

**Report of the Task Force on the**  
**World Bank Group and the**  
**Middle-Income Countries**





**REPORT OF THE TASK FORCE ON THE  
WORLD BANK GROUP AND THE  
MIDDLE-INCOME COUNTRIES**

## ACRONYMS

AfDB	African Development Bank
AsDB	Asian Development Bank
CAS	Country Assistance Strategy
CDF	Comprehensive Development Framework
DEC	Development Economics
DPR	Development Policy Review
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
ESW	Economic and Sector Work
FY	Fiscal Year
GDP	Gross Domestic Product
GNP	Gross National Product
HIPC	Heavily Indebted Poor Countries (Initiative)
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IDB	Inter-American Development Bank
IFC	International Finance Corporation
IMF	International Monetary Fund
LIBOR	London InterBank Offer Rate
MDB	Multilateral Development Bank
MIGA	Multilateral Investment Guarantee Agency
OECD	Organization for Economic Co-operation and Development
OED	Operations Evaluation Department
PRSP	Poverty Reduction Strategy Paper
QAG	Quality Assurance Group
SAL	Structural Adjustment Loan
SECAL	Sectoral Adjustment Loan
SMEs	Small and Medium Enterprises
SSAL	Special Structural Adjustment Loan

# REPORT OF THE TASK FORCE ON THE WORLD BANK GROUP AND THE MIDDLE-INCOME COUNTRIES

## Contents

	Page
Foreword.....	iv
Avant-Propos.....	vi
Introducción .....	viii
Acknowledgments .....	x
Executive Summary and Recommendations .....	xi
Résumé Analytique et Recommandations .....	xxi
Resumen ejecutivo y recomendaciones.....	xxxiii
<b>I. Introduction .....</b>	<b>1</b>
<b>II. Middle-Income Countries' Development Challenges and Bank Group Role ....</b>	<b>3</b>
A. Development Challenges .....	3
B. Bank Group Role.....	5
C. Bank Group Catalytic Impact.....	6
<b>III. Country Programs and Products.....</b>	<b>7</b>
A. Country Assistance Strategies and Programs.....	7
B. Analytic and Advisory Work.....	9
C. Lending and Guarantees.....	13
<b>IV. Synergies, Selectivity, and Sustainability.....</b>	<b>19</b>
A. Bank Group Synergies .....	19
B. Division of Labor with International Financial Institutions.....	20
C. Country Selectivity.....	22
D. Financial Sustainability.....	24
E. Budget and Staffing.....	25
<b>V. Conclusions.....</b>	<b>27</b>
<b>Box and Figure</b>	
Box 1. Proposed Deferred Drawdown Option .....	17
Figure 1. Expected Trends in IBRD Lending Commitments.....	18
<b>Annexes</b>	
Annex A. Task Force Terms of Reference .....	29
Annex B. IBRD-Eligible Borrowers .....	31
Annex C. Proposed Fiduciary Assessment.....	33
Annex D. Proposed Development Policy Review .....	35
Annex E. Proposed Deferred Drawdown Option .....	37
Annex F. Review of IBRD Loan Pricing.....	43
Annex G. Possible Applications of Bank Group Instruments .....	45

## FOREWORD

This is the report of a Task Force of World Bank Group managers and staff who were asked, in September 2000, to take a fresh look at all aspects of the World Bank Group's relationship with its middle-income country members. For this review, we were asked to include all 78 countries eligible to borrow from the Bank's nonconcessional window, the International Bank for Reconstruction and Development.

The Task Force drew on support from many staff members of the World Bank Group, who synthesized and extended existing knowledge on challenges facing the middle-income countries, and on the work of the Bank and other partners. We also benefited from the intensive involvement of Executive Directors and other senior representatives of the Bank's shareholders. More than 50 shareholding countries accepted our invitation to provide input, and more than 25 borrowing countries took part in consultation meetings.

The Task Force's work highlights the crucial importance of middle-income countries to efforts to address world poverty. These countries are home to nearly 80 percent of all the people who live on less than \$2 a day. A representative child in Latin America completes only five years of school, while infant mortality in middle-income countries averages five times the level in OECD countries. As the East Asian and other crises have shown, many people in middle-income countries live only one shock away from destitution.

The Task Force found consensus among shareholders on the *moral* imperative for the international community to care about poverty in these countries. There was also consensus on the practical reasons for the international community to care: middle-income countries' key role in addressing communicable diseases, financial contagion, and the global environment, and as markets for the low-income countries. In turn, the shareholders and clients also agreed in seeing the World Bank Group as having a unique role to play in helping these countries address their own challenges.

This report recognizes that, to be effective in this role, the World Bank Group has to collaborate with other partners—governments, the private sector, civil society, and bilateral and multilateral organizations—and that the support provided to each member country must be grounded in the country's own vision of development. As a Task Force, we asked pragmatic questions: "What can the Bank Group do better in terms of its processes and products, and in its collaboration with its clients, other partners, and across Bank Group agencies?" The answers we propose are also pragmatic, including more systematic analytic work, increased selectivity, and lending instruments that offer countries greater flexibility to manage their own development. These changes, we believe, can foster better results on the ground, and ultimately improve the lives of the people the Bank exists to serve.

As Chairman of the Task Force, I would like to express my deep personal appreciation to all my colleagues who served on and supported the Task Force, to the shareholder representatives who shared their experience and insights with us, and to the Bank Group's Senior Management for their support, advice, and encouragement. A very special expression of appreciation is due for the enormous contribution made by Joanne Salop and her team in the Task Force's secretariat, who directed the staff work undertaken to underpin the Task Force's analysis and recommendations, and played a key role in helping to steer this report through its successive incarnations.

A handwritten signature in dark ink, reading "David de Ferranti". The signature is fluid and cursive, with a prominent horizontal stroke at the end.

David de Ferranti

Chairman, Task Force on the World Bank  
Group and Middle-Income Countries, and  
Vice President, Latin America and Caribbean  
Region, World Bank

April 2001

## AVANT-PROPOS

Le présent rapport a été établi par un groupe de travail réunissant des membres de la direction et du personnel du Groupe de la Banque mondiale, qui a été chargé en septembre 2000 de jeter un regard neuf sur tous les aspects de la relation que le Groupe de la Banque mondiale entretient avec ses pays membres à revenu intermédiaire. Il nous a été demandé d'inclure dans cet examen l'ensemble des 78 pays admis à emprunter à la Banque internationale pour la reconstruction et le développement, qui est le guichet non concessionnel de l'institution.

Le groupe de travail a bénéficié du concours de nombreux agents du Groupe de la Banque mondiale qui ont su développer et faire la synthèse de ce que l'on sait des difficultés rencontrées par les pays à revenu intermédiaire et des travaux de la Banque et d'autres partenaires. Nous avons également bénéficié de la participation active des administrateurs et d'autres représentants de haut niveau des actionnaires de la Banque. Plus de 50 pays actionnaires ont accepté de fournir les informations demandées et plus de 25 pays emprunteurs ont participé à des réunions de consultation.

Les travaux du groupe mettent en lumière l'importance cruciale des pays à revenu intermédiaire dans le combat mené contre la pauvreté dans le monde. Ces pays abritent près de 80 % des pauvres vivant avec moins de deux dollars par jour. C'est ainsi qu'en Amérique latine un enfant ne va habituellement à l'école que pendant cinq ans, et la mortalité infantile est cinq fois plus élevée en moyenne dans les pays à revenu intermédiaire que dans les pays de l'OCDE. Comme l'ont montré les crises, notamment en Asie de l'Est, nombreux sont ceux qui, dans les pays à revenu intermédiaire, sont susceptibles de sombrer dans la misère au moindre choc.

Le groupe de travail a constaté que les actionnaires s'accordaient généralement à dire que s'occuper des pauvres dans ces pays était un impératif *moral* pour la communauté internationale. Ils étaient également d'accord sur les raisons justifiant dans la pratique une action de la communauté internationale, à savoir que les pays à revenu intermédiaire jouent un rôle clé dans la lutte contre les maladies transmissibles, la contagion financière et l'environnement mondial, et qu'ils offrent des débouchés aux pays à faible revenu. Les actionnaires et les clients ont par ailleurs reconnu que le Groupe de la Banque mondiale est précisément chargé d'aider ces pays à surmonter leurs propres problèmes de développement.

Ce rapport fait valoir que pour véritablement jouer son rôle, le Groupe de la Banque mondiale doit collaborer avec d'autres partenaires — gouvernements, secteur privé, société civile, et organisations bilatérales et multilatérales — et que l'appui fourni à chaque pays membre doit être ancré dans la vision qu'a ce dernier de son propre développement. Nos travaux nous ont amenés à nous interroger sur des questions concrètes : « Comment le Groupe de la Banque peut-il améliorer sa manière de

procéder, ses produits et sa collaboration avec ses clients, ses autres partenaires et les différentes institutions qui le composent ? » Les réponses que nous proposons sont tout aussi pragmatiques : il s'agit de systématiser davantage les travaux d'analyse, de se montrer plus sélectif et de fournir des instruments de prêt offrant aux pays une plus grande marge de manœuvre pour maîtriser leur propre développement. Ces changements peuvent, à notre avis, améliorer les résultats sur le terrain et, au bout du compte, améliorer le sort des populations que la Banque a pour mission de servir.

En qualité de président du groupe de travail, je tiens à exprimer ma plus profonde gratitude à tous les collaborateurs qui ont participé au groupe et appuyé ses travaux, aux représentants des actionnaires pour l'expérience et les enseignements dont ils nous ont fait profiter, et à la direction de la Banque pour son appui, ses conseils et ses encouragements. L'on doit souligner de façon particulière la contribution exceptionnelle qu'a apporté Madame Joanne Salop et son équipe au secrétariat du Groupe de travail, qui ont su dirigé avec habilité les études qui supportent l'analyse et les recommandations du rapport, et qui ont joué un rôle essentiel dans son élaboration à travers plusieurs versions.



David de Ferranti

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de la Banque mondiale et les pays  
à revenu intermédiaire, et  
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Avril 2001

## INTRODUCCION

**E**ste informe es el resultado de un Grupo de Estudio formado por personal y administradores del Grupo del Banco Mundial, a quienes en septiembre de 2000 se solicitó que examinaran todos los aspectos de las relaciones del Grupo del Banco Mundial con sus países miembros de ingreso mediano adoptando un enfoque innovador. Para llevar a cabo esta revisión, se nos pidió incluir el total de los 78 países que cumplen los requisitos para endeudarse desde la ventanilla no concesionaria del Banco, el Banco Internacional de Reconstrucción y Fomento.

El Grupo de Estudio recibió el apoyo de muchos funcionarios del Grupo del Banco Mundial, quienes sintetizaron y ampliaron el conocimiento disponible sobre los desafíos que enfrentan los países de ingreso mediano y sobre el trabajo del Banco y otros socios. También nos beneficiamos de la intensa colaboración de los Directores Ejecutivos y otros representantes especializados de los accionistas del Banco. Más de 50 países accionistas aceptaron nuestra invitación de entregar sus aportes y más de 25 países prestatarios participaron en las reuniones de consulta.

En el trabajo del Grupo de Estudio se destaca la enorme importancia de los países de ingreso mediano en los esfuerzos por enfrentar la pobreza en el mundo. Estos países albergan a casi el 80 por ciento de todas las personas que viven con menos de US\$2 diarios. Un niño representativo de América Latina termina sólo cinco años de escuela, mientras que la mortalidad infantil en los países de ingreso mediano supera, en promedio, cinco veces el nivel de los países de la OCDE. Como ha quedado demostrado por las crisis del Este Asiático y de otras regiones, basta que se produzca una perturbación para que muchas personas de los países de ingreso mediano queden en la indigencia.

El Grupo de Estudio descubrió que hay consenso entre los accionistas respecto al imperativo *moral* de que la comunidad internacional encare la pobreza en estos países. También hubo consenso en torno a los motivos prácticos para enfrentar este tema: por una parte, por la función clave que cumplen los países de ingreso mediano en enfrentar las enfermedades infecciosas, el contagio financiero y el medio ambiente global y, por otra, como mercados para los países de bajo ingreso. A su vez, los accionistas y clientes también estuvieron de acuerdo en que el Grupo del Banco Mundial ocupa un lugar excepcional para ayudar a estos países a enfrentar sus propios desafíos.

En este informe se señala que, para cumplir esta función con eficiencia, el Grupo del Banco Mundial debe cooperar con otros socios: los gobiernos, el sector privado, la sociedad civil y las organizaciones bilaterales y multilaterales, y que el apoyo que se preste a cada país miembro debe basarse en la propia visión de ese país sobre el desarrollo. Como Grupo de Estudio, hicimos preguntas pragmáticas: “¿Qué puede mejorar el Grupo del Banco Mundial en términos de sus procesos y productos y en su colaboración con sus clientes, con otros socios y entre sus propios organismos?” Las

repuestas que proponemos también son pragmáticas, entre ellas, un trabajo analítico más sistemático, mayor selectividad e instrumentos de crédito que otorguen una mayor flexibilidad a los países para manejar su propio desarrollo. Creemos que estos cambios pueden promover mejores resultados en el terreno y, en último término, mejorar la vida de las personas que constituyen la razón de ser del Banco.

Como Director del Grupo de Estudio, me gustaría expresar mi profundo aprecio a todos mis colegas que se desempeñaron en el Grupo y apoyaron su labor, a los representantes de los accionistas que compartieron su experiencia y visiones con nosotros y a la administración superior del Banco por su permanente apoyo, asesoría y estímulo. Le debemos una muy especial expresión de gratitud a Joanne Salop, quien estuvo a cargo de la Secretaria del Grupo de Estudio, dirigió a los equipos encargados de reforzar los análisis y las recomendaciones del Grupo de Estudio, y tuvo un papel clave en apoyar la trayectoria de este informe en sus sucesivas encarnaciones. Quiero hacer extensivo este reconocimiento a los miembros del equipo de Joanne.



David de Ferranti

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Many people from all parts of the Bank Group contributed to the task force's work, providing information and analysis, drafting text, editing, organizing consultations, and providing other support functions. Contributors included Jennifer Abner, Anita Ahmed, Aiza Aslam, Harold Bedoya, Amar Bhattacharya, Bonita Brindley, Henry Chase, Pansy Chintha, Pauline Chin-Mori, Patricia Cox, Uri Dadush, Deborah Danker, Rajesh Dewan, Nicholette DeWitt, David Dollar, John Factora, Peter Fallon, Egbert Gerken, Cecilia Guido-Spano, Engilbert Gudmundsson, Doris Herrera-Pol, Vivian Hon, Wendy Jarvie, Basil Kavalsky, Homi Kharas, Shigeo Katsu, Stefan Koeberle, Michael Lav, Sheldon Lippman, Laszlo Lovei, Keith Martin, Omar McDoom, Genevieve Mendiola, Carmini Luther Michelitsch, Barbara Mierau-Klein, Mustapha Nabli, Anthony Ody, David Peretz, Tatiana Proskuryakova, Rosalinda Quintanilla, Mohammad Zia Qureshi, Patricia Rogers, Anand Seth, Neeta Sirur, Jim Stephens, Nick Stern, Leslie Villegas, Mei Wang, Michel Wormser, and Ulrich Zachau.

A special thanks is due to the many clients, donors, members of other development agencies, and Bank Group Executive Directors who gave their time, knowledge, and advice to inform the work of the task force.

# REPORT OF THE TASK FORCE ON THE WORLD BANK GROUP AND THE MIDDLE-INCOME COUNTRIES

## EXECUTIVE SUMMARY AND RECOMMENDATIONS

The Task Force on the World Bank Group and the Middle-Income Countries was created in September 2000 to explore how the Bank Group can best help middle-income countries—defined by the Task Force’s terms of reference as the countries that are eligible for IBRD funding.<sup>1</sup> These countries constitute a very diverse group. They include developing countries and transition economies; countries with and without significant access to capital markets; and countries in low-income, lower-middle-income, and upper-middle-income categories. Other characteristics also differ widely among IBRD-eligible countries, including poverty incidence (with poverty head counts ranging from below 15 percent to above 50 percent), size of the economy (ranging from small island states to large federations), and achievements in policy reforms and institution building (ranging from countries that still need to complete basic market-opening reforms to advanced reformers with strong track records). The Task Force reviewed the main development challenges facing this diverse group of countries, consulted with shareholders and clients on the role of the World Bank Group in helping countries meet the challenges, and developed recommendations for the Bank Group’s approach through its country programs, products, and partnerships.

**Development Challenges.** Poverty reduction is now universally recognized as the central objective of development assistance.<sup>2</sup> Nearly 80 percent of the world’s poor people (as measured by those living on less than US\$2 a day) live in IBRD-eligible countries. Combating poverty in IBRD borrowers is essential if global objectives for poverty reduction are to be met. And although many middle-income countries have significantly improved their basic microeconomic and macroeconomic policies and institutions, they share a number of other development challenges in addition to persistent poverty. If they are to achieve faster sustained growth and poverty reduction, they need to strengthen their social, structural, and sectoral policies and institutions; improve their investment climates to promote private involvement; and attain stable access to international markets and private capital flows, on reasonable terms. Developments in middle-income countries are also important for poverty reduction elsewhere. The economic well-being of these countries translates into trade opportunities for low-income countries; and conversely, financial instability, environmental degradation, and communicable diseases in middle-income countries can all have adverse effects far outside their borders. Thus Bank Group support that

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<sup>1</sup> The Task Force’s terms of reference are provided as Annex A.

<sup>2</sup> See 2000, *A Better World for All: Progress towards the International Development Goals*, jointly issued by the IMF, Organization for Economic Co-operation and Development, the United Nations, and the World Bank Group (Washington, D.C.: International Monetary Fund, 2000), available at <http://www.paris21.org/>.

promotes poverty reduction in-country has a much broader impact through its spillover effects on global growth and stability.

**Consultations.** In the course of its work, the Task Force consulted with shareholders (both representatives from capitals and Executive Directors), clients, and partners, as well as Bank Group managers and staff. Client country concerns included interest in upgraded analytic work, new lending facilities that would help countries to protect social and structural programs in the face of financial market instability, and concrete steps to reduce the cost of doing business with the Bank. The message of nonborrowing shareholders was that since such a large proportion of the world's poor people live in middle-income countries, helping these countries meet their development challenges is central to the Bank Group's overarching mission of tackling global poverty. Though their concerns were sometimes quite different, both borrowing and nonborrowing shareholders gave us one very strong message—that the Bank Group must remain engaged with these countries, individually and collectively. Indeed, both groups see the Bank Group filling an important role in helping these countries address their social, structural, and sectoral development challenges, especially given its worldwide and multisectoral mandate. They feel its comprehensive perspective can translate into advice to middle-income countries on a broad range of issues, with the experience gained in middle-income countries also informing the advisory and knowledge base for the Bank Group's work in low-income countries.

