channeled through Financial Intermediary Funds in which the Bank did not have supervision or oversight of use of funds. The Bank should strengthen its framework for Financial Intermediary Funds and more effectively organize remaining TFs into three channels — multidonor, multirecipient umbrella facilities; country-specific TFs; and GRPPs (IEG 2011e).

3) Facilities financed through IBRD net income — for example, the Development Grant Facility (DGF) — deserve a second look. The DGF has funded about 70 of 120 GRPPs, but it is no longer the umbrella facility for all of the Bank's grant financing arrangements. A number of significant programs have left the DGF and are funded by TFs and other resources. This is an opportunity to strengthen the DGF allocation process with a view to optimizing the use of IBRD net income (IEG 2011h).

Risk Management

4) Despite the attention given to fiduciary risks in recent years, the Bank is still evolving a framework that not only manages risks, but also encourages innovation. Under the Governance and Anticorruption (GAC) Strategy, the Bank scaled up the Integrity Vice Presidency's work on investigations, sanctions and debarments, and preventive services. Other units also contributed to GAC-in-projects tools. But these focused mainly on transaction level risks in investment projects rather than on country systems risks such as those used in policy-based lending. Systematic improvements in the use of measures to manage GAC risks in projects (for instance, preventive measures against fraud and corruption) are yet to be achieved. Perceived tensions between GAC goals and lending goals remain. The Bank requires a streamlined approach to assessing systems-level risks across instruments and to setting risk appetites for structuring lending in different settings (IEG 2011f).

5) Equally important are efforts to avoid or mitigate large-scale social and environmental risks in projects financed by the World Bank Group through safeguards and sustainability policies. To date, categorization of risks has not been consistent and monitoring of results has not been thorough. A compliance-based approach is less effective as the Bank's portfolio evolves beyond traditional investments. Greater

emphasis on ownership among sovereign and private sector clients can yield results. Bank policy frameworks should also harmonize thematic coverage across the institution; enhance relevance to client needs and capacities; and strengthen monitoring and evaluation (M&E), disclosure, and redress (IEG 2010a).

Results Agenda

6) Strong M&E in Bank operations is critical to effectiveness, but it remains a work-in-progress.

Evaluations have pointed to several weaknesses in M&E practice across the Bank: limited availability of sound baseline data, use of too many unfocused indicators, and too few outcome indicators. Results frameworks and M&E in GRPPs and TF programs face similar problems. At the corporate level, aggregate indicators should not be overly influenced by larger countries and projects. The cost associated with achieving results should be made explicit and high-quality data gathering and reporting ensured. The World Bank Group should continue to make progress in adopting IEG recommendations (IEG 2012c).

7) Cost-benefit analysis (CBA) was the Bank's answer to the results agenda before that term became popular. Yet the percentage of projects justified by CBA has been declining for several decades, owing to a decline in adherence to standards and to difficulty in applying cost-benefit analysis. Where CBA is applied to justify projects, in some cases, it is excellent; in others, it lacks attention to fundamental issues such as the public sector rationale and comparison of the chosen project against alternatives. The underlying issue involves project decisions made before cost-benefit evidence is provided, with few checks on advocacy. **Revitalized CBA should be part of the "solutions bank" agenda.**

Organization

8) Greater cooperation across World Bank Group units would improve effectiveness. However, anti-coordination, pro-competition, and anti-collaboration biases currently hinder progress. While some important steps have been taken to address these biases (such as the creation of joint IFC/World Bank departments; the integration of MIGA, Foreign Investment Advisory Services (FIAS), and IFC Advisory Services; and MIGA-IFC collaboration on guarantees), they have not added up to a coherent strategy. More can be done by increasing the World Bank Group's voice in country assistance and partnership strategies; strengthening the staff cross-support market; clarifying mandates for guarantees, investment climate assessments, and credit lines; rationalizing due-diligence criteria governing various instruments; and monitoring cooperation (IEG 2010c).

9) To become a "solutions bank," the World Bank Group must strengthen the knowledge development "mandates" of country teams, while removing regional and network silos that inhibit its flow across the existing matrix system. As part of this effort, it will be important to progressively de-link knowledge development from lending; rebalance the relationship between country and sector units in the Regions; and manage trust fund resources that finance knowledge work more strategically. At the corporate level, key organizational constraints in the Sustainable Development Network need to be addressed. It will also be important to promote coherence among units working on GAC issues (IEG 2008c and IEG 2012b).

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