**World Bank Group Role and Rationale.** The Task Force's deliberations and consultations with shareholders have confirmed that the Bank Group has a mandate and expertise in the very areas that present the greatest development challenges for these countries, and that it is able to offer assistance—both financial assistance and, as important, advice and knowledge transfer—of unique value to clients. Bank Group support can help countries tackle the continuing problem of poverty in all its dimensions, and build the social, structural, and sectoral policies and institutions they need. For those with incomplete market access, Bank Group financial support can leverage reforms that lead to faster and more equitable growth and that, over time, will help these countries achieve stronger and more stable access to markets and eventually move beyond the need for Bank assistance. In this area, in particular, the Bank Group's role is to be a catalyst—for good policies and capacity building, for stable and sustainable private flows, and for policy and financial support from other development partners. And in all this, the Bank Group brings a global perspective—knowledge gathered from working in many sectors with its member countries around the world. Indeed, experience gained in working with middle-income countries adds to this global knowledge, and can inform the advisory and knowledge base for the Bank Group's work in low-income countries. But Bank Group support can be most effective only if it focuses on key priorities and uses appropriate instruments, while being highly selective in an effective division of labor with other international financial institutions and partners. In assisting countries, it also is essential that the Bank Group is synergistic in drawing on all of its constituent parts: IBRD's economic and sector work, knowledge sharing and training, policy dialogue, guarantees, and lending to governments; IFC's direct financing to the private sector, development of financial intermediaries, and technical advice; and MIGA's guarantees for foreign investment and technical advice on attracting investment.

**Guiding Principles.** Six overarching principles have guided the work of the Task Force and underlie our specific recommendations:

- **Poverty Reduction Mandate.** The Bank Group's role and rationale in middle-income countries are driven by its poverty reduction mandate. But in carrying out this mandate, the priorities for Bank Group support must be defined in the specific country context; hence those for middle-income countries often differ from those for low-income countries, which have different starting points.
- **Country Diversity.** IBRD-eligible countries vary widely with regard to income, poverty incidence, capital market access, and the progress they have made in policy reforms and institution building. Bank Group support therefore needs to be highly customized to the development needs of each country. What is important is that the Bank Group has the right overall approach and an appropriate menu of instruments from which to offer support.
- **Client Focus.** A key lesson of the past 50 years is that development cannot be done *to* a country, it must be done *by* the country. This lesson reinforces the importance of the principles underlying the Comprehensive Development Framework (CDF): country ownership, partnership, focus on results, and a comprehensive and long-term perspective.
- **Comprehensive Diagnosis.** Given the Bank's global reach—across both countries and sectors—it is uniquely positioned to help countries prioritize and sequence their responses to the broad set of development challenges they face. Hence, the importance of the Bank's (a) having analytic products that assess—and can help clients assess—countries' social and structural policy constraints to poverty reduction in an integrated manner, and (b) sustaining its engagement with the middle-income countries through economic and sector work and policy dialogue, even when the borrowing relationship is interrupted.
- **Selective Program.** In moving from the country vision and policy dialogue based on a comprehensive diagnosis of country challenges to the specifics of the CAS program, the Bank Group must be highly selective in the interventions it supports, mindful of the important contributions to be made by other partners, including the private sector. In this role, it should focus only on areas where the Bank Group can clearly make a difference through its unique set of attributes, and should wherever possible seek to catalyze the efforts of others, both in the provision of finance (where this is needed) and in the provision of policy analysis and advice and help with capacity building.
- **Financial Sustainability.** The Bank Group cannot carry out its development mandate unless it safeguards its own sustainability. In line with our terms of reference (and the debates of recent years), the Task Force has paid special attention to IBRD's financial sustainability and the administrative budget consequences of our proposals.

**Recommendations.** Against this background, we have identified a set of specific proposals for improvements in Bank Group processes and products. These proposals are critical to enhancing the Bank Group's effectiveness in promoting poverty reduction.

Many are not new ideas, but they have not yet been implemented as systematically and thoroughly as is needed—and that, the Task Force believes, is now the urgent priority.

- **Country Assistance Strategies.** Country Assistance Strategies (CASs) are and should remain the key vehicle for developing the Bank Group country program. But they need to be more sharply focused and businesslike, clearly setting out the lending and nonlending program and the understandings reached about the performance, deliverables, and accountabilities of both the country and the Bank. The program should fully integrate the Bank Group’s analytic support and assistance for capacity building. If the CAS process is to be able to designate the interventions with which the Bank Group can have the greatest development impact, it must build on (a) the country’s development vision and agenda, (b) a systematic and comprehensive diagnosis, and (c) an informed view of what others—including the private sector—are doing, thus applying CDF principles. As a business document, the CAS also should assess Bank Group performance more systematically, incorporating feedback from client surveys, as a basis for determining the direction of future support.
  - The CAS must fully reflect the country context and agenda. With this objective in mind, the Task Force recommends experimentation with a *Letter of Development Strategy* as a possible vehicle for governments to set out in the CAS their development vision and strategy with respect to the social, structural, and sectoral agenda. Such a letter would be flexible in format and could be attached as an annex to the CAS document, with the content summarized in the text.
  - The CAS should be underpinned by two *integrative diagnostic analyses*. One (a fiduciary assessment) would focus on public financial accountability and would assess country systems for public expenditure, procurement, and financial management. The other (a development policy review) would assess policy and institution-building priorities on the basis of a cross-cutting review of the social, structural, and sectoral agenda. These analyses would draw on in-depth studies produced by the Bank, clients, and other institutions. In addition to underpinning the CAS, both would support the policy dialogue and lending.
  - Given the diversity of country circumstances, *CAS programs vary considerably across countries*, reflecting the different mix of instruments appropriate for clients at different stages of development and market access. For example, at one end of the spectrum, IBRD/IDA blend countries are governed by IDA rules, and tend to have CAS programs that focus on capacity building; their lending programs typically look more like those of IDA-only countries than those of other IBRD-eligible countries. However, at the other end of the spectrum, for relatively inactive borrowers with higher income and greater market access, CASs should be more oriented toward nonlending instruments, understandings about possible future support in times of stress, and IFC engagement to help to expand the frontiers of what market participants will finance.

- When a country reaches the per capita income threshold for discussing *IBRD graduation*, its next CAS should set out the country's graduation readiness—as reflected in its poverty, volatility of income and market access, and unfinished institutional and policy reform agenda—and the prospects and strategy going forward, bearing in mind the risks of reversal. Also, the graduation process should be completed before the country moves beyond the upper threshold for middle-income status.<sup>3</sup>
- ***Economic and Sector Work.*** The Task Force feels strongly that the Bank must rebuild and systematize its country-based diagnostic economic and sector work (ESW) program, taking into account studies produced outside the Bank and working as much as possible in collaboration with clients and other partners. The ESW program would combine core integrative analyses performed in all country programs (to a broadly common standard) with diagnostic work that is more tailored to individual country priorities. Bank studies should be conducted in a way that draws on and builds analytic capacity in the country. Basing the policy dialogue on solid analysis of the country's development challenges is central to the Bank Group's success in supporting development. But while the recognized need for and payoff from country analytic and advisory work have risen sharply and the social, structural, and sectoral agenda in middle-income countries has become increasingly complex, Bank resources available for this type of work have fallen. During the consultations, clients, including inactive borrowers, welcomed continued engagement through ESW, stressing that ESW should be carried out wherever possible in true partnership, using the country vision as a starting point; many specifically welcomed the idea of regular systematic assessments, which would underpin the dialogue on the management of public finances and on overall policy and institutional priorities.
  - The CAS should set out the ESW program in terms of three groups of analyses: (a) the *core integrative products* needed for all countries—the fiduciary assessment and the development policy review that are described above; (b) *other diagnostic work*—to be carried out wherever possible in collaboration with clients and partners—that would underpin the dialogue and future lending, and would also provide building blocks for the integrative assessments; and (c) understandings reached about the program of *demand-driven, or “customized,” ESW*—magnitude, content, and cost-sharing arrangements. The CAS also should identify how the ESW and other nonlending activities will contribute to developing the countries' own capacity to undertake analysis and contribute to the policy dialogue.
  - For inactive borrowers and countries at the upper end of the middle-income range, the Bank should explore *nonlending approaches* along the lines of the country development partnership being developed in Thailand. Especially taking into account the scope for disseminating acquired development knowledge to other countries, these kinds of

<sup>3</sup> The lower threshold for discussing IBRD graduation is currently \$5,225 (in 1999 dollars); the upper threshold for middle-income status is currently \$9,266 (in 1999 dollars). See OP 3.10, Annex D, *IBRD/IDA Countries: Per Capita Incomes, Lending Eligibility and Prepayment Terms*, accessible through the Operational Manual at [www.worldbank.org/whatwedo/policies.htm](http://www.worldbank.org/whatwedo/policies.htm).

- partnerships can provide broad benefits to the development community, as well as to individual clients.
- Underlying the above should be clear rules for *funding* integrative analyses and other diagnostic work out of the Bank's core budget and for allowing countries—and partners—to commission additional services on a cost-sharing basis, where Bank capacity permits. These rules will need to be worked out once the size of the overall budget envelope for ESW is known, and will need to be reflected in future CASs.
  - Bank *research, evaluation, and outreach* should support country-specific ESW by focusing on gaining a better understanding of the development challenges that middle-income countries face and the role that the Bank can play in addressing them.
  - **Lending and Guarantees.** Consistent with the Bank's research findings on aid effectiveness, and in accordance with the CDF approach, the Task Force concluded that the Bank Group's ability to leverage progress on poverty reduction lies less in its support for individual projects and more in its support for the policy and institutional reforms needed for a healthy and stable private sector environment, institution building, and social development. This is particularly true in many middle-income countries, where the Bank Group provides only a small proportion of the country's development finance needs. During the consultations, client representatives expressed an array of views corresponding to their countries' particular needs; but the broad thrust was for a larger rather than a smaller menu of lending instruments.
    - We expect that, although middle-income countries' use of *project (or investment) lending* is decreasing, such lending will remain important, especially where the policy environment does not yet encourage the private sector. It will be particularly useful for testing approaches and supporting in-depth programs where hands-on Bank expertise is needed. Project lending has a role to play in the programs for all these countries, with the specifics to be tailored to the particular needs of clients as set out in the CAS.
    - The trend toward more *program (or adjustment) lending* in middle-income countries must be managed with a view to increasing the Bank's effectiveness in leveraging sustained growth and poverty reduction. To be most effective, program loans should be synchronized with countries' policy and budget cycles, and have agreed conditionality focused on priority issues and explicitly linked to actual performance and development outcomes spelled out in the CAS. We expect that sequences of programmatic adjustment loans will increasingly be used to support complex medium-term reform programs, while sectoral adjustment loans and subnational adjustment loans will continue to be used to support specific reforms at the sectoral and state/provincial level. The Task Force notes that there is continued debate about these issues, which will be the subject of discussions with Executive Directors in

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<sup>4</sup> See *Adjustment Lending Retrospective*, World Bank, forthcoming.

preparing for the review of the Bank's operational policy on adjustment lending.<sup>4</sup>

- The Bank must recognize that *volatility* of lending demand is here to stay, driven by global and country-specific factors. The Bank should prepare for it by staying engaged with clients—including IBRD-eligible countries that do not maintain a regular borrowing relationship with the Bank—through dialogue grounded in ESW. This will enable the Bank to respond quickly with program support to help countries protect the poor and maintain ongoing reforms in the event of a shock or major changes in a country's condition. It also will help ensure that such lending will be strongly developmental despite its cyclical nature. Such program lending could take different forms, including regular structural adjustment loans when financing needs remain within CAS limits, and special structural adjustment loans when a country's financing needs go beyond CAS levels.
- We recommend that the Bank develop a *deferred drawdown option* for program lending. This would meet the needs of countries that are currently able to borrow from the market, but are concerned both to remain more continuously engaged with the Bank and to enhance their debt management flexibility, or are at a stage of development when experience suggests they may need support again in the future. Borrowers could use the option as a precautionary management tool in anticipation of a possible downturn in market access. The price and fee structure of this option would be set so as to reflect costs to the Bank and value-added to clients of continued Bank engagement and policy dialogue in periods when drawings are not made.
- The Bank should stay alert to changing client needs for *financial products*. In response to requests from middle-income client countries, the Bank introduced variable-spread single currency loans and fixed-spread loans, and the Board has recently approved the introduction of local currency loans.
- **Costs of Doing Business with the Bank.** The Bank must take effective action to reduce unnecessary delays and other transaction costs of doing business with it, by clarifying policies and streamlining internal processes, and by reducing the number of conditions in adjustment loans and focusing them on high-priority actions. The current focus on compliance with operational policies must continue, but it should be complemented by a capacity-building approach designed to help borrowers develop effective safeguard and fiduciary systems for public expenditure, procurement, and financial management.
- **Synergies within the Bank Group.** The Task Force concluded that valuable steps have been taken in recent years to exploit synergies within the Bank Group in supporting private sector development in middle-income countries—including the preparation of joint Bank Group CASs. But we feel that more needs to be done, especially in coordinating on strategic and diagnostic work (ESW tools, client-focused analytic and advisory services, and survey

instruments for analyzing the business environment) and on specific operations, including following up on opportunities identified in joint CASs for sequencing policy reforms supported by the Bank and transactions supported by the IFC. We also see the need to develop better mechanisms to promote synergies with MIGA.

- ***Division of Labor with International Financial Institutions.*** Selectivity and division of labor with the international financial institutions and other partners need to be exercised at both the institutional level and the country level. The Bank and Fund have a well-developed framework at the institutional level for defining their respective roles, especially for work in low-income countries; among the Bank and other international financial institutions, however, the division of labor varies from country to country.
  - *Bank-Fund collaboration* in low-income countries is being enhanced under the Heavily Indebted Poor Countries (HIPC) and PRSP initiatives. These enhanced arrangements provide for each institution to take lead responsibility for distinct aspects of the policy dialogue with borrowers, and set a common framework in which the two institutions jointly and separately assess and monitor progress. The Task Force believes there is scope to apply similar principles (though with inevitable differences in practice) in middle-income countries, and sees its proposals for fiduciary assessments, development policy reviews, and programmatic lending as providing a basis for more structured cooperation and streamlining of institutional responsibilities with the IMF.
  - As regards the *regional development banks*, the Task Force believes that country strategy work should remain the principal vehicle for ensuring an efficient division of labor among the multilateral development banks at the country level. But we also see scope for enhanced institutional cooperation on diagnostic economic and sector work—starting with fiduciary assessments, where there are shared institutional needs—and for exploring over time areas of possible institutional specialization in the context of Sector Strategy Papers and related vehicles. Continued progress on harmonizing operational policies and procedures is essential, not least because of the scope for reducing the cost of doing business for both clients and the development system.
- ***IBRD Financial Sustainability.*** IBRD lending aggregates have been volatile in recent years, mirroring both the volatility that some countries face in external markets and the variability that characterizes some countries' policy and institutional performance. Reflecting these trends and our recommendations going forward, we believe that the IBRD lending aggregates will remain within a “zone” that is bounded on the upside by IBRD's limited risk-bearing capacity and on the downside at a level that is consistent with the income-generating capacity needed to maintain development support and critical transfers (to IDA and the Heavily Indebted Poor Countries Initiative) and to sustain future lending. However, lending trends will continue to need careful monitoring.

- **Loan Pricing.** The Task Force has considered possibilities for differentiating loan charges between countries and between sectors. For reasons set out in the report, we believe that the Bank should continue its practice of using means other than pricing to achieve appropriate selectivity. But as new facilities are developed, we do see increased scope for price differentiation between products; as with the special structural adjustment loan, fees and loan charges would reflect such products' differential costs to the Bank and attractiveness to borrowers.
- **Budget and Staffing Implications.** Many of the Task Force's recommendations have implications for the Bank's operational budget. In some cases there will be up-front cost increases—for example, changing the lending mix to include more program lending is expected to cost more at first, reflecting the larger preparatory costs associated with the needed diagnoses, especially of public expenditure, procurement, and financial management systems. In other cases, it will be possible to offset some of the increases by tighter focus, stronger management, and better collaboration with others. In still other cases, some of the extra costs will be financed by increased flows of loan fees and charges—if, for example, the proposed deferred drawdown option causes otherwise inactive borrowers to remain financially engaged with the Bank—but will nevertheless show up as an increase in the operational budget. In the context of working with staff who are preparing the Strategic Directions Paper, the Task Force was able to narrow its earlier cost estimates; we now estimate that the recommendations imply additional country program costs of about \$35-40 million annually. There will be some long-term impact on the skills mix of Bank staff, primarily through the gradual evolution towards programmatic lending, which will require greater expertise in public expenditure, procurement, and financial management systems.
- **Nomenclature.** Finally, we suggest an update of the names of Bank products and processes to more aptly capture the spirit of the emerging development paradigm, especially as it applies to the middle-income countries. Terms such as “Country Assistance Strategy,” “economic and sector work,” and “adjustment lending” belong to an earlier era, and should be retired.

**Conclusions.** The Task Force has concluded that continued engagement by the Bank Group in the middle-income countries is vital to helping these countries address their particular development challenges in reducing poverty. In implementing this continued engagement, the Task Force believes that the Bank Group's approach must be more disciplined than hitherto—and also more steady, systematic, and strategic. Most of the building blocks are already in place, but important upgrades are needed. CASs need to be more businesslike, building on the country's vision and agenda and a clear diagnosis of its public financial accountability systems and its development priorities. ESW should be more systematic; there should be more of it; it should be developed in cooperation with partners, to better underpin the Bank's systematic engagement; and it should have a stronger emphasis on building analytic capacity in the country. Lending should be more strategically linked to the policy and institutional drivers of sustained growth and poverty reduction and focused more on capacity and institution building. More attention should be given to intermittent and inactive borrowers, to maintain the Bank's readiness to help them respond to shocks with support for their social, structural, and sectoral

reforms. Implementing all this will require additional resources for country programs. It also will involve tensions that will need to be managed, both in balancing the various interests of the middle-income countries, shareholders, and others, and in balancing the developmental benefits and risks associated with more programmatic approaches. But in the final analysis, we feel the Bank Group has no choice but to move in this direction if it is to remain relevant to this important group of countries and to deliver on its core mandate of global poverty reduction.

# RAPPORT DU GROUPE DE TRAVAIL SUR LE GROUPE DE LA BANQUE MONDIALE ET LES PAYS À REVENU INTERMÉDIAIRE

## RÉSUMÉ ANALYTIQUE ET RECOMMANDATIONS

Le groupe de travail sur le Groupe de la Banque mondiale et les pays à revenu intermédiaire a été créé en septembre 2000 pour examiner la manière dont l'institution peut le mieux apporter une aide aux pays à revenu intermédiaire — définis dans la lettre de mission du groupe de travail comme étant les pays admis à emprunter à la BIRD<sup>1</sup>. Ces pays forment un groupe très hétérogène, qui englobe des pays en développement et des économies en transition ; des pays ayant largement accès aux marchés des capitaux et d'autres qui n'y ont pas accès ; et des pays entrant dans les catégories des pays à faible revenu et à revenu intermédiaire de la tranche inférieure et de la tranche supérieure. Les pays autorisés à emprunter à la BIRD présentent d'autres caractéristiques pouvant aussi être très diverses, qu'il s'agisse de l'incidence de la pauvreté (la proportion de pauvres allant de moins de 15 % à plus de 50 % de la population), de la taille de l'économie (depuis les petits États insulaires jusqu'aux grandes fédérations) ou des résultats obtenus au plan des réformes de politique économique et de renforcement institutionnel (certains pays devant encore mener à bien des réformes de base pour ouvrir leur économie, alors que d'autres sont des réformateurs avancés aux antécédents solides). Le groupe de travail a examiné les principaux problèmes de développement auxquels se heurte ce groupe hétéroclite de pays, consulté les actionnaires et les clients sur la manière dont le Groupe de la Banque mondiale peut aider ces pays à surmonter ces obstacles et formulé des recommandations sur les moyens que l'institution doit mettre en oeuvre à cet effet par le biais de ses programmes-pays, de ses produits et de ses partenariats.

**Problèmes de développement.** Il est désormais universellement admis que la réduction de la pauvreté est l'objectif central des programmes d'aide au développement<sup>2</sup>. Près de 80 % des pauvres du monde (vivant avec moins de 2 dollars par jour) habitent dans des pays admis à emprunter à la BIRD. Combattre la pauvreté dans les pays qui peuvent emprunter à la BIRD est essentiel si l'on veut atteindre les objectifs internationaux de réduction de la pauvreté. Et si nombre de pays à revenu intermédiaire ont considérablement amélioré leurs politiques micro et macroéconomiques, ainsi que leurs institutions, la pauvreté persistante n'est pas le seul problème de développement qu'ils ont en commun. Pour parvenir plus rapidement à une croissance durable et à faire reculer la pauvreté, ils doivent renforcer leurs institutions et leurs politiques sociales, structurelles et sectorielles ; améliorer le climat de des

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<sup>1</sup> La lettre de mission du groupe de travail figure à l'Annexe A.

<sup>2</sup> Voir le rapport intitulé *2000, A Better World for All: Progress towards the International Development Goals*, publié conjointement par le FMI, l'Organisation pour la coopération et le développement économiques, les Nations Unies et le Groupe de la Banque mondiale (Washington : Fonds monétaire international, 2000), qui peut être consulté à l'adresse suivante : <http://www.paris21.org/>.

investissements pour attirer les opérateurs privés ; et s'assurer d'un accès stable aux marchés internationaux et aux flux de capitaux privés, à des conditions raisonnables. L'évolution de la situation dans les pays à revenu intermédiaire est importante également pour la réduction de la pauvreté dans les autres pays. Leur bien-être économique engendre des opportunités commerciales pour les pays à faible revenu et, inversement, l'instabilité financière, la dégradation de l'environnement et les maladies transmissibles sévissant dans les pays à revenu intermédiaire peuvent exercer des effets négatifs bien au-delà de leurs frontières. L'aide du Groupe de la Banque à la réduction de la pauvreté dans tel ou tel pays a un impact beaucoup plus large à travers ses retombées sur la croissance et la stabilité à l'échelle mondiale.

**Consultations.** Dans le cadre de ses activités, le groupe de travail s'est entretenu avec des actionnaires (aussi bien des représentants officiels des pays que des administrateurs), des clients et des partenaires, ainsi que des membres de la direction et du personnel du Groupe de la Banque. Il est ressorti de ces consultations que les pays clients souhaitent une amélioration des travaux d'analyse, de nouveaux instruments de prêt qui les aident à préserver leurs programmes sociaux et structurels face à un marché financier instable et des mesures concrètes propres à réduire le coût des transactions avec la Banque. Les actionnaires non-emprunteurs ont quant à eux fait valoir qu'étant donné qu'une forte proportion des pauvres de la planète habitent dans les pays à revenu intermédiaire, aider ces pays à surmonter leurs problèmes de développement est au centre de la mission fondamentale du Groupe de la Banque mondiale, qui est de lutter contre la pauvreté dans le monde. Bien que leurs préoccupations soient parfois très différentes, le message des actionnaires, tant emprunteurs que non-emprunteurs, est très clair : le Groupe de la Banque doit rester actif dans ces pays, individuellement ou collectivement. En fait, ces deux catégories d'actionnaires considèrent que le Groupe de la Banque peut beaucoup pour aider ces pays à surmonter les obstacles d'ordre social, structurel et sectoriel qui s'opposent à leur développement, compte tenu en particulier du caractère mondial et plurisectoriel de sa mission. Sa perspective mondiale permet à l'institution de fournir des conseils aux pays à revenu intermédiaire sur un large éventail de problèmes, l'expérience acquise dans ces pays venant enrichir la base de conseils et de connaissances utilisée par le Groupe de la Banque dans le cadre de ses activités dans les pays à faible revenu.

**Rôle et justification du Groupe de la Banque mondiale.** Les délibérations et les consultations du groupe de travail avec les actionnaires ont confirmé que le mandat et l'expertise du Groupe de la Banque porte précisément sur les domaines qui posent le plus de difficultés de développement à ces pays, et qu'elle peut fournir un concours, tant sous forme d'aide financière que — tout aussi important —, sous forme de conseils et de transfert de savoir, irremplaçable pour ses clients. L'appui du Groupe de la Banque peut aider les pays à s'attaquer au problème persistant de la pauvreté sous tous ses aspects, et à se doter des institutions et des politiques sociales, structurelles et sectorielles nécessaires. Pour ceux qui n'ont pas complètement accès au marché, l'appui financier du Groupe de la Banque mondiale peut favoriser des réformes aboutissant à une croissance plus forte et équitable, ce qui, à la longue, aidera ces pays à s'assurer un accès plus fiable et plus stable aux marchés, de sorte qu'ils puissent s'affranchir au bout du compte de l'aide de l'institution. Dans ce domaine, en particulier, le Groupe de la Banque doit jouer un rôle de catalyseur — qu'il s'agisse de la qualité des politiques et du renforcement des capacités, d'apports stables et durables de capitaux privés ou du soutien apporté par les autres partenaires pour le développement dans les domaines politique et financier. Et, dans tous ces domaines, le Groupe de la

Banque apporte une perspective globale — grâce aux connaissances accumulées dans le cadre de ses activités plurisectorielles dans ses pays membres à travers le monde. En fait, l'expérience acquise dans le cadre de ses activités avec les pays à revenu intermédiaire vient compléter ce savoir global et peut enrichir la base de conseils et de connaissances utilisée par le Groupe de la Banque dans les pays à faible revenu. Le seul moyen pour le Groupe de la Banque d'être le plus efficace possible est de se focaliser sur les priorités clés et d'utiliser les instruments qui conviennent, tout en faisant preuve d'une grande sélectivité de sorte que le travail soit efficacement réparti entre les institutions financières internationales et les partenaires. Dans le cadre de son aide aux pays, il est également essentiel que le Groupe de la Banque sache exploiter les synergies en s'appuyant sur toutes les institutions qui le composent : sur la BIRD, pour les études économiques et sectorielles, le partage du savoir et la formation, le dialogue de politique économique, les garanties et les prêts aux États ; sur la SFI, pour le financement direct des entreprises privées, la mise en place d'intermédiaires financiers et les conseils techniques ; et sur l'AMGI pour les garanties à l'appui des investissements étrangers et l'offre de conseils techniques sur les moyens d'attirer les investisseurs.

**Principes directeurs.** Six principes fondamentaux ont guidé les travaux du groupe et inspiré les recommandations concrètes que nous avons formulées :

- **Mandat de lutte contre la pauvreté.** Le rôle du Groupe de la Banque et la justification de son action dans les pays à revenu intermédiaire procèdent du mandat qui lui a été confié de réduire la pauvreté. Pour s'acquitter de ce mandat, le Groupe de la Banque doit cependant définir les priorités qui détermineront son appui à chaque pays en fonction des caractéristiques qui lui sont propres ; ce qui explique que les priorités arrêtées pour les pays à revenu intermédiaire sont souvent différentes de celles définies pour les pays à faible revenu, ces deux catégories de pays ayant des points de départ différents.
- **Diversité des pays.** Les pays admis à emprunter à la BIRD sont très différents au regard du revenu, de l'incidence de la pauvreté, de l'accès aux marchés des capitaux et de l'avancement des réformes de politique économique et du renforcement des institutions. L'appui du Groupe de la Banque doit donc être étroitement adapté aux besoins de développement de chaque pays. Ce qui est important, c'est que le Groupe de la Banque adopte la bonne approche générale et qu'il offre une panoplie d'instruments parmi lesquels il choisira celui qui convient à la situation.
- **Orientation client.** L'une des grandes leçons des 50 dernières années est que le développement ne peut pas être *imposé* à un pays, mais que le pays lui-même se développe. Cet enseignement renforce l'importance des principes qui sous-tendent le Cadre de développement intégré (CDI) : maîtrise du processus par le pays, partenariat, souci de résultat et perspective globale et à long terme.
- **Diagnostic global.** De par le caractère mondial et plurisectoriel de ses activités, la Banque est particulièrement bien placée pour aider les pays à définir le rang de priorité et l'enchaînement des mesures à prendre pour surmonter les problèmes de développement de toutes sortes auxquels ils

sont confrontés. D'où l'importance pour la Banque a) de disposer d'instruments d'analyse lui permettant d'évaluer et d'aider les pays clients à analyser les contraintes d'ordre social et structurel qui s'opposent à une action intégrée de lutte contre la pauvreté, et b) de rester active dans les pays à revenu intermédiaire par le biais de ses études économiques et sectorielles et du dialogue sur l'action à mener, même lorsque la relation de créancier à emprunteur est interrompue.

- **Programme sélectif.** Pour traduire la vision du pays et le dialogue de politique économique mené avec lui, lesquels se fondent sur le diagnostic global des problèmes auxquels le pays est confronté, en un programme SAP détaillé, le Groupe de la Banque doit se montrer extrêmement sélectif dans le choix des interventions qu'il appuie et tenir compte des contributions importantes devant être fournies par les autres partenaires, y compris le secteur privé. Pour ce faire, il doit uniquement faire porter ses efforts sur les domaines où l'institution dispose clairement d'un avantage comparatif en raison de ses caractéristiques bien particulières et, chaque fois qu'il le peut, s'efforcer de catalyser les efforts des autres en matière de financement (au besoin), d'analyse de politiques et d'offre de conseils ou d'aide au renforcement des capacités.
- **Pérennité financière.** Le Groupe de la Banque ne saurait s'acquitter de sa mission de développement s'il ne préserve pas sa propre viabilité à long terme. Conformément à sa lettre de mission (et aux débats de ces dernières années), le groupe de travail a prêté une attention particulière à la pérennité financière de la BIRD et aux conséquences de nos propositions pour le budget administratif.

**Recommandations.** Compte tenu de ce qui précède, nous avons identifié une série de propositions spécifiques propres à améliorer les processus et les produits du Groupe de la Banque. Ces propositions revêtent une importance critique si l'on veut donner au Groupe de la Banque les moyens de promouvoir plus efficacement la réduction de la pauvreté. Nombre des idées auxquelles elles renvoient ne sont pas nouvelles, mais n'ont pas encore été appliquées d'une manière aussi systématique et attentive qu'il le faudrait — or le groupe de travail estime que cet aspect doit désormais figurer au premier rang des priorités.

- **Stratégies d'aide-pays.** La Stratégie d'aide-pays (SAP) est l'instrument privilégié du Groupe de la Banque pour développer son programme d'aide aux pays, et elle doit le rester. Mais elle doit être plus précisément ciblée et constituer un document de gestion indiquant clairement les activités de prêt et hors prêt programmées, ainsi que les résultats, réalisations et responsabilités dont le pays et la Banque sont convenus de s'acquitter respectivement. Le soutien analytique du Groupe de la Banque et son appui au renforcement des capacités doivent faire partie intégrante du programme. Pour que la SAP permette de déterminer les interventions du Groupe de la Banque qui auront le plus d'impact sur le développement, elle doit se fonder sur a) la vision et le programme de développement du pays lui-même, b) un diagnostic systématique et complet, et c) une bonne connaissance de ce que font les autres, notamment le secteur privé, dans le droit fil des principes du CDI. À partir du moment où elle constitue un document de gestion, la SAP

doit aussi comporter une évaluation plus systématique de la performance du Groupe de la Banque, compte tenu des données tirées des enquêtes auprès des clients, et servir de base aux choix d'orientation des futures activités d'appui.

- La SAP doit refléter pleinement le programme et les caractéristiques du pays concerné. À cet effet, le groupe de travail recommande d'inviter à titre expérimental les pays à exposer éventuellement leur vision et leur stratégie de développement dans une *Lettre de stratégie de développement* qui présenterait, dans la SAP, leur programme de réformes sociales, structurelles et sectorielles. Cette lettre, dont le format ne serait pas strictement défini, pourrait être jointe en annexe au document de la SAP, et la teneur, en être résumée dans le texte.
- La SAP devra s'appuyer sur *deux types d'analyses diagnostiques intégratives*. L'une (l'évaluation fiduciaire) portera sur la responsabilité en matière de finances publiques et évaluera les systèmes de gestion des dépenses publiques, de passation des marchés et de gestion financière du pays. L'autre (l'analyse de la politique de développement) évaluera les priorités de réforme et de renforcement institutionnel sur la base de l'examen des différents aspects du programme d'action sociale, structurelle et sectorielle. Ces évaluations s'appuieront sur des études approfondies réalisées par la Banque, les clients et d'autres institutions. Non seulement ces deux types d'analyses serviront de base à la SAP, mais elles appuieront le dialogue de politique générale et les opérations de prêt.
- Chaque pays présentant des caractéristiques bien particulières, *les programmes SAP varient considérablement d'un pays à l'autre*, la combinaison d'instruments retenue pour chaque client changeant en fonction de son stade de développement et de son accès au marché. Les pays admis à emprunter à la fois à la BIRD et à l'IDA sont ainsi assujettis aux règles de l'IDA et appliquent des programmes SAP qui privilégient souvent le renforcement des capacités ; leurs programmes de prêt ressemblent généralement davantage à ceux des pays exclusivement IDA qu'à ceux des autres pays admis à emprunter à la BIRD. À l'autre extrême, en revanche, la SAP des emprunteurs relativement peu actifs, qui ont un revenu plus élevé et plus largement accès au marché, devrait être davantage axée sur les services hors prêt, la connaissance des possibilités d'appui éventuelles en cas de difficulté et la contribution de la SFI à l'élargissement des activités que les opérateurs sont prêts à financer.
- Lorsque le revenu par habitant d'un pays atteint le seuil à partir duquel la BIRD examine les possibilités de *reclassement* dudit pays, la prochaine SAP doit indiquer si ce dernier est prêt à être reclassé à en juger par plusieurs indicateurs (incidence de la pauvreté, volatilité du revenu, accès au marché et avancement des réformes de politique économique et des institutions), et présenter les perspectives qui s'offrent à lui et la stratégie à suivre à l'avenir, compte tenu des risques de renversement de tendance. La procédure de reclassement doit être menée à bien avant

que le pays ait atteint la limite supérieure fixée pour les pays à revenu intermédiaire<sup>3</sup>.

- **Études économiques et sectorielles.** Le groupe de travail est profondément convaincu que la Banque doit repenser et systématiser son programme d'études économiques et sectorielles diagnostiques sur les pays (ESW), en prenant en compte les études produites en dehors de la Banque et en collaborant dans toute la mesure du possible avec ses clients et autres partenaires. Le Programme ESW doit combiner les analyses intégratives essentielles effectuées dans le cadre de tous les programmes-pays (selon une norme largement commune) avec les travaux diagnostiques, plus adaptés aux priorités de chaque pays. Les études de la Banque doivent être réalisées de manière à tirer parti des capacités d'analyses existant dans le pays et à les renforcer. La Banque ne réussira à contribuer au développement qu'en fondant son dialogue de concertation sur une analyse solide des problèmes de développement auxquels est confronté le pays. Mais, bien que la conscience des besoins nationaux de travaux d'analyse et de services de conseil, et des gains qui en découlent, ait fortement augmenté et que, dans les pays à revenu intermédiaire, l'ordre du jour social, structurel et sectoriel soit de plus en plus complexe, les ressources dont dispose la Banque pour ce type de travail ont diminué. Lors des consultations, les clients, y compris les emprunteurs inactifs, se sont déclarés favorables à la poursuite des travaux d'ESW, soulignant que ces études devaient être effectuées dans toute la mesure du possible dans le cadre d'un véritable partenariat, fondé sur la perspective du pays ; beaucoup ont spécifiquement accueilli favorablement l'idée d'évaluations systématiques périodiques, qui sous-tendraient le dialogue sur la gestion des finances publiques et sur la politique générale et les priorités institutionnelles.
- La Stratégie d'aide-pays doit définir le programme d'ESW en faisant appel à trois catégories d'analyses : a) les *produits intégratifs essentiels* indispensables dans tous les pays — l'évaluation fiduciaire et l'examen de la politique de développement qui sont décrits plus haut ; b) d'*autres études diagnostiques*, — à effectuer partout où cela est possible en collaboration avec les clients et partenaires — qui serviront de base au dialogue et aux opérations de prêt à venir, et fourniront aussi les éléments des évaluations globales ; et c) le programme d'ESW piloté par *la demande*, ou « *adapté aux besoins particuliers du pays* » — échelle, teneur, et modalités de partage des coûts — qui aura été convenu. La Stratégie d'aide-pays doit aussi définir comment le programme d'ESW et les autres activités hors prêt permettront au pays de développer ses propres capacités d'analyse et de contribution au dialogue sur les grandes orientations.
- Pour les emprunteurs inactifs et les pays à revenu intermédiaire de la tranche supérieure, la Banque doit envisager des *formules hors prêt*

<sup>3</sup> La limite inférieure du seuil de reclassement de la BIRD est actuellement fixée à USD 5 225 (en dollars de 1999) ; la limite supérieure du seuil pour la catégorie des pays à revenu intermédiaire est actuellement fixée à USD 9 266 (en dollars de 1999). Voir l'annexe D de l'OP 3.10, *IBRD/IDA Countries: Per Capita Incomes, Lending Eligibility and Prepayment Terms*, qui peut être consultée à partir du Manuel opérationnel à l'adresse suivante : [www.worldbank.org/whatwedo/policies.htm](http://www.worldbank.org/whatwedo/policies.htm).

s'inspirant du partenariat pour le développement national qui est à l'étude dans le cas de la Thaïlande. Compte tenu en particulier des possibilités de diffuser les connaissances acquises sur le développement à d'autres pays, ces types de partenariat peuvent présenter de vastes avantages pour la communauté du développement, comme pour chaque pays client concerné.

- Tout cela suppose des règles précises de *financement* des analyses intégratives et des autres études diagnostiques sur le budget de base de la Banque, règles qui permettent aussi aux pays — et aux partenaires — de commander d'autres services sur une base de partage des coûts, lorsque la Banque dispose des capacités voulues. Ces règles doivent être élaborées lorsque l'enveloppe budgétaire totale allouée aux études économiques et sectorielles (ESW) est connue, et elles devront figurer dans les futures Stratégies d'aide-pays.
- Les travaux de *recherche, d'évaluation et de communication* de la Banque doivent appuyer des études économiques et sectorielles nationales en s'attachant à mieux comprendre les problèmes de développement auxquels les pays à revenu intermédiaire sont confrontés et la manière dont la Banque peut les aider à les surmonter.
- **Prêts et garanties.** En accord avec les résultats des recherches de la Banque sur l'efficacité de l'aide et avec l'optique du Cadre de développement intégré, le groupe de travail a conclu que l'aptitude de la Banque à exercer un impact sur la pauvreté tient moins au soutien qu'elle peut apporter à tel ou tel projet qu'à son appui aux réformes des politiques et des institutions indispensables à l'instauration d'un cadre sain et stable de développement du secteur privé, au renforcement des institutions et au développement social. Cela est particulièrement vrai dans beaucoup de pays à revenu intermédiaire où le Groupe de la Banque ne finance qu'une fraction modeste des besoins de développement du pays. Pendant les consultations, les représentants des pays clients ont exprimé toute une gamme de points de vue correspondant aux besoins particuliers de leurs pays ; mais, dans l'ensemble, ils se sont prononcés en faveur d'un menu d'instruments de prêt plutôt plus étendu que plus réduit.
  - Nous prévoyons que, même si les pays à revenu intermédiaire ont moins recours à des *prêts-projets* (ou à des *prêts d'investissement*), ces prêts continueront de jouer un rôle important, surtout lorsque le cadre de politique générale n'encourage pas encore le secteur privé. Ces types de prêt permettront en particulier de tester des approches nouvelles et d'appuyer des programmes approfondis là où les compétences pratiques de la Banque sont nécessaires. Les prêts-projets ont un rôle à jouer dans les programmes de tous ces pays, qui sera fonction des besoins particuliers des clients tels qu'ils sont énoncés dans la Stratégie d'aide-pays.
  - La multiplication des *prêts programmatiques* (ou à l'*ajustement*) dans les pays à revenu intermédiaire, qui est la tendance actuelle, doit viser à mettre la Banque à même de stimuler plus efficacement une croissance

soutenue et le recul de la pauvreté. Pour être particulièrement efficaces, les prêts programmatiques doivent être synchronisés avec les cycles des politiques publiques et du budget, et les conditions convenues être axées sur les problèmes prioritaires et explicitement liées à la performance effective et aux résultats en matière de développement stipulés dans la Stratégie d'aide-pays. Nous prévoyons que la Banque utilisera de plus en plus des séries de prêts programmatiques pour appuyer des programmes de réformes à moyen terme complexes, tandis que les prêts à l'ajustement sectoriel et les prêts à l'ajustement sous-nationaux continueront d'appuyer des réformes spécifiques à l'échelon sectoriel ou au niveau des provinces (ou des États dans le cas d'États fédéraux). Le groupe de travail note que le débat se poursuit sur ces questions, qui feront l'objet de discussions avec les administrateurs lors de la préparation de l'examen de la politique opérationnelle de la Banque en matière de prêts à l'ajustement<sup>4</sup>.

- La Banque doit admettre que l'*irrégularité* de la demande de prêt est un phénomène durable, induit par des facteurs mondiaux aussi bien que nationaux. Elle doit s'y préparer en restant en relations avec ses clients — y compris les pays admis à emprunter à la BIRD qui ne sont pas des emprunteurs réguliers — en continuant de dialoguer avec eux sur la base d'études économiques et sectorielles (ESW). Elle sera ainsi en mesure de réagir rapidement en proposant des programmes propres à aider ces pays à protéger les plus pauvres et à poursuivre les réformes engagées en cas de choc ou de transformation profonde de la situation du pays. La permanence du dialogue contribuera aussi à garantir que ces prêts auront un impact prononcé sur le développement malgré le caractère cyclique de l'appui. Pareils prêts programmatiques pourront prendre différentes formes, y compris celles de prêts périodiques à l'ajustement structurel lorsque les besoins de financement restent dans les limites de la Stratégie d'aide au pays, et de prêts exceptionnels à l'ajustement structurel lorsque ces besoins dépassent les niveaux prévus dans la SAP.
- Nous recommandons que la Banque mette au point une *option de tirage différé* pour les prêts programmatiques. Celle-ci répondrait aux besoins des pays qui sont actuellement capables d'emprunter sur le marché, mais qui se soucient à la fois d'entretenir une relation plus continue avec la Banque et d'avoir de plus amples marges de manœuvre pour gérer leur endettement, ou qui ont atteint un stade de développement où l'expérience indique qu'ils risquent d'avoir à nouveau besoin d'appui ultérieurement. Les emprunteurs pourraient utiliser l'option comme un instrument de gestion de précaution en prévision d'une éventuelle diminution de leur accès aux marchés. Le prix et la structure de tarification de cette option seraient fixés de manière à prendre en compte le coût y afférent, pour la Banque, et la valeur ajoutée, pour le pays client, par la continuité de l'engagement de la Banque et du dialogue avec elle durant les périodes sans tirage.

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<sup>4</sup> Voir *Adjustment Lending Retrospective*, Banque mondiale, à paraître.

- La Banque doit rester attentive à l'évolution des besoins de *produits financiers* chez ses clients. En réponse aux demandes des pays clients à revenu intermédiaire, la Banque a introduit des prêts en devise unique à spread variable et des prêts à taux fixe, et le Conseil a récemment approuvé l'introduction de prêts en monnaie nationale.
- **Coûts des transactions avec la Banque.** La Banque doit prendre des mesures efficaces pour réduire les délais inutiles et autres coûts de transaction afférents à des relations avec elle (ce qu'il en coûte de traiter avec elle), en précisant ses politiques, et en rationalisant ses procédures internes, et en réduisant le nombre des conditions dont elle assortit ses prêts à l'ajustement pour les concentrer sur les mesures hautement prioritaires. L'accent actuellement mis sur le respect des politiques opérationnelles doit être maintenu, mais être complété par une optique de renforcement des capacités visant à aider les emprunteurs à se doter de systèmes de sauvegarde et fiduciaires efficaces pour la gestion des dépenses publiques, la passation des marchés et la gestion financière.
- **Synergies au sein du Groupe de la Banque.** Le groupe de travail a conclu que des mesures utiles avaient été prises ces dernières années pour mettre ces synergies au service du développement du secteur privé dans les pays à revenu intermédiaire — dont la préparation conjointe de Stratégies d'aide-pays du Groupe de la Banque. Mais, à notre sens, il faut faire davantage, notamment pour coordonner le travail stratégique et diagnostique (études économiques et sectorielles, services d'analyse et de conseil axés sur les besoins des clients, et moyens d'enquête permettant d'analyser le climat des affaires) et pour coordonner des opérations précises, dont l'exploitation des opportunités d'échelonnement des réformes appuyées par la Banque et des transactions financées par la SFI, opportunités identifiées dans les SAP conjointes. Nous estimons aussi qu'il faut concevoir de meilleurs mécanismes pour encourager les synergies avec l'AMGI.
- **Division du travail avec les institutions financières internationales.** La Banque doit faire preuve de sélectivité et respecter une division du travail appropriée avec les institutions financières internationales et d'autres partenaires tant au niveau institutionnel que dans les pays. La Banque et le Fonds ont mis en place un cadre institutionnel élaboré de répartition de leurs rôles, en particulier pour les pays à faible revenu ; entre la Banque et les autres institutions financières internationales, toutefois, la division du travail varie selon les pays.
- La *collaboration entre la Banque et le Fonds* dans les pays à faible revenu se trouve renforcée par l'adoption de l'Initiative en faveur des pays pauvres très endettés (PPTE) et par la démarche d'élaboration de Documents de stratégie pour la réduction de la pauvreté (DSRP). Ces dispositions prévoient que chacune des deux institutions prenne la responsabilité principale d'aspects distincts du dialogue de concertation avec les emprunteurs, et fixent un cadre commun pour évaluer et suivre, ensemble et séparément, les progrès accomplis. Le groupe de travail estime qu'il y a lieu d'appliquer des principes similaires (bien qu'avec des

différences inévitables dans la pratique) aux relations avec les pays à revenu intermédiaire, et il estime que ses propositions relatives aux évaluations fiduciaires, aux examens des politiques de développement et aux prêts programmatiques constituent une base de coopération plus structurée avec le FMI en même temps que de rationalisation des responsabilités institutionnelles respectives des deux institutions.

- En ce qui concerne les *banques régionales de développement*, le groupe de travail estime que la Stratégie-pays doit rester le principal moyen d'assurer une division efficiente des responsabilités entre les banques multilatérales de développement dans un pays. Mais, à notre sens, il existe aussi des possibilités de renforcer la coopération institutionnelle en matière de travaux de diagnostic et d'études sectorielles, — à commencer par les évaluations fiduciaires, lorsque les institutions ont les mêmes besoin — et d'envisager des domaines de spécialisation éventuelle des différentes institutions dans le cadre des documents de stratégie sectorielle et de vecteurs connexes. Il est indispensable de continuer à harmoniser les politiques et les procédures opérationnelles, entre autres parce que cela permet de réduire les coûts de transaction pour les clients comme pour le système du développement.
- **Viabilité financière de la BIRD.** Le volume global des prêts de la BIRD a varié sensiblement ces dernières années, reflétant à la fois les variations de l'accès de certains pays aux marchés extérieurs et l'irrégularité de la performance des politiques et des institutions dans certains pays. Compte tenu de ces tendances et de nos recommandations d'avenir, nous estimons que le volume global des prêts de la BIRD restera dans une « zone » ayant pour borne supérieure la capacité limitée de prise de risque de la BIRD et pour borne inférieure un niveau compatible avec la capacité de génération de revenu nécessaire pour maintenir l'appui au développement et les transferts essentiels (à l'IDA et à l'Initiative PPT), et pour financer les opérations de prêt futures. Toutefois, il faudra continuer de suivre attentivement les tendances des prêts.
- **Tarifification des prêts.** Le groupe de travail a étudié les possibilités de différencier les charges sur prêts selon les pays et les secteurs. Pour les raisons énoncées dans le rapport, nous pensons que la Banque devrait continuer d'utiliser d'autres moyens que la tarification pour pratiquer la sélectivité voulue. Mais, à mesure que de nouveaux mécanismes sont conçus, il nous apparaît effectivement davantage possible de différencier les prix des différents produits ; quant au prêt exceptionnel à l'ajustement structurel, les commissions et autres charges sur prêts refléteront le coût marginal qu'il implique pour la Banque et l'attrait qu'il présente pour les emprunteurs.
- **Incidence sur le budget et sur les besoins de personnel.** Beaucoup des recommandations du groupe de travail ont une incidence sur le budget opérationnel de la Banque. Dans certains cas, elles impliqueront des augmentations des coûts initiaux — par exemple, modifier la part relative des types de prêt pour faire une plus large place aux prêts programmatiques devrait s'avérer plus coûteux dans un premier temps, compte tenu de

l'élévation des coûts de préparation liée à la réalisation des diagnostics indispensables, surtout en matière de dépenses publiques, de passation des marchés, et de systèmes de gestion financière. Dans d'autres cas, il sera possible de compenser certaines des augmentations par un meilleur ciblage des interventions, une gestion plus serrée et une meilleure collaboration avec d'autres entités. Dans d'autres cas encore, certains des coûts supplémentaires seront financés par une augmentation des flux de commissions et d'autres charges sur prêts — si, par exemple, l'option de tirage différé amène des emprunteurs inactifs par ailleurs à maintenir des relations financières avec la Banque — mais se traduiront néanmoins par une augmentation du budget opérationnel. En travaillant avec le personnel chargé de préparer la Note d'orientation stratégique, le groupe de travail a pu préciser l'estimation des coûts à laquelle il était arrivé antérieurement et il pense maintenant que ses recommandations ajouteront au coût des programmes-pays de 35-40 millions de dollars par an. Il y aura aussi un impact à long terme sur l'éventail des qualifications du personnel de la Banque, principalement en raison de l'évolution progressive vers les prêts programmatiques, qui exigeront davantage de compétences en matière de dépenses publiques, de passation des marchés et de systèmes de gestion financière.

- **Nomenclature.** Enfin, nous aimerions proposer d'actualiser les noms des produits et des procédures de la Banque pour mieux exprimer le nouveau paradigme du développement, surtout en ce qui concerne les pays à revenu intermédiaire. Des termes comme « Stratégie d'aide-pays », « études économiques et sectorielles » et « prêt à l'ajustement » sont d'une autre époque et doivent être abandonnés.

**Conclusions.** Le groupe de travail a conclu que la Banque doit absolument continuer d'intervenir dans les pays à revenu intermédiaire si l'on veut aider ces pays à résoudre les problèmes de développement spécifiques que leur pose la réduction de la pauvreté. Pour ce faire, le Groupe de la Banque doit, selon le groupe de travail, adopter une approche plus disciplinée qu'il ne l'a fait jusqu'ici, en même temps que plus régulière, plus systématique et plus stratégique. La plupart des éléments sont déjà en place, mais des perfectionnements importants s'imposent. Les Stratégies d'aide-pays doivent être plus méthodiques, et se fonder sur la perspective et le programme du pays en même temps que sur un diagnostic précis de ses systèmes de responsabilité financière publics et de ses priorités de développement. Les études économiques et sectorielles doivent être plus systématiques ; elles doivent être plus nombreuses et être élaborées en collaboration avec les partenaires, pour mieux étayer l'engagement systématique de la Banque ; et elles doivent mettre plus fortement l'accent sur le renforcement des capacités analytiques du pays. Les prêts doivent être plus stratégiquement liés aux politiques et aux institutions qui déterminent une croissance durable et contribuent à faire reculer la pauvreté, et davantage axés sur le renforcement des institutions et des capacités. Il faut s'intéresser davantage aux emprunteurs inactifs et intermittents, pour que la Banque demeure prête à les aider à réagir aux chocs éventuels en appuyant leurs réformes sociales, structurelles, et sectorielles. Pour mettre tout cela en œuvre, il faudra allouer davantage de ressources aux programmes-pays. Cela créera aussi des tensions qu'il faudra savoir gérer, tant en conciliant les intérêts divers des pays à revenu intermédiaire, des actionnaires et d'autres qu'en pesant les avantages et les risques que présentent pour le développement des approches plus programmatiques. Mais, tout bien

pesé, à notre avis, la Banque n'a d'autre choix que de suivre cette voie si elle doit rester utile à cet important groupe de pays et s'acquitter de sa mission essentielle de réduction de la pauvreté dans le monde.

# INFORME DEL GRUPO DE ESTUDIO SOBRE EL GRUPO DEL BANCO MUNDIAL Y LOS PAÍSES DE INGRESO MEDIANO

## RESUMEN EJECUTIVO Y RECOMENDACIONES

El Grupo de Estudio sobre el Grupo del Banco Mundial y los Países de Ingreso Mediano fue creado en septiembre de 2000 para indagar la mejor forma en que el Grupo del Banco puede ayudar a los países de ingreso mediano. Según los términos de referencia del Grupo de Estudio, los países de ingreso mediano son aquellos que cumplen con los requisitos para obtener financiamiento del BIRF<sup>1</sup>. Estos países constituyen un grupo de gran diversidad. Entre ellos se incluyen países en desarrollo y países con economías de transición con y sin un acceso significativo a los mercados de capital, y países en las categorías de ingreso bajo, ingreso bajo-mediano e ingreso mediano-alto. Hay otras características que también difieren considerablemente entre los países que pueden optar al financiamiento del BIRF, incluidos la incidencia de la pobreza (con rangos de recuento de pobreza de menos del 15% a sobre un 50%), el tamaño de la economía (de pequeñas islas estado a grandes federaciones) y los logros en sus reformas normativas y fortalecimiento institucional (de países que aún necesitan completar reformas básicas de apertura de mercado a otros con una gran trayectoria en el avance de las reformas). El Grupo de Estudio revisó los principales desafíos que enfrenta este diverso grupo de países en materia de desarrollo, consultó a los accionistas y clientes sobre la función del Grupo del Banco Mundial para ayudar a estos países a enfrentar los desafíos y formuló recomendaciones acerca del enfoque que debe seguir el Grupo del Banco en sus programas, productos y colaboraciones con los diferentes países.

**Desafíos para el desarrollo.** En la actualidad, todo el mundo reconoce que reducir la pobreza es el objetivo central de la asistencia para el desarrollo<sup>2</sup>. Casi el 80 por ciento de los pobres del mundo (definidos como aquellos que viven con menos de US\$2 al día) viven en países que pueden optar al financiamiento del BIRF. La lucha contra la pobreza de los prestatarios del BIRF es esencial si se han de lograr los objetivos globales de reducción de la pobreza. Y si bien muchos países de ingreso mediano han mejorado considerablemente sus políticas e instituciones microeconómicas y macroeconómicas básicas, comparten una serie de otros desafíos de desarrollo además de la persistencia de la pobreza. Para que estos países puedan acelerar el crecimiento sostenido y la reducción de la pobreza, deben fortalecer sus políticas e instituciones sociales, estructurales y sectoriales, mejorar su clima de inversiones para promover la participación del sector privado y lograr un acceso estable a los mercados

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<sup>1</sup> Los Términos de Referencia del Grupo de Estudio se proporcionan como Anexo A.

<sup>2</sup> Consultar 2000, *A Better World for All: Progress towards the International Development Goals*, publicado en conjunto por el FMI, la Organización de Cooperación y Desarrollo Económicos, las Naciones Unidas y el Grupo del Banco Mundial (Washington, D.C.: Fondo Monetario Internacional, 2000), disponible en <http://www.paris21.org/>.

internacionales y los flujos de capital privado, sobre la base de términos razonables. Los avances en los países de ingreso mediano también son importantes para reducir la pobreza en otras partes. El bienestar económico de estos países se traduce en oportunidades comerciales para los países de bajo ingreso. Y, a la inversa, la inestabilidad financiera, la degradación ambiental y las enfermedades contagiosas de los países de ingreso mediano pueden tener efectos adversos que se propagan muy lejos de sus fronteras. Por ello, el apoyo del Grupo del Banco Mundial que promueve la reducción de la pobreza en el interior de cada país tiene un impacto mucho más amplio a través de sus efectos secundarios en el crecimiento y la estabilidad mundial.

**Consultas.** En el transcurso de su trabajo, el Grupo de Estudio consultó a accionistas (tanto representantes de capitales como Directores Ejecutivos), clientes y socios, al igual que a ejecutivos y funcionarios del Grupo del Banco. Entre las inquietudes que manifestaron los países clientes se incluyó el interés en mejorar el trabajo analítico, en establecer nuevos mecanismos de préstamo que ayuden a los países a proteger sus programas sociales y estructurales frente a la inestabilidad del mercado financiero y en tomar medidas concretas para reducir el costo de hacer negocios con el Banco. El mensaje de los accionistas no prestatarios fue que, puesto que una gran proporción de los pobres del mundo vive en países de ingreso mediano, el ayudar a estos países a responder a sus desafíos de desarrollo es crucial para la misión predominante del Grupo del Banco de abordar la pobreza mundial. Si bien sus inquietudes en ocasiones se diferenciaban profundamente, los accionistas prestatarios y los no prestatarios nos entregaron un solo y claro mensaje: que el Grupo del Banco debe seguir involucrado con estos países en forma individual y colectiva. Por cierto, ambos grupos consideran que el Grupo del Banco ocupa un lugar importante en el apoyo que presta a estos países para enfrentar sus desafíos en materia de desarrollo social, estructural y sectorial, especialmente dado su mandato mundial y multisectorial. En su opinión, la perspectiva global del Grupo del Banco se puede traducir en asesoría a los países de ingreso mediano que abarque una amplia gama de temas. Además, la experiencia que se obtenga con esta ayuda se puede traducir en la base consultiva y de conocimientos para el trabajo del Grupo del Banco en los países de ingreso bajo.

**Función y fundamento del Grupo del Banco Mundial.** Las deliberaciones y consultas con accionistas realizadas por el Grupo de Estudio han confirmado que el Grupo del Banco está facultado y tiene la experiencia necesaria justamente en aquellas áreas que presentan los mayores desafíos de desarrollo para estos países. Además, se determinó que el Grupo del Banco está capacitado para ofrecer una asistencia sumamente valiosa a los clientes, tanto financiera como de transferencia de conocimientos y asesoría, que es igualmente importante. El apoyo del Grupo del Banco puede ayudar a los países a enfrentar el constante problema de la pobreza en todas sus dimensiones y a crear las políticas e instituciones sociales, estructurales y sectoriales necesarias. Para los países con un acceso incompleto a los mercados, el apoyo financiero del Grupo del Banco puede generar reformas que conduzcan a un crecimiento más equitativo y rápido y que, con el tiempo, les ayuden a lograr un acceso más estable y sólido a los mercados y a superar la necesidad de asistencia bancaria. Particularmente en esta área, el Grupo del Banco debe desempeñarse como un catalizador: para promover políticas adecuadas y creación de capacidad, una corriente estable y sostenible de capital privado y políticas y apoyo financiero de otros colaboradores para el desarrollo. Y, en todo este proceso, el Grupo del Banco aporta una perspectiva global: el conocimiento acumulado de su trabajo en muchos sectores con sus países miembros en todo el mundo. Ciertamente, la experiencia acumulada en el trabajo con los países de ingreso mediano se suma a este

conocimiento global y puede ser un aporte para la base de asesoría y conocimiento del trabajo del Grupo del Banco en los países de ingreso bajo. Pero el aporte del Grupo del Banco sólo puede lograr su máxima eficacia si se centra en las prioridades clave y usa los instrumentos adecuados, además de ser sumamente selectivo en la división efectiva del trabajo con otras instituciones financieras y colaboradores internacionales. En su asistencia a los países, también es fundamental que el Grupo del Banco opere en forma sinérgica y recurra a todas sus partes constituyentes: en el caso del BIRF, el trabajo sectorial y económico, el acopio de conocimientos y la capacitación, los diálogos de políticas, las garantías y los créditos a los gobiernos; en el caso de la CFI, el financiamiento directo al sector privado, el establecimiento de intermediarios financieros y su asesoría técnica; y, en el caso del OMGI, las garantías para la inversión extranjera y la asesoría técnica para atraer inversiones.

**Principios rectores.** El trabajo del Grupo de Estudio siguió seis principios predominantes que subyacen a nuestras recomendaciones específicas:

- **Mandato de reducción de la pobreza.** La función y el fundamento del Grupo del Banco en los países de ingreso mediano están impulsados por su mandato de reducir la pobreza. Sin embargo, para cumplir con este mandato, es necesario definir las prioridades en el apoyo del Grupo del Banco dentro del contexto específico de cada país; por lo tanto, el apoyo a los países de ingreso mediano a menudo difiere del apoyo que se requiere en los países de ingreso bajo, los que tienen puntos de partida diferentes.
- **Diversidad de países.** Los países que cumplen las condiciones para obtener financiamiento del BIRF varían enormemente en términos de sus ingresos, incidencia de la pobreza, acceso a mercados de capitales y sus avances en materias de reformas normativas y fortalecimiento de las instituciones. Por lo tanto, el apoyo del Grupo del Banco debe estar sumamente adaptado a las necesidades de desarrollo de cada país. Lo importante es que el Grupo del Banco tenga el enfoque global correcto y un menú adecuado de instrumentos de entre los cuales pueda ofrecer su apoyo.
- **Enfoque en el cliente.** Una lección clave aprendida durante los últimos 50 años es que no se puede *entregar* desarrollo a un país; es el propio país el que debe *lograr* ese desarrollo. Esta lección refuerza la importancia de los principios que subyacen al Marco de Desarrollo Integral (CDF, por su sigla en inglés): institucionalización de la propiedad por parte del país, colaboración, orientación hacia los resultados y perspectiva global y a largo plazo.
- **Diagnóstico integral.** El Banco, dado su alcance global tanto a nivel de países como de sectores, goza de una posición privilegiada para ayudar a los países en su definición de prioridades y el ordenamiento cronológico de sus respuestas al amplio conjunto de desafíos de desarrollo que enfrentan. De ahí la importancia de que el Banco (a) tenga productos analíticos con los cuales evaluar (y ayudar a los clientes a evaluar) las restricciones sociales y de política estructural que enfrentan los países para reducir la pobreza en forma integral y (b) mantenga su participación en los países de ingreso mediano a través de sus estudios económicos y sectoriales y un diálogo normativo, incluso cuando se interrumpe la relación de endeudamiento.

- **Programa selectivo.** Al pasar de la visión y el diálogo normativo basado en un diagnóstico integral de los desafíos particulares de un país a los temas específicos del programa de Estrategias de Asistencia para los Países (EAP), el Grupo del Banco debe ser altamente selectivo en las intervenciones que apoya y tener en cuenta la importancia de los aportes que harán otros colaboradores, inclusive el sector privado. En esta función, el Banco se debe centrar sólo en aquellas áreas en que el Grupo del Banco realmente pueda destacar a través de su exclusivo conjunto de atributos y debe, cada vez que sea posible, tratar de catalizar los esfuerzos de otros, tanto en la entrega de financiamiento (donde sea necesario) como de análisis de políticas y asesoría en la adquisición de capacidad.
- **Sostenibilidad financiera.** El Grupo del Banco no puede desempeñar su mandato de desarrollo a menos que resguarde su propia sostenibilidad. En consonancia con nuestros términos de referencia (y los debates de los últimos años), el Grupo de Estudio ha prestado especial atención a la sostenibilidad financiera del BIRF y las consecuencias de nuestras propuestas en el presupuesto administrativo.

**Recomendaciones.** Con estos antecedentes, hemos identificado un conjunto de propuestas concretas para mejorar los procesos y productos del Grupo del Banco. Estas propuestas son básicas para mejorar la eficiencia del Grupo en promover la reducción de la pobreza. Muchas de ellas no son ideas nuevas, pero todavía no han sido implementadas con el carácter sistemático y la envergadura necesarias y en nuestra opinión, eso es ahora lo más urgente.

- **Estrategias de Asistencia para los Países.** Las Estrategias de Asistencia para los Países (EAP) son el principal vehículo para desarrollar el programa para los países del Grupo del Banco y deben seguir siéndolo. Pero es necesario definir a sus beneficiarios con mayor precisión y criterio comercial, estableciendo claramente el programa de financiamiento y distinto de financiamiento y los acuerdos logrados sobre el desempeño, productos a entregar y responsabilidades tanto del país como del Banco. El programa debe integrar totalmente la asistencia y el apoyo analítico del Grupo del Banco para la adquisición de capacidad. Si el proceso de EAP ha de ser capaz de designar las intervenciones con las cuales el Grupo del Banco puede lograr el mayor impacto en el desarrollo, éste se debe basar en (a) la visión y agenda para el desarrollo del país, (b) un diagnóstico sistemático e integral y (c) una visión informada de lo que están haciendo las demás partes interesadas. entre ellas, el sector privado, aplicando así los principios del Marco de Desarrollo Integral. Como documento comercial, la EAP también debe evaluar el desempeño del Grupo del Banco de manera más sistemática (incorporando la información de encuestas a los clientes) como base para determinar la dirección de un futuro apoyo.
- La EAP debe reflejar totalmente el contexto y la agenda del país. Con este objetivo en mente, el Grupo de Estudio recomienda experimentar con una *Carta de Estrategia para el Desarrollo* como una posible forma para que los gobiernos expongan en la EAP su propia visión y estrategia para el desarrollo con respecto a la agenda social, estructural y sectorial.

El formato de esa carta sería flexible y se podría adjuntar como un anexo al documento de EAP, resumiendo el contenido en su texto.

- La EAP debería estar sustentada por dos *análisis de diagnóstico integradores*. Uno (una evaluación fiduciaria) se centraría en la responsabilidad financiera del sector público y evaluaría los sistemas del país en materia de gasto público, adquisiciones y gestión financiera. Con el otro (una revisión de las políticas de desarrollo) se evaluarían las prioridades en cuanto a políticas y fortalecimiento institucional sobre la base de una revisión transversal de la agenda social, estructural y sectorial. Estos análisis se basarían en estudios detallados producidos por el Banco, los clientes y otras instituciones. Además de servir de base para la EAP, ambos documentos respaldarían el diálogo normativo y financiamiento.
- Dada la diversidad de las circunstancias de cada país, *los programas EAP varían considerablemente entre los países*. Esto refleja las diversas combinaciones de instrumentos adecuados para clientes en diferentes etapas de desarrollo y acceso al mercado. Por ejemplo, en un extremo del espectro, los países del conjunto BIRF/AIF se rigen por las reglas de la AIF y sus programas de EAP tienden a centrarse en la adquisición de capacidad; sus programas de crédito normalmente se asemejan más a los programas de países que sólo tienen asistencia de la AIF que aquellos de otros países que reúnen las condiciones para los préstamos del BIRF. Sin embargo, en el otro extremo, para los prestatarios relativamente inactivos de ingreso más alto y mayor acceso al mercado, las EAP se deben orientar más hacia instrumentos no de crédito, entendimientos sobre un posible apoyo futuro en momentos de crisis y compromisos de la CFI para ayudar a ampliar las fronteras de lo que financiarán los participantes en el mercado.
- Cuando un país alcanza un umbral en su ingreso per cápita que haga necesario discutir su *graduación para el BIRF*, su siguiente EAP debe enunciar la preparación del país para graduarse (según lo indique su pobreza, volatilidad de los ingresos y acceso al mercado y una agenda de reformas normativas no concluida) y las perspectivas y estrategias hacia el futuro, teniendo en cuenta los riesgos de volver atrás. Además, el proceso de graduación se debe terminar antes de que el país sobrepase el umbral superior del estado de ingreso mediano.<sup>3</sup>
- **Estudios económicos y sectoriales.** El Grupo de Estudio está convencido de que el Banco debe reponer y sistematizar su diagnóstico del programa de estudios económicos y sectoriales (ESW), tomando en cuenta los estudios publicados fuera del Banco y trabajando lo más posible en colaboración con los clientes y otros socios. En el programa ESW se combinarían los análisis integradores básicos llevados a cabo en todos los programas de países (según un estándar compartido amplio) con estudios de diagnóstico más adaptados a las prioridades de cada país. Los estudios del Banco se deben realizar de manera tal que se pueda aprovechar y fortalecer la capacidad analítica del país. Basar los diálogos de política en un análisis sólido de los desafíos que enfrenta un país para su desarrollo es un asunto básico para

que el apoyo del Grupo del Banco a ese desarrollo tenga éxito. Pero si bien ha aumentado pronunciadamente el reconocimiento de la necesidad y beneficios del trabajo analítico y asesor del país y ha incrementado la complejidad de la agenda social, estructural y sectorial de los países de ingreso mediano, los recursos del Banco disponibles para este tipo de trabajo han disminuido. Durante las consultas, los clientes, entre ellos, los prestatarios inactivos, vieron con buenos ojos la participación constante del Banco a través de los ESW, haciendo hincapié en que este programa, en lo posible, se debe llevar a cabo mediante un verdadero proceso de colaboración, usando la visión del país como punto de partida; específicamente, muchos acogieron la idea de evaluaciones sistemáticas regulares, las que servirían de sustento del diálogo sobre el manejo de las finanzas públicas y prioridades generales tanto normativas como institucionales.

- En la EAP se debería enunciar el programa ESW en base a tres grupos de análisis: (a) los *productos integradores básicos* necesarios para todos los países (la evaluación fiduciaria y la revisión de políticas de desarrollo descritas más arriba); (b) *otro trabajo de diagnóstico* (que en lo posible se debe llevar a cabo en colaboración con los clientes y socios) que sustentaría el diálogo y el financiamiento futuro y también proporcionaría las bases para realizar las evaluaciones integradoras; y (c) entendimientos logrados sobre el programa de ESW *basado en las demandas o "hecho a la medida"* (acuerdos sobre tamaño, contenido y mecanismos para compartir los costos). En la EAP también se deberían identificar los aportes que pueden hacer el ESW y otras actividades distintas de financiamiento al desarrollo de la propia capacidad del país para realizar análisis y contribuir al diálogo normativo.
- Para prestatarios inactivos y países en el extremo superior del espectro de ingreso mediano, el Banco debería explorar *enfoques distintos de financiamiento* en consonancia con la colaboración para el desarrollo del país que se está llevando a cabo en Tailandia. Al considerar especialmente las posibilidades de divulgar los conocimientos adquiridos en materia de desarrollo a otros países, estos tipos de colaboraciones pueden ser de enorme beneficio para la comunidad del desarrollo, al igual que para los clientes individuales.
- Lo anterior se debe basar en reglas claras sobre el *financiamiento* de los análisis integradores y otros trabajos de diagnóstico con el presupuesto básico del Banco, que además permitan a los países (y socios) encargar servicios adicionales compartiendo los costos, donde así lo permita la capacidad del Banco. Estas reglas se deben estipular una vez que se conozca el tamaño del presupuesto global para los ESW y deben reflejarse en futuras EAP.

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<sup>3</sup> En la actualidad, el umbral inferior para examinar la graduación para el BIRF es de US\$5.225 (en dólares de 1999), mientras que el umbral superior para el estatus de ingreso mediano es de US\$9.266 (en dólares de 1999). Véase OP 3.10, Anexo D, *IBRD/IDA Countries: Per Capita Incomes, Lending Eligibility and Prepayment Terms*, disponible a través del Manual Operacional en [www.worldbank.org/whatwedo/policies.htm](http://www.worldbank.org/whatwedo/policies.htm).

- Las actividades de *investigación, evaluación y divulgación* del Banco deberían apoyar ESW específicos para un país determinado centrándose en comprender mejor los desafíos de desarrollo que enfrentan los países de ingreso mediano y el lugar que puede ocupar el Banco en enfrentarlos.
- **Financiamiento y garantías.** Coherente con los resultados de las investigaciones del Banco sobre la eficacia de la ayuda y en consonancia con el enfoque del CDF, el Grupo de Estudios llegó a la conclusión de que la capacidad del Grupo del Banco de influir en la reducción de la pobreza radica menos en su apoyo a proyectos individuales y más en su apoyo a las reformas normativas e institucionales necesarias para contar con un entorno saludable y estable para el sector privado, el fortalecimiento institucional y el desarrollo social. Esto se aplica especialmente a muchos países de ingreso mediano, donde el Grupo del Banco satisface sólo una pequeña parte de las necesidades de financiamiento para el desarrollo del país. Durante las consultas, los representantes de los clientes expusieron un conjunto de visiones relacionadas con las necesidades específicas de sus países; pero de manera general, estas visiones estaban orientadas a contar con un menú más amplio de instrumentos de financiamiento.
  - Esperamos que, si bien el uso del *financiamiento de proyectos (o inversión en proyectos)* de parte de los países de ingreso mediano está disminuyendo, dicho financiamiento seguirá siendo importante, especialmente en lugares donde el marco normativo aún no estimula al sector privado. Esto será especialmente útil para probar enfoques y apoyar programas especializados donde se necesite la experiencia práctica del Banco. El financiamiento de proyectos tiene una función que desempeñar en los programas de todos estos países, en que los detalles específicos se deben adaptar a las necesidades específicas de los clientes según lo enunciado en la EAP.
  - La tendencia hacia un mayor *financiamiento (de ajuste) o de programas* en países de ingreso mediano se debe manejar con el criterio de aumentar la eficiencia del Banco para estimular un crecimiento y reducción de la pobreza sostenidos. Para lograr su máxima eficiencia, los préstamos para programas se deben sincronizar con las políticas y ciclos presupuestarios de los países y deben haber sido condicionados a temas prioritarios explícitamente vinculados al desempeño real y los resultados de desarrollo descritos en la EAP. Esperamos que se usen cada vez más secuencias de préstamos para ajustes programáticos a fin de apoyar programas complejos de reformas a mediano plazo y que sigan utilizándose préstamos de ajustes sectoriales subnacionales para apoyar reformas específicas a nivel sectorial y estatal/provincial. El Grupo de Estudio advierte una permanente controversia a este respecto, lo que será objeto de análisis con los Directores Ejecutivos a modo de preparación para la revisión de la política operacional del Banco sobre el financiamiento para fines de ajuste.<sup>4</sup>

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<sup>4</sup> Véase *Adjustment Lending Retrospective*, Banco Mundial, en preparación.

- Es necesario que el Banco reconozca que la *volatilidad* de la demanda de financiamiento es ya un hecho consolidado, motivada por factores globales y específicos a cada país. El Banco debe prepararse para ello manteniendo el vínculo con los clientes (incluidos los países que pueden recibir financiamiento del BIRF y que no mantienen una relación permanente de endeudamiento con el Banco) a través del diálogo basado en ESW. Esto permitirá que el Banco responda rápidamente con apoyo a los programas, para así ayudar a los países a proteger a los pobres y mantener la marcha de las reformas en caso de una perturbación o cambios importantes en la situación de un país. También servirá para garantizar que dicho financiamiento sea fundamentalmente para fines de desarrollo, a pesar de su naturaleza cíclica. Dicho financiamiento para programas puede adoptar diferentes formas, entre ellas, préstamos regulares de ajuste estructural, cuando las necesidades de financiamiento se mantengan dentro de los límites de la EAP, y préstamos especiales de ajuste estructural, cuando las necesidades de financiamiento sobrepasen los niveles de la EAP.
- Recomendamos que el Banco desarrolle una *opción de giro diferido* para el financiamiento de programas. Esto satisfaría las necesidades de países que en la actualidad están en condiciones de endeudarse en el mercado, pero que desean mantener su relación permanente con el Banco y mejorar la flexibilidad en el manejo de su deuda, o bien están en una etapa de su desarrollo donde la experiencia indica que pueden volver a necesitar apoyo en el futuro. Los prestatarios podrían usar la opción como una herramienta de gestión cautelara en previsión de una posible contracción de su acceso al mercado. La estructura de precios y cargos de esta opción se fijaría de modo que refleje los gastos contraídos por el Banco y el valor agregado que significa para los clientes tener una relación y diálogo normativo permanentes con el Banco en períodos en que no se efectúan giros.
- El Banco debe estar alerta a los cambios en las necesidades de los clientes por *productos financieros*. En respuesta a las solicitudes de los países clientes de ingreso mediano, el Banco introdujo préstamos en una sola moneda con margen variable y préstamos de margen fijo y el Directorio aprobó en fecha reciente la introducción de préstamos en moneda local.
- **Costos de hacer negocios con el Banco.** El Banco debe tomar medidas eficaces para reducir los retrasos innecesarios y demás costos implícitos en sus transacciones. Esto se logra aclarando las políticas, modernizando los procesos internos y reduciendo la cantidad de condiciones en los préstamos para fines de ajuste para centrarlas en las actividades más prioritarias. Debe seguir con el actual enfoque de cumplimiento con las políticas operacionales, pero éste debe estar complementado con un enfoque de adquisición de capacidad diseñado para ayudar a los prestatarios a instituir protecciones y sistemas fiduciarios eficientes para el gasto público, las adquisiciones y la gestión financiera.

- ***Sinergias dentro del Grupo del Banco.*** El Grupo de Estudio llegó a la conclusión de que, en los últimos años, se han tomado importantes medidas para explotar las sinergias dentro del Grupo del Banco para apoyar el desarrollo del sector privado en países de ingreso mediano —incluida la elaboración de EAP conjuntas por Grupo del Banco. Sin embargo, pensamos que aún queda mucho por hacer, especialmente en lo relacionado con la coordinación del trabajo estratégico y de diagnóstico (herramientas ESW, servicios de asesoría y analíticos centrados en el cliente e instrumentos de encuestas para analizar el entorno comercial) y de operaciones específicas, inclusive el seguimiento de oportunidades identificadas en las EAP conjuntas para sincronizar reformas normativas con apoyo del Banco y transacciones con apoyo de la CFI. También debemos crear mejores mecanismos para promover sinergias con el OMGI.
  
- ***División del trabajo con las instituciones financieras internacionales.*** Es necesario ejercer la selectividad y la división del trabajo con las instituciones financieras internacionales y otros socios tanto a nivel de país como institucional. El Banco y el Fondo tienen un marco bien estructurado a nivel institucional para definir sus respectivas funciones, especialmente para el trabajo en países de ingreso bajo; sin embargo, la división del trabajo entre el Banco y otras instituciones financieras internacionales varía entre los diferentes países.
  - *La Colaboración entre el Banco y el Fondo* en países de ingreso bajo se está perfeccionando en el marco de las iniciativas de Países Altamente Endeudados (HIPC, por su sigla en inglés) y el Estudio de la Estrategia para la Reducción de la Pobreza (PRSP, por su sigla en inglés). Según estos acuerdos mejorados, cada institución asume la responsabilidad de diferentes aspectos del diálogo normativo con los prestatarios y fija un marco común conforme al cual ambas instituciones, en conjunto y por separado, evalúan y supervisan el avance. El Grupo de Estudio cree que hay espacio para aplicar principios similares (si bien con diferencias ineludibles en la práctica) en los países de ingreso mediano y considera que sus propuestas de evaluación fiduciaria, revisiones de políticas de desarrollo y préstamos programáticos proporcionan una base para una cooperación más estructurada y la racionalización de las responsabilidades institucionales con el FMI.
  
  - En relación con los *bancos de desarrollo regional*, el Grupo de Trabajo opina que el trabajo en la estrategia de asistencia para el país debe seguir siendo el vehículo principal para asegurar una división eficiente del trabajo entre los bancos multilaterales de desarrollo al nivel del país. Pero también creemos que se puede mejorar la cooperación institucional en el trabajo de diagnóstico económico y sectorial (comenzando con las evaluaciones fiduciarias, donde hay necesidades institucionales compartidas) y en la exploración en el tiempo de áreas de posible especialización institucional en el contexto de los Estudios de Estrategias para el País y medios afines. El avance continuo para armonizar las políticas y procedimientos operacionales es esencial, aunque sólo sea por la posibilidad de reducir el costo de hacer negocios tanto para los clientes como para el sistema de desarrollo.

- **Sostenibilidad financiera del BIRF.** Los montos globales de financiamiento del BIRF han sido volátiles en los últimos años, lo que es un reflejo de la volatilidad que enfrentan algunos países en el mercado externo y la variabilidad que caracteriza el desempeño institucional y normativo de algunos otros. Como resultado de estas tendencias y considerando nuestras recomendaciones, creemos que el financiamiento global del BIRF se mantendrá dentro de una “zona” cuyo límite superior lo determine la capacidad limitada del BIRF de aceptar riesgos, mientras que el inferior está dada por un nivel que resulta coherente con la capacidad de generación de ingresos necesaria para mantener el apoyo al desarrollo y las transferencias críticas (a la AIF y la Iniciativa para Países muy Endeudados) y para sustentar los créditos futuros. Sin embargo, las tendencias del financiamiento continuarán necesitando una estrecha supervisión.
- **Fijación de precio de un préstamo.** El Grupo de Estudio ha considerado la posibilidad de diferenciar los cargos por los préstamos entre países y sectores. Por los motivos definidos en el informe, creemos que el Banco debe seguir con su práctica de usar medios distintos de la fijación de precio para lograr una adecuada selectividad. Sin embargo, a medida que se crean nuevos mecanismos, vemos un mayor ámbito para la diferenciación de precios entre productos; como en el caso del préstamo de ajuste estructural especial, las comisiones y cargos de los préstamos reflejarían los costos diferenciales de esos productos para el Banco y el atractivo para los prestatarios.
- **Repercusiones presupuestarias y de dotación de personal.** Muchas de las recomendaciones del Grupo de Estudio tienen repercusiones para el presupuesto de operaciones del Banco. En algunos casos, habrá aumentos en el costo inicial. Se espera, por ejemplo, que el cambio en la combinación de préstamos para incluir más financiamiento para programas debería costar más al principio, como reflejo de los mayores costos de preparación asociados con los diagnósticos necesarios, especialmente del gasto público y los sistemas de adquisiciones y manejo financiero. En otros casos, será posible compensar algunas de las alzas con enfoques más rigurosos, una gestión más sólida y una mejor colaboración con otros. En otros casos incluso, algunos de los costos adicionales serán financiados por los mayores flujos de comisiones y cargos por préstamos (por ejemplo, si la opción de giro diferido propuesta hace que algunos prestatarios, que de lo contrario estarían inactivos, permanezcan ligados financieramente con el Banco), pero sin embargo se manifestarán como un aumento en el presupuesto de operaciones. En el contexto del trabajo con personal que está elaborando el Documento de Instrucciones Estratégicas, el Grupo de Estudio pudo afinar sus anteriores estimaciones de costo; ahora estimamos que las recomendaciones implican costos adicionales en los programas de países de aproximadamente US\$35-40 millones anuales. Habrá cierto impacto a largo plazo en la combinación de capacidades del personal del Banco, principalmente a través de la evolución gradual hacia préstamos programáticos, lo que requerirá mayor experiencia en materia de gasto público y sistemas de adquisiciones y de gestión financiera.

- **Nomenclatura.** Por último, sugerimos actualizar los nombres de los productos y procesos del Banco para que reflejen mejor el espíritu del paradigma de desarrollo emergente, especialmente en su relación con los países de ingreso mediano. Términos como “Estrategia de asistencia al país,” “estudios económicos y sectoriales” y “préstamos de ajuste” pertenecen a una era anterior y deberían de eliminarse.

**Conclusiones.** El Grupo de Estudio ha llegado a la conclusión de que una participación permanente del Banco en los países de ingreso mediano es vital para ayudar a estos países a enfrentar sus propios desafíos de desarrollo en la reducción de la pobreza. El Grupo de Estudio opina que, para poner en práctica esta participación, el enfoque del Grupo del Banco debe ser más disciplinado que hasta ahora y también más constante, sistemático y estratégico. Ya cuenta con la mayoría de los componentes necesarios, pero se necesitan importantes mejoras. Las EAP deben responder a un criterio más comercial, basándose en la visión y agenda del país y en un diagnóstico claro de sus sistemas de responsabilidad financiera pública y sus prioridades de desarrollo. Los ESW deben ser más sistemáticos; deben aumentarse; deben llevarse a cabo en cooperación con los socios para secundar mejor la participación sistemática del Banco; y también deben poner más énfasis en construir capacidades analíticas en el país. El financiamiento debe estar más estratégicamente vinculado con las motivaciones normativas e institucionales de un crecimiento sostenido y la reducción de la pobreza y más centrado en la adquisición de capacidad e instituciones. Es necesario prestar más atención a los prestatarios intermitentes e inactivos, para mantener la preparación del Banco en ayudarles a responder a las perturbaciones con apoyo a sus reformas sociales, estructurales y sectoriales. La ejecución de todo lo que antecede requerirá recursos adicionales para los programas de los países. También implicará tensiones que será necesario controlar, tanto para equilibrar los diferentes intereses de los países de ingreso mediano, de los accionistas y de otros, como para equilibrar los beneficios y riesgos del desarrollo asociados con enfoques más programáticos. Pero, en última instancia, creemos que el Grupo del Banco no tiene otra opción sino avanzar en esta dirección si ha de mantener su pertinencia en este importante grupo de países y cumplir con su mandato básico de reducir la pobreza en el mundo.



# REPORT OF THE TASK FORCE ON THE WORLD BANK GROUP AND THE MIDDLE-INCOME COUNTRIES

## I. INTRODUCTION

The Task Force on the World Bank Group Strategy and the Middle-Income Countries was created in September 2000 to explore how the Bank Group can best help middle-income countries. It was charged with setting out a Bank Group strategy for middle-income countries—defined by the Task Force’s terms of reference as the countries that are eligible for IBRD funding. In developing the strategy, the Task Force was to take account of a number of issues that shareholders and clients had raised, including the poverty reduction outcomes of Bank Group work; the coverage of economic and sector work; the design of conditionality and instruments that maximize the effectiveness of Bank assistance for countries at different stages of development and reform; the scope and conditions for providing borrowers more financial support for social and structural programs at times of market dislocation; the division of labor with other international financial institutions; and the costs of doing business with the Bank, including the implications for the pricing of Bank products.<sup>1</sup>

**Development Committee Discussion and Other Consultations.** The Bank’s overall approach to supporting development in its member countries was described in the paper *Supporting Country Development: World Bank Role and Instruments in Low- and Middle-Income Countries*, discussed at the Development Committee meeting on September 25, 2000.<sup>2</sup> During the discussion, Ministers welcomed the general direction the Bank was taking in its country programs, reaffirmed the need for a continuing Bank Group role in middle-income countries, welcomed the establishment of the Task Force, and generally agreed with the agenda for the Task Force’s work, as set out in the terms of reference.<sup>3</sup> In pursuing its work, the Task Force was guided by the Development Committee discussion and also by consultations with clients, partners, shareholders, Executive Directors, staff, and others. We held informal discussions with Executive Directors during a number of bilateral meetings as well as a technical briefing on November 14, 2000, and an informal meeting of the Board on February 28, 2001. We also met with representatives of about 25 middle-income countries on November 15 and 28, and with a group of European shareholders on December 8, 2000. And some constituencies provided written inputs into the work of the Task Force. We are very grateful for these contributions and for the time spent with us.

**Structure of Report.** This report distills our analysis and conclusions. Following this introduction, Section II very briefly summarizes the main development challenges the middle-income countries face and the Bank Group’s rationale for engaging with these

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<sup>1</sup> The terms of reference of the Task Force and details of its membership are in Annex A.

<sup>2</sup> See *Supporting Country Development: World Bank Role and Instruments in Low- and Middle-Income Countries* (DC/2000-19), September 8, 2000.

<sup>3</sup> See Development Committee Communiqué, September 25, 2000.

countries. Section III looks at the Bank Group's approach to helping these countries address their development challenges through its country programs and advisory and financial products, drawing out some of the implications for the future. Section IV considers some of the wider issues relevant to the formulation of the Bank Group strategy for these countries: partnerships both within the Bank Group and with the other international financial institutions, graduation from IBRD, capital adequacy and net income, and the implications of Task Force recommendations for the administrative budget and staffing. Section V provides conclusions.

## II. MIDDLE-INCOME COUNTRIES' DEVELOPMENT CHALLENGES AND BANK GROUP ROLE

The middle-income countries share a number of development challenges: persistent poverty; the need to improve the investment climate; social, structural, and sectoral constraints; and varying access to international markets and private capital flows. Having significantly improved their basic macroeconomic policies and institutions, many of these countries now find that the principal constraints to poverty reduction and faster growth lie in their social, structural, and sectoral policies and institutions. These are areas in which the Bank Group has a mandate and can help. A consistent message from our consultations with clients was the need for the Bank Group to remain engaged in helping middle-income countries address these challenges. An equally consistent message from nonborrowing shareholders was that since such a large proportion of the world's poor people live in these countries, helping them meet their development challenges is central both to the Bank Group's overarching mission of tackling global poverty and to progress toward the international development goals. We also heard the message that helping middle-income countries address financial instability, environmental degradation, and communicable disease has important global effects, including implications for poverty reduction in other countries.

### A. Development Challenges

The middle-income countries are a very diverse group. All of them face significant development challenges, but the nature of these challenges varies substantially, as summarized below.

**Country Diversity.** Middle-income countries encompass lower-middle-income countries, such as Peru, the Philippines, and Romania, with 1999 annual per capita incomes ranging between US\$756 and US\$2,995; upper-middle-income countries, such as Argentina and Poland, with annual per capita incomes above US\$2,995; and several low-income countries, such as India, Indonesia, and Ukraine, with annual per capita incomes at or below US\$755.<sup>4</sup> The group includes many transition, as well as developing, countries. It includes large federal states like Russia and Brazil, and small island states like Micronesia and St. Lucia. And it includes countries with still limited domestic institutional capacity, like Papua New Guinea, where the first priority is to build that capacity; countries with stronger capacity and well-defined reform programs that are embarking on more complex reforms, like Tunisia; countries with good track records of reform that continue to seek Bank financial support for ongoing structural and social investment programs, like Mexico; and countries that normally rely on good market access but wish to be able to turn to the Bank to finance ongoing social and structural reforms and investments in the event of reduced market access. The bottom line is

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<sup>4</sup> Countries eligible for IBRD funding include nine low-income country members; 40 lower-middle-income country members; and 28 upper-middle-income country members. There is also one high-income (\$9,266 or more) country member, which is in the process of phasing out World Bank assistance. For analytic purposes for this report, three categories have been used: upper-middle-income, lower-middle income, and low-income-blend countries. Annex B lists the middle-income countries and their categories.

the explicit recognition of the uniqueness of middle-income countries' challenges and features, which must be confronted in assessing whether the Bank Group has the right overall approach and menu of instruments.

**Poverty.** Poverty in its various dimensions is still high in middle-income countries. Using international yardsticks, nearly 80 percent of the world's poor people (as measured by those living on less than US\$2 a day) live in IBRD-eligible countries. Even if we do not count China's poor people or those living in India and the other "blend" countries, some 40 percent of the remainder of the world's poor live in IBRD-eligible countries. Some IBRD-eligible countries—China and India are good examples—face widespread poverty; in many others, large pockets of poverty persist in certain geographic areas or among certain groups, as in Argentina and Brazil; and in a number of newly independent states in Europe and Central Asia, poverty has increased dramatically. In many countries, concern with poverty is closely linked to a heightened concern over inequality: always a central issue for Latin America, this is now of growing importance in East Asia, in Eastern Europe and Central Asia, and even in the Middle East, despite low measured income inequality. In many middle-income countries, incomes and assets are distributed unequally; and many also face major challenges on the non-income dimensions of poverty—education, health, gender equality, and water/sanitation. Moreover, as the recent East Asian experience has vividly demonstrated, gains in poverty reduction are vulnerable to financial crises and economic volatility.

**Policy and Institutional Reform.** Policy and institutional reform holds the key to poverty reduction. Appropriately designed, such reform brings about faster and more equitable growth, reduces the economy's vulnerability to external shocks, helps integrate disadvantaged regions or groups, and promotes the development of effective anticorruption programs, sound systems of social protection, and financial and other mechanisms for managing social risk and reducing inequality. Progress on policy and institutional reform varies considerably across the middle-income countries, but even in the more advanced ones a substantial agenda remains. Indeed, in many such countries, this agenda needs to be carried forward to reforms on the subnational level. In some middle-income countries, completing basic market-opening reforms remains a priority. Others have made greater progress in removing market impediments and distortions, but face a substantial unfinished agenda of institutional reforms needed to complement the policy changes already adopted. Many of these remaining reforms are in the area of governance systems for addressing financial management, accountability, and transparency, and for dealing with corruption. Indeed, a central theme of the *World Development Report 2000/2001* was that issues of public sector performance and corruption are of vital concern to the poor.<sup>5</sup> In addition, countries' capacity to manage the reform agenda varies widely. Such constraints are of course more serious in the lower-income countries in this group, but even the more advanced middle-income countries face challenges in managing more complex institutional reforms, such as banking reform and financial system modernization, corporate legal reform, social security reform, and environmental regulation. Lack of progress in these reforms renders countries more vulnerable to external shocks as they integrate into the global financial system.

**Market Access.** Access to international capital markets is highly skewed. Ten middle-income countries account for more than two-thirds of all private capital flows to developing countries, while the majority of the middle-income countries receive very little private capital. Access is often limited, and even when there is access, it is normally not at the maturities appropriate for long-term development programs and projects. And volatility in private capital

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<sup>5</sup> See *World Development Report 2000/2001: Attacking Poverty* (New York: Oxford University Press for the World Bank, 2000).

flows is a problem even for those middle-income countries with broader access. Private flows respond procyclically to shocks (for example, a decline in commodity prices); thus capital becomes more scarce as the need for it becomes more intense. Developing better access to capital markets through reforms that improve the climate for investment, and managing access so as to safeguard against volatility, are important challenges for these countries. Thus, even developing countries that have access to commercial finance continue to appreciate Bank Group support.

**Global Public Goods.** Growth, stability, and associated reforms in middle-income countries bring important benefits for the rest of the international community and for poor people worldwide. The middle-income countries are home to 70 percent of the world's population, account for 20 percent of world GDP and international trade, and are increasingly becoming integrated into global capital markets. They are thus particularly important in relation to a range of global public goods—global poverty reduction, international financial stability, protection of regional and global environmental commons, the fight against systemic health threats, generation and transmission of knowledge and best practice, and global economic governance.

## **B. Bank Group Role**

The Task Force concluded—and this conclusion is strongly supported by feedback from clients and shareholders—that there is a continuing role for the Bank Group in helping the middle-income countries address these development challenges. As a general presumption, the role derives from the public-goods nature of the interventions needed to reduce poverty, improve the investment climate, and increase stability, and from these countries' highly skewed and volatile access to private capital. But in specific country contexts, the role has to be justified in terms of two criteria. First, it has to meet the test of contributing to the Bank Group's overarching mission of helping to reduce global poverty. Second, the Bank Group must be filling a role that others—including private markets—cannot or do not play. These are the starting points for assessing Bank Group performance in middle-income countries.

**Growth, Institutions, and Poverty Reduction.** The starting point for the Bank Group's role in providing support in the middle-income countries must be the recognition that the most important way that most of these countries can reduce poverty is to achieve faster, more sustainable, and more equitable growth. Many of these countries have made progress in improving their economic policies and institutions. For them, the key to further development and poverty reduction lies in addressing weaknesses in social, structural, and sectoral policies and institutions—enhancing private investment and strengthening the investment climate, including governance and legal systems; strengthening their financial sectors; establishing efficient and equitable social expenditure programs geared to reducing inequality and building human capital; providing equality of access to economic opportunity; promoting good governance in public sector management and tackling corruption; reducing the vulnerability of the economy to shocks; and developing or reforming formal systems of social insurance and other mechanisms for managing social risk. These are the very areas where the Bank Group has knowledge, technical expertise, and appropriate instruments—IBRD through analytic work, policy dialogue, and lending (and guarantees) to governments; IFC through direct financing to the private sector, development of financial intermediaries, and technical advice; and MIGA through guarantees for foreign investment and technical advice on attracting investment. Independent evaluations by the Operations Evaluation Department (OED) have identified considerable successes associated with Bank support in countries where there is government commitment to reform; this includes evidence that the funding and advice

associated with program loans have helped developing countries protect social expenditures,<sup>6</sup> manage reductions in inflation, thus contributing to reducing income poverty,<sup>7</sup> and improve social conditions.<sup>8</sup>

**Bank Group and Private Sector.** Given the centrality of the private sector to the middle-income countries' continuing development, the Bank Group's job in these countries is to catalyze and complement private investment, adding value that private markets cannot. The World Bank Group plays several roles vis-à-vis the private sector: (a) helping countries improve the supply of public goods that affect the private sector but that cannot be efficiently provided by it—for example, through support for judicial reforms; (b) supporting actions that will crowd in private investment, such as IBRD support for regulatory reform and IFC catalytic financing to the private sector; and (c) helping countries deal with the volatility of private flows, including helping them protect the poor in times of market dislocations. The message we heard from clients is that they see the Bank Group as carrying out those roles in a number of ways. They appreciate the relevance of the Bank Group's advice; they value technical assistance based on its global knowledge; and they urge the Bank to upgrade the quality and quantity of both. Crucially, the Bank Group's support helps middle-income countries design and implement public sector, judicial, and social reforms. It also demonstrates that these reforms open viable new opportunities for the private sector and helps countries reduce their vulnerability to the adverse effects of capital market volatility and other external shocks. Clients made it clear that they value the Bank for being there when the private sector is hesitant or even destabilizing, pointing to the Bank Group's ability to provide finance and guarantees as well as advice. Of course, in providing such finance, the Bank needs to exercise due caution to not delay necessary corrections in the policy framework, but rather to help facilitate them and mitigate adverse impacts.

### C. Bank Group Catalytic Impact

Critics sometimes argue that Bank financial assistance crowds out private finance. But recent research suggests that the reverse is much more often true: official finance in support of policy and institutional reforms “crowds in” private capital flows.<sup>9</sup> The effect is quite large in countries with a good policy environment and negligible in countries with poor track records. The crowding in comes through foreign direct investment—rather than portfolio flows—which in turn is associated with important spillover benefits for the local economy, since it also brings technology and managerial skills. Evidence from OED evaluations also reveals that, where governments are committed, Bank support can be a useful vehicle for promoting public sector and policy reforms, thereby catalyzing private sector investment. Reviews of MIGA and IBRD guarantees indicate that most have been successful, mobilizing private resources, reducing the costs of borrowing, and helping countries build market confidence. Nevertheless, there remains an important cautionary point: the Bank Group's developmental impact on middle-income countries cannot be measured by the magnitude of financial flows; it must be judged in terms of its influence on the overall policy and institutional environment. This has implications for the design and evaluation of our country programs and products.

<sup>6</sup> See *The Effectiveness of the World Bank's Poverty Reduction Strategy: An Evaluation*, OED Reach No. 125, Operations Evaluation Department, November 7, 2000.

<sup>7</sup> See Carl A.B. Jayarajah, William H. Branson, and Binayak Sen, *Social Dimensions of Adjustment: World Bank Experience, 1980-93*, Operations Evaluation Study (Washington, D.C.: World Bank, 1996).

<sup>8</sup> See *Adjustment Lending Retrospective*, World Bank, forthcoming.

<sup>9</sup> See David Dollar and Lant Pritchett, *Assessing Aid: What Works, What Doesn't, and Why*, World Bank Policy Research Report (New York: Oxford University Press for the World Bank, 1998); and Paul Collier and David Dollar, “Aid, Risk, and the Special Concerns of Small States,” Poverty Reduction and Economic Management Network, February 1999.

### III. COUNTRY PROGRAMS AND PRODUCTS

There are clearly strong reasons for the Bank Group to remain engaged in the middle-income countries. But how should this general presumption be translated into a business strategy with specific instruments and modalities? The starting point of our analysis is what the Bank Group has done in the past in helping these countries. The key questions are: How have Bank Group programs helped middle-income countries address development challenges in terms of poverty reduction, or in terms of intermediate variables and outputs such as private sector investment flows, institutional development, and policy reform? And how can the Bank Group do better in the future? To address these questions, this section looks at the Bank Group's record on CASs, analytic and advisory work, and financial support through lending and guarantees. In each area we draw out some implications of relevance for the Bank Group's future engagement in these countries. A theme running through the analysis is the importance of adopting an approach based on the Comprehensive Development Framework (CDF) principles of country ownership, partnership with other development institutions, focus on results, and a comprehensive and long-term perspective.

#### A. Country Assistance Strategies and Programs

An examination of CASs reveals much about the Bank's approach to middle-income countries, and the evolution of that approach over time. When CASs were first introduced a decade ago, they presented little more than a collection of projects and reports; today's CASs contain a more coherent strategic framework, focused on selecting, from among the areas most vital to country development, interventions where the Bank Group has a comparative advantage. Mirroring the Bank Group's country focus, today's CASs seek to set individual projects and activities in the context of overall country development programs, providing the business link between the country's development challenges and priorities and the concrete Bank Group program of lending and nonlending activities that transfer resources and knowledge, and guarantees that promote private sector involvement. Each CAS must be anchored in the country's own *vision* of development—whether articulated through a formal Poverty Reduction Strategy Paper (PRSP) and/or CDF process, as in many low-income countries, or through a unique country-owned process, as in many upper-middle-income countries—and in a Bank *diagnosis* of the country's development situation and priorities, partners' programs, and its own comparative advantage. The country *program* should be customized to each country's circumstances, drawing on an appropriate menu of instruments from which to offer support. It also should be selective, taking into account the support provided by others. And it should include proposals for monitoring and evaluating *results*.

**Poverty Focus.** An internal Bank review of recent middle-income country CASs confirms that the Bank has strengthened the poverty orientation of its country programs. Increasingly, such CASs place poverty reduction at the center of the policy dialogue,

assess the impact of the Bank-supported program on poverty, and include poverty-focused benchmarks and monitoring indicators—all of which are key aspects of a fully satisfactory poverty reduction program. In terms of specific poverty interventions, CASs often support structural and policy reforms in education, health, social security, and other areas—reforms designed to provide broader access to economic opportunity and better management of social risk, and to accelerate overall economic growth as a key to reducing poverty. For low-income countries in this group, as in IDA countries, the emphasis is frequently on capacity-building and basic health care issues such as child mortality, nutrition, and immunization, as well as improved financing to ensure sustainable programs. (In the blend countries, financial support for these programs typically comes from IDA; IBRD financing tends to be directed toward structural policy reforms for energy, infrastructure, and private sector development.) For the higher-income countries in this group, the emphasis is frequently on improving access to social services, pension reform, and labor market reforms. But in general, the key to reducing poverty in middle-income countries lies in achieving faster, more sustainable, and more equitable growth and in reducing vulnerability to financial contagion and other external shocks. Bank support for the policy and institutional reforms needed to strengthen the economy is thus essential, providing a platform for the dialogue on measures to improve equity. Promoting private sector development and improving the investment climate are particularly important, as discussed below. In addition, given the devastating impact that financial crises can have on the poor, crisis prevention is a major issue for those middle-income countries that have intermittent access to financial markets.

***Growth Strategy and Investment Climate.*** Country assistance strategies for middle-income countries recognize the indispensable role of economic growth in sustained poverty reduction by supporting appropriate policies and institutions for developing the private sector and the financial sector, and for gaining broader and more secure access to capital markets. Bank support for private sector development concentrates on policies and institutions that improve the climate for domestic and foreign investment. Examples include reforms to improve corporate governance, open sectors to private engagements, and establish appropriate regulatory frameworks. IFC and MIGA transactions directly help the private sector respond to reforms and new market opportunities, until domestic and foreign financial markets acknowledge reductions in risk. In Argentina, for example, IBRD's assistance for strengthening the banking sector was followed by a number of IFC investments in that sector, and IBRD's assistance in capital market reform, particularly pension reform, was followed by IFC's investment in a private pension fund. Financial sector development frequently focuses on building reliable legal and judicial environments, strengthening banking systems, fostering capital markets, developing appropriate insurance instruments to address risk, and improving access to financial systems. All these measures taken together—those concerning private sector investment and financial sector reform, plus others to improve the structure and operation of domestic capital markets—help countries improve and sustain their access to international capital markets and enhance the role played by commercial finance in supporting their development. This approach takes different forms in different countries; in Central and Eastern Europe, for example, this kind of effort has focused on helping countries prepare for participation in the single European market.

***Implications.*** We see a number of implications of this experience for the future. First, the CAS must continue to be grounded in the country's own vision of development and priorities. To ensure that the CAS starts from the country's own vision, the Task Force believes that the Bank should invite (but not require) governments to articulate the

country's vision and priorities in a Letter of Development Strategy.<sup>10</sup> The Letter of Development Strategy would not have a uniform format. Many countries already have documents setting out their vision and agenda, which they may want to attach to a brief Letter of Development Strategy; other countries may want to use the Letter of Development Strategy to sharpen the presentation of their priorities; and some countries—particularly those without a lending arrangement with the Bank—may find such a letter useful to signal their reform program to domestic constituencies or financial markets. Second, to more sharply define the Bank Group's business strategy for providing support, the CAS must also build on a comprehensive diagnosis of the key challenges the country faces in its policy, social, and structural agenda and in its public financial accountability arrangements. Third, emerging country programs must be selective, pinpointing the specific areas where the Bank Group can have the greatest poverty impact, and specifically stating how the proposed Bank Group program of lending, guarantees, and nonlending services will leverage private sector support for poverty reduction, taking into account what others—including the private sector—are doing in the country. In particular, nonlending services need to be better integrated into CASs—both informing the CAS diagnosis and forming part of the CAS program to contribute to capacity building, support internal debate, and underpin the Bank's financial engagements.<sup>11</sup> In addition, the joint CAS program—which covered a pilot group of eight countries in FY97-98, and is expected to cover over one-half of the FY01 cohort—should be continued, bringing together Bank, IFC, and MIGA staff at an early stage of CAS preparation and also periodically during CAS implementation. Finally, in terms of results, the Bank needs to improve its monitoring of performance—including Bank performance—at the country level, making better use of the client survey program as a diagnostic tool and upgrading self-evaluation in the CAS.

## B. Analytic and Advisory Work

From its earliest days, the Bank has recognized the need to underpin its country dialogue and lending operations with analysis of the country's development conditions and challenges. The benefits of such work are reflected in the quality of lending operations, the effectiveness of country programs, and the adoption of policy reforms by client countries. Interactions with domestic institutions and attention to capacity building have always been a part of this effort. An important contribution of the Bank is supporting domestic analysis and debate. Doing this requires that the Bank maintain world-class expertise and continue to undertake analysis in client countries, albeit increasingly in a collaborative mode.

**Quality and Impact of Economic and Sector Work.** The Bank's economic and sector work (ESW) program is a country-based program defined in the CAS process in consultation with clients and partners. Evaluations by OED, Development Economics (DEC), and the Quality Assurance Group (QAG) underscore the value of ESW: underpinning lending operations and strategy formulation with analytic work enhances

<sup>10</sup> The last review of CASs looked at the component parts of the CAS and concluded that the process could be streamlined, and duplication reduced if the CAS were "unpacked"—that is, if it were to draw more on other existing documents and country-owned vehicles for part of its content. The Task Force believes that the recommended Letter of Development Strategy would be an appropriate vehicle to that end in middle-income countries.

<sup>11</sup> See Chapter 3 of *2000 Annual Review of Development Effectiveness: From Strategy to Results* (Washington, D.C.: World Bank, 2001).

the Bank's development effectiveness.<sup>12</sup> Following a period of decline, the Bank has made significant progress in improving ESW quality: QAG ratings for ESW in middle-income countries rose from 83 percent satisfactory or better a year ago to 91 percent today.<sup>13</sup> As clients clearly indicated during the Task Force's consultations, middle-income countries value the Bank's ability to draw on its worldwide experience and expertise to provide analysis and advice on a wide range of second- and third-generation policy questions. In countries with large lending programs, Bank ESW supports and complements local findings with relevant international experience. But even countries that borrow infrequently, such as Chile, Czech Republic, South Africa, and Thailand, want to maintain access to ESW. Client surveys confirm the perceived value-added the Bank brings to countries in terms of its technical expertise, knowledge, policy advice, and project implementation skills. To some extent, this reflects the fact that ESW reports are not simply documents delivered to counterparts. They often include a program of analytic outputs, consultations, and advisory work, and are often catalytic in launching and sustaining substantive policy dialogue in critical areas. Strong partnership with counterparts and others is and should be an essential feature of ESW—senior government officials, their technical staff, and local researchers participate in ESW teams as both coauthors and reviewers.

**Capacity Building.** Helping build local capacity is central to the Bank's role in middle-income countries. Better local capacity in institutions, systems, and people is an essential element of good governance and participatory ownership of policies, programs, and projects. Clients value the Bank's hands-on advice and training. During the Task Force consultations, they said how much they valued Bank technical assistance and advice on debt and reserves management; and recipient countries have expressed appreciation of the learning services provided through the World Bank Institute. However, past attempts by the development community to help build capacity through lending and nonlending services have had uneven results. This points to the importance of developing partnerships with local learning institutions and identifying in the CAS how the ESW program and other nonlending activities can use a learning approach to help countries enhance their capacity to undertake policy and public expenditure analysis.

**IFC and MIGA Advisory Services.** For IFC and MIGA, too, technical assistance and advisory services are key elements in helping member countries respond to the challenges of globalization and market-led growth. This work has been strengthened in recent years to address private sector development issues. IFC undertook 94 nonlending assignments in FY00 in 34 countries, with services covering the financial sector, privatization, small and medium enterprises (SMEs), environment, and infrastructure.<sup>14</sup> MIGA complements its investment guarantee function by providing technical assistance to developing countries and economies in transition to strengthen

<sup>12</sup> See, for example, *Poland Country Assistance Review, Vol. 1: Main Report*, Operations Evaluation Department, World Bank, April 14, 1997; and David Dollar and Lant Pritchett, *Assessing Aid: What Works, What Doesn't, and Why*, World Bank Policy Research Report (New York: Oxford University Press for the World Bank, 1998).

<sup>13</sup> Bankwide, quality of ESW rose from 73 percent in FY99 to 86 percent in FY00.

<sup>14</sup> IFC's Financial Sector Advisory Services offers technical assistance to governments and advises them on fiscal, legal, and regulatory matters, and on the institutional structure required for a market-oriented financial sector. The joint Bank-IFC Private Sector Advisory Services Department was established in January 2000 to integrate three former units—IFC's Corporate Financial Services, the Bank's Private Sector Development Department, and the joint Foreign Investment Advisory Service. The department provides advice on public policy for the private sector, including investment climate and privatization transactions and policies. Project Development Facilities carries out feasibility studies for SMEs, and helps prepare sound, viable business plans for their investment projects. The joint IBRD-IFC Global SME Capacity Building Facility is being established to further support SME development in client countries. The Technical Assistance Trust Fund Program enables IFC to access a range of consultant skills from donor countries, including financial, legal, technical, and environmental expertise.

their capacity to attract greater foreign direct investment. In addition, it focuses on enhancing countries' investment promotion capabilities, and on disseminating information on investment opportunities and business operating conditions through online services. Over the period FY98-00, MIGA provided technical assistance and advisory services to 47 IBRD countries and furnished information to 6,440 online registrants.

**Resources and Coverage.** While the need for and payoff from ESW have been growing rapidly, the Bank's ability to produce this analysis has been declining. ESW resources per middle-income country have fallen by about 50 percent in real terms since FY93 as budgetary resources for ESW have declined and country membership has increased. To some extent, the decline in resources has been offset by productivity improvements.<sup>15</sup> However, improved productivity has not compensated for the entire decline in ESW resources; the result has been a severe depletion of the Bank's stock of the country-based knowledge needed to underpin CASs and country programs. Indeed, for only half of all middle-income countries is there an up-to-date integrative review covering social, structural, and sectoral policies, country fiduciary systems, or the financial sector. Only five middle-income countries have three such products that are reasonably up-to-date, and 10 have two such products. As for the other categories of ESW, about half of the middle-income countries have a recent other diagnostic ESW product in key sectoral areas; and each year about one-third of the middle-income countries receive "customized" (demand-driven) ESW from the Bank.

**Partnerships in Analytic and Advisory Work.** A pragmatic first step in filling the ESW gap must be to recognize that country knowledge and analysis of development challenges come from many sources. Internally, a more systematic Bank Group approach to knowledge partnerships is essential, including integrating research and operational work and better linking the advisory services provided by the Bank, IFC, and MIGA. Externally, development partners and countries themselves carry out studies on which the Bank Group should rely more than it has in the past; and the Bank Group, in turn, should be more proactive in sharing the results of its own work with its partners. Some of this collaboration is already taking place in individual countries, within the Bank Group, with regional development banks, and between the Bank and Fund under joint projects such as the Financial Sector Assessment Program. But it needs to be extended—for example, by more systematically pooling our knowledge and requirements with the regional development banks and other partners, while bearing in mind the need to protect privileged client information and other information that is not disclosed under the Bank's disclosure policy. Of course, extending the partnership approach to ESW does not imply a diminution of institutional accountabilities for the conduct of due diligence: Bank Management must remain accountable to shareholders for the development assessments it uses to determine how best—and by how much—to support a country's efforts.

**Implications.** The Task Force believes that the Bank must rebuild and systematize its own ESW program as a cornerstone of its strategy for middle-income countries, while working closely with clients and partners and using studies produced by others to the extent possible. Indeed, all of the Bank's ESW should also help countries develop their own capacity for analytic work. We consider it useful to distinguish among (a) core integrative assessments, which the Bank should seek to produce for all active

<sup>15</sup> In 1997, in the context of the Strategic Compact, the Cost-Effectiveness Review targeted an annual ESW productivity gain of 3 percent based on average delivery costs per task.

borrowers; (b) other diagnostic ESW as needed for future policy dialogue and lending, which should take into account the availability of studies produced outside the Bank; and (c) customized ESW produced at the request of clients. In addition, the Bank's research and outreach activities should include the evolving development agenda in middle-income countries.

- **Core Integrative Assessments.** The Task Force considers that two integrative analyses are key to the Bank Group's assistance to each country.
  - A *fiduciary assessment* would analyze the country's public expenditure, procurement, and financial management systems, as an input into the CAS. Building on more in-depth analyses of these areas, it would diagnose the problems and identify the priorities for policy action and capacity building and possibilities for Bank support, particularly in the context of programmatic lending (see Annex C). Given the shared interest in assessing and helping to strengthen public financial management, this is an important area for partnership with other development agencies, and more fundamentally with clients.
  - The Task Force believes that an integrated analysis of the country's social, structural, and sectoral policies is important to underpin the Bank Group assistance strategy, the policy dialogue, and programmatic lending. The Task Force recommends that this take the form of a periodic *development policy review* that assesses the priorities for action on policies and institution building. Such a review (see Annex D), would provide input for the diagnostic section of the CAS. Given its global reach across countries and sectors, the Bank has a strong comparative advantage in producing such an integrated analysis, while drawing on in-depth diagnostic work available within and outside the Bank.
- **Other Diagnostic Economic and Sector Work.** The country-specific need for additional analytic products would depend on what upstream analyses of economywide and sector-specific issues are needed for the future policy dialogue and lending in the country. Which of these products would be part of the Bank's ESW package would depend on the availability of work in the country and from other sources. But clearly, up-to-date analyses of poverty on the one hand and public expenditure, procurement, and financial management systems on the other would be essential. Furthermore, many CASs would need to be underpinned by a financial sector analysis, which would normally be produced in the context of the joint Bank-Fund Financial Sector Assessment Program. The CAS also would spell out which other sector-specific studies would need to be produced by the Bank, as part of the upstream preparation for future lending.
- **Customized ESW.** CAS programs also should set out the scope for customized ESW within the CAS envelope, providing for cost-sharing for specific items of analytic and advisory work that go beyond the base-case allocation. Such customized ESW programs are promising approaches, especially for intermittent and inactive borrowers. For example, the country development partnership in Thailand brings together technical assistance loan resources, administrative resources for ESW, and grant financing from

donors. But the Bank must clarify the “rules of the game” for such partnerships, for cost-sharing, and for clients’ entitlements to resources for customized ESW.

- **Research and Outreach.** To support country-specific ESW at the institutional level, the Bank’s research program should include the evolving development agenda in the middle-income countries. Bank research, evaluation, and outreach should contribute both to a better understanding of the development challenges that the middle-income countries face and the role the Bank can play in addressing them.

### C. Lending and Guarantees

In its early years, the Bank offered a few basic lending products (mainly investment, or “project,” loans) on a limited set of terms, generally supporting basic infrastructure projects. Since the early 1980s, it has also used adjustment, or “program,” loans to provide fast-disbursing external financing support for policy reform and institutional development.<sup>16</sup> Over time, the Bank has adapted and adjusted the financial terms of these two basic kinds of loans to meet varied borrower needs, and has increasingly bundled them with practical, focused policy advice both in individual lending operations and in broader CAS packages. Responding to middle-income country needs for new financial products, the Bank has introduced variable-spread single-currency loans and fixed-spread loans. The Bank Group has also developed a range of risk mitigation instruments to catalyze private sector financing: MIGA’s political risk guarantees, IFC’s loan syndication program (the B-loan program) and its recently developed partial credit guarantee structures, and IBRD’s project and policy-based guarantees. Today, consistent with the Bank’s research findings on aid effectiveness and in accordance with the CDF principles, we understand that progress in poverty reduction lies less in individual projects and more in the policy and institutional reforms needed for a healthy and stable private sector, institution building, and social development. This is particularly true in many middle-income countries, where the Bank Group finances a very small proportion of the country’s foreign exchange and budget needs and where the overall level and direction of budgeted spending are far more significant than any particular element financed by the Bank. This reinforces the importance of a strategic approach to lending and guarantees, with the CAS tailoring Bank Group support to each borrower’s development needs and the Bank’s comparative advantage in the context of a country-led comprehensive policy and development framework.

**Quantity.** Responding to concerns by Executive Directors and others, the Task Force looked into the trends in IBRD lending volumes, their causes, and their strategic implications. Between 1989 and 1997, as private flows to middle-income countries increased in both scope and volatility, IBRD lending fluctuated around a flat nominal level of about \$16 billion, thus declining in real terms. In FY98-99, driven by increases in program lending in response to the East Asia crisis, commitments surged to an annual average of almost \$22 billion, but by FY00 they had shrunk to half that (\$10.9 billion), the lowest level since the mid-1980s. These aggregate fluctuations mask the divergent paths of project and program lending. Project lending has fallen, with FY00-01 volumes at roughly half the level of the early 1990s, while program lending has been on an

<sup>16</sup> This paper uses the terms *investment lending* and *project lending* interchangeably, as also the terms *adjustment lending* and *program lending*. Strictly speaking, program lending predates the adjustment lending of the 1980s. The Bank’s earliest loans in the 1940s were program loans.

upward, albeit volatile, trend. We believe that this relative shift toward program lending in middle-income countries, which seems likely to continue, is consistent with improved effectiveness in achieving poverty reduction. The aggregate trends also mask differences among country groups. Lending to lower-middle-income countries rose substantially in the 1990s, while lending to low-income blend and upper-middle-income countries has been declining except during the East Asia crisis. Underlying these trends are demand and supply factors that affect Bank lending to all middle-income countries: financial market volatility, country factors such as high political uncertainty or weak policy performance, changes in Bank products, sectoral shifts in Bank lending, the Bank's financial capacity, and Bank administrative budget resources.

**Quality.** Part of the reason the Task Force supports the shift from project lending to program lending lies in the quality and performance trends. The quality of Bank lending operations—measured by quality at entry, quality at exit, and project riskiness—improved during the 1990s. The improvement was especially pronounced for program lending, for which OED outcome, sustainability, and institutional development impact scores were consistently higher than for project lending, sharply reversing the pattern of the 1980s.<sup>17</sup> Outcome results have been particularly good for upper-middle-income countries, for which 85 percent of projects had satisfactory or better outcomes in FY95-00, compared with 76 percent for lower-middle-income countries and 67 percent for low-income blend countries. Outcome results for program lending improved markedly: OED outcome scores jumped from 75 percent satisfactory or better in FY90-94 to 100 percent in FY99-00.<sup>18</sup> Outcomes were better for single-tranche loans than for multitranche loans, and for loans with fewer conditions. Outcomes were least good for project loans in blend countries, which showed weak sustainability and relatively poor institutional development impact.

**IBRD Project Lending.** As a basis for assessing future prospects, we also looked at the factors behind the evolution of IBRD project lending. We concluded that project lending has a role to play in all middle-income country programs, with the specifics to be tailored to country needs set out in the CAS. It remains a powerful vehicle for transferring knowledge, for testing and demonstrating new approaches, and for supporting in-depth programs where hands-on attention is needed. But like program lending, it is only effective in the presence of good policies and institutions, and should therefore be set in the context of a satisfactory program of policy and institutional development.<sup>19</sup> While recognizing the important role that project lending plays in middle-income countries, the Task Force concluded that project lending volumes are nevertheless likely to continue to their ongoing gradual decline. There are several reasons for this. First, the bricks-and-mortar infrastructure investment projects that were once the Bank's mainstay have declined sharply in number in recent years, as more and more countries have privatized domestic supply sources, gained access to capital markets, and become increasingly interested in advisory products to encourage reform and private investment in infrastructure. Thus the power sector, for example, which accounted for over 20 percent of IBRD lending in FY80, today accounts for only 5 percent—with the focus now on the sector's regulatory policy and institutional software

<sup>17</sup> Given that project and program lending have different roles in development and program loans have a much shorter implementation period, there are limits to the conclusions that can be drawn from a comparison of outcome ratings. At the same time, there is no doubt that the Bank markedly improved the quality of its program lending in the 1990s, although the appropriate methodology for measuring the long-term sustainability of policy reforms supported by project and program loans remains an issue for future work.

<sup>18</sup> FY00 results are preliminary, based on 45 percent of loans exiting in FY00.

<sup>19</sup> See *Assessing Aid: What Works, What Doesn't, and Why*, op. cit.

as opposed to the physical hardware of yesteryear. Second, the shift to social sector operations is also a shift to relatively smaller operations, compared to infrastructure operations. And third, since FY98, middle-income countries have increasingly used smaller but more innovative instruments such as learning and innovation loans, which transfer much knowledge but with small lending volumes.

**Cost of Doing Business.** A recurring theme in our discussions with borrowers was their concern about the perceived high cost of doing business with the Bank. While one factor mentioned in connection with the Bank's project lending was the Bank's increased focus on safeguard and fiduciary policies, the concern expressed was a wider one, relating also to conditionality and to administrative and processing hurdles in dealing with the Bank. In the fiduciary and safeguard areas, the Task Force on the Cost of Doing Business has found that Bank policies, when applied in a timely and consistent manner, are constructive vehicles for ensuring project viability and sustainability. When properly implemented, these policies add value by improving the design of operations to mitigate the environmental impacts on human and natural resources, avoid social costs by minimizing and mitigating the need to resettle people, improve participant ownership of development actions, reduce costs through competitive bidding, and ensure financial integrity. Nevertheless, borrower implementation costs—including the costs of delays—are perceived to be increasing at the very time that traditional sources of finance to help borrowers manage these costs have been declining. Meanwhile, given differences in both formal requirements and implementation standards, the Bank is perceived to be more demanding than other sources of development finance. This factor may, on the margin, be affecting the Bank's perceived relevance to many clients in key development sectors, such as infrastructure; however, we have not been able to quantify the magnitude of any impact on lending demand. Addressing these borrower concerns effectively will require a determined effort to clarify Bank policies and to streamline Bank processes, and especially to ensure timely resolution of differences of view about the application of operational policies. And as policies are revised, implementation costs must be taken into account along with developmental benefits. Ultimately, the solution lies in ensuring that these policies and procedures are integrated into borrowers' regular business processes—by emphasizing the development of national systems and recognizing that the ultimate safeguard is in building and sustaining strong client institutions with effective internal oversight. In the meantime, the current focus on compliance must continue, complemented by a capacity-building approach designed to help borrowers develop effective fiduciary and safeguard systems.

**IFC, MIGA, and IBRD Guarantee Project Support.** In contrast to IBRD's project lending, which was displaced by the growing private sector presence in middle-income countries, IFC and MIGA activities expanded in the 1990s. In the first half of the 1990s, IFC saw a 70 percent increase in the volume of approvals. Since then, its strategic emphasis on "frontier" markets—and its shift to riskier sectors and less developed regions within borrowing countries—has slowed its overall growth in middle-income countries. MIGA's guarantee activity in middle-income countries grew substantially in the second half of the 1990s, with net exposure reaching \$2.2 billion by end-FY00. In contrast, IBRD guarantees have seen little growth; from 1994, when guarantees were mainstreamed, until FY00 the Bank has provided 13 guarantees in middle-income countries, and had a net exposure of \$1.4 billion as of end-FY00. To end-FY00, only one IBRD policy-based guarantee had been issued under the US\$2 billion pilot program—to Argentina, as part of the US\$2.5 billion special structural adjustment loan in FY98-99—with a further policy-based guarantee to Colombia recently approved. The

relatively low uptake of IBRD guarantees reflects a number of external factors; but it also reflects internal factors, such as the intense scrutiny and policy discussions that initial guarantee transactions faced, and the need for the Bank Group to clarify how its various guarantees are used.

**Programmatic Adjustment Lending.** In many middle-income countries, supporting policy and institutional reforms is a highly effective way for the Bank to promote poverty reduction—helping to support the creation and maintenance of environments conducive to private investment, financial stability, and equitable growth, and benefiting other countries through spillover effects. This approach may involve program lending, as middle-income countries that have completed the basic market-opening reforms may need program support to help them tackle the remaining array of social and structural reforms. Reflecting the lessons learned over 20 years of experience—and the results of the review of conditionality being carried out in the context of the Adjustment Lending Retrospective<sup>20</sup>—the Task Force recommends that programmatic adjustment lending to middle-income countries generally be (a) grounded in clear country commitment and capacity to reform; (b) structured as a series of annual operations in line with countries’ policy and budget cycles, and embedded in a medium-term reform program; and (c) disbursed more on the basis of completed actions than on future commitments, and focused on a few big-ticket items with major expected impacts on growth and poverty reduction. Indicators for annual monitoring and reporting would be determined in line with the country’s track record: for advanced reformers they would primarily relate to, and build on, the country’s ongoing reform program, whereas for countries with weaker policies and institutions, they would need to involve systematic programs of broad-based reforms and institutional strengthening with a range of both input and output measures. The Task Force concluded that the ongoing shift of program lending in this direction should generally be welcomed, but a continued strengthening is needed in several areas, including enhanced poverty focus, greater attention to public expenditure, procurement, and financial management systems, and more focused conditionality. Like all adjustment lending, programmatic adjustment lending would need to be predicated on adequate macroeconomic policies.<sup>21</sup> The Task Force also recommends that the Bank continue to use sectoral adjustment loans and subnational adjustment loans for supporting in-depth sector and state and local reforms.

**Structural Adjustment Lending.** But more traditional structural adjustment lending also has a role to play. Indeed, as countries integrate into the global economy, drawing on private markets for finance, they often find that their access to that finance is volatile. Thus they need mechanisms to help them manage their development policies and programs in a financial environment that can quickly turn sour, undermining support for social and structural reforms and reversing hard-won gains on poverty reduction. This need comes out clearly both from recent experience with Bank lending and from the Task Force’s discussions with middle-income country clients. Two kinds of instruments are relevant here:

- Regular structural adjustment loans can serve as an important vehicle for providing long-term finance during periods of reduced market access, helping

<sup>20</sup> See *Adjustment Lending Retrospective*, op. cit.

<sup>21</sup> As stated in Operational Directive 8.60, *Adjustment Lending Policy*, “Adjustment lending is not normally undertaken unless an appropriate Fund arrangement is in place. If there is no Fund arrangement, Bank staff should ascertain, before making their own assessment, whether the Fund has any major outstanding concerns about the adequacy of the country’s macroeconomic policies.” OD 8.60 is accessible through the Operational Manual at [www.worldbank.org/whatwedo/policies.htm](http://www.worldbank.org/whatwedo/policies.htm).

countries protect social expenditures and reforms in the face of shocks. In recent cases, CAS-based lending envelopes have been used flexibly to provide timely support via traditional structural adjustment lending for critical reforms in periods of market stress.

- When exceptional circumstances lead a country to request assistance beyond the CAS-based envelope, the Bank's exceptional financial response would be through the special structural adjustment loan (SSAL). Such support would continue to be based on (a) the agreed division of labor with the IMF, under which the Fund focuses on macroeconomic stability and the Bank on social and structural issues, (b) burden-sharing with the IMF consistent with these roles, and (c) higher charges to the borrower in view of the added costs and risks that SSAL assistance entails.

Use of these instruments would be based on continuing engagement between the Bank and countries on their structural and social policy agendas. This would help ensure that the Bank's cyclical assistance fits clearly within its social, structural, and sectoral mandate and does not become merely a provision of liquidity finance in a crisis.

***Deferred Drawdown Option.*** The Bank also needs to ensure that its lending instruments match borrowers' needs. During the consultations, borrowers requested a Bank lending option that would provide predictable and significant support, one that could be flexibly customized to changing country and external conditions and aligned more closely to country budget and policy cycles. Loans with full and continuous currency and interest flexibility and, more recently, local currency loans have already been introduced. For borrowers that currently have some access to financial markets but wish to remain engaged in a policy dialogue with the Bank and enhance their debt management flexibility, the Task Force recommends developing a *deferred drawdown option* for program loans (see Box 1 and, for greater detail, Annex E). This would allow countries to obtain a loan in the usual way within the CAS envelope; it would support ongoing social and structural reform programs; and it would provide financing in support of these programs if and when market borrowing becomes difficult and a financing need arises. Drawdown would be subject to a confirmation of progress on agreed reform programs and a satisfactory macroeconomic framework. The deferred drawdown option would not be designed as a new "window": it would simply introduce additional flexibility within the regular lending program to address the increasingly diverse needs of IBRD borrowers. It would also provide a basis for a continued strong policy dialogue with a group of countries that may not currently need to borrow from the Bank. The deferred

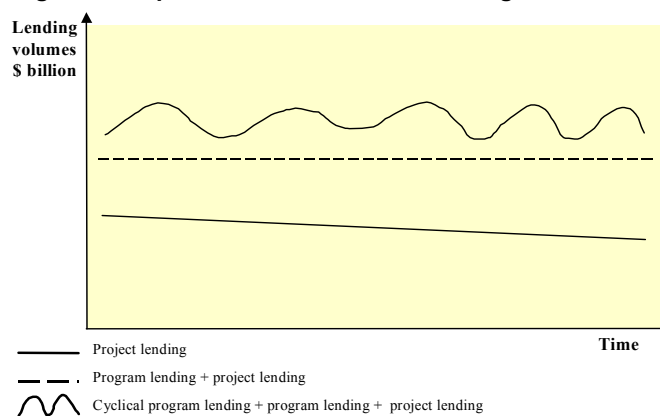
**Box 1. Proposed Deferred Drawdown Option**

Borrowers would not generally be expected to draw on a loan with a deferred drawdown option. But the loan would be available to help protect core programs for the poor in times of stress or reduced market access. The main features would include a "drawdown" period—perhaps up to three years—during which the borrower could withdraw loan proceeds as external financing needs arose, subject to a review; the standard grace period starting at the time of withdrawal; and an up-front fee charged only when the loan is drawn. Loan charges could be the same as for standard program loans, except for a charge on undisbursed balances (in lieu of a commitment fee) that would reflect the costs of loan preparation, associated ESW, and the attribution of capital. A loan with a deferred drawdown option would be based on standard terms, with a variant offering longer terms at a slight premium. As with any policy-based loan, approval would be subject to appropriate policy conditionality. Requests for withdrawal would be granted subject to confirmation that progress on implementing key policy measures was satisfactory and that the macroeconomic framework continued to be adequate.

drawdown option would not replace SSALs, which would remain the vehicle for exceptional support, outside the CAS envelope, to countries needing Bank assistance with structural and social issues at times of major crises. Nor would it compete, either in intent or in structure, with the IMF's Contingent Credit Line.<sup>22</sup> Detailed design of such an option—including terms, eligibility criteria, and performance standards expected to be in place at withdrawal—would of course require careful consideration, discussion, consultation, and Board approval.

**Implications.** To summarize: for the coming years, IBRD lending is expected to broadly follow the trajectories shown in Figure 1. Project lending is likely to continue a gradual decline, and program lending is expected to increase gradually. Together, these two types of loans may yield a fairly stable level of lending commitments, particularly if, as we recommend, the Bank takes effective action to address borrowers' perception of the high transaction costs of doing business with the Bank, and if a deferred drawdown option for program lending is introduced. Meanwhile, above and beyond these project and regular program loans, the Bank's cyclical program lending levels—both SALs and SSALs—are expected to rise and fall in response to volatility in world and individual countries' economic and financial systems. The Bank will need to be prepared for rapid changes in its lending commitment volumes, and will need to remain engaged in a policy dialogue with countries (which will require an increase in ESW) throughout the cycle so that it is ready to support their social, structural, and sectoral reform priorities when the need arises.

**Figure 1. Expected Trends in IBRD Lending Commitments**



<sup>22</sup> Unlike the Fund's Contingent Credit Line, which augments a country's reserves in emergency situations, the deferred drawdown option would provide countries with flexibility on the timing and pace of disbursements of a CAS-based program loan for providing medium-term development support. Disbursements would not be contingent on a defined event.

## IV. SYNERGIES, SELECTIVITY, AND SUSTAINABILITY

In addition to looking at middle-income country development challenges and relevant Bank Group lending and nonlending services, the Task Force examined a range of related issues that affect the Bank's role. First is the question of whether more can be done to improve synergies within the Bank Group. Second is the issue of how to improve the division of labor with the IMF and the regional development banks to enhance the effectiveness of client support and to sharpen institutional selectivity and specialization. A third issue is country selectivity—how the Bank should determine which countries to lend to (and in what amounts), and, particularly, what should be the policy on the graduation of upper-middle-income countries from Bank lending. The fourth issue is ensuring that our recommendations will keep the Bank viable as a financial institution: with a given capital structure, this means that the Bank must observe constraints on overall lending volumes—both upper limits and lower limits. Finally, the Task Force considered the implications of its recommendations for the operational budget and for staffing. These issues are discussed below.

### A. Bank Group Synergies

Given the importance of private sector development for the middle-income countries, the whole of the Bank Group has potentially much more to offer than the sum of the individual Bank, IFC, and MIGA parts. The Task Force considered what Bank Group Management needs to do to capture the synergies.

**Bank/IFC.** The Bank and IFC have in place mechanisms to work together in supporting private sector development in middle-income countries. However, we believe there is much more to be done, especially on coordinating diagnostic work on business environment issues; strategic work, including follow-up to joint CASs; and specific operations. There was broad agreement within the Task Force that the Bank must maintain—and, where necessary, develop—the knowledge needed to facilitate the successful implementation of complex second-generation reforms aimed at eliminating constraints to the poverty reduction impact of private economic activities. This will require stepped-up collaboration among IFC, the Private Sector and Infrastructure Network, the Poverty Reduction and Economic Management Network, the Legal Department, and DEC to provide better ESW tools and other analytic and advisory services to clients. In the meantime, consultations are under way on how to streamline and coordinate various survey instruments used to analyze business environment issues. As noted earlier, there has been progress on joint CASs, but stronger modalities are needed to ensure operational follow-up, especially in exploiting opportunities for sequencing policy reforms supported by the Bank and transactions supported by IFC. More and better communications among Bank and IFC managers and staff are needed, learning from the experience of the global product groups with joint products and joint teams. The Task Force also debated the

desirability of moving from the current system of separate Bank and IFC country directors to a new system of Bank Group country directors, but there was not a consensus on this proposal.

**Bank/IFC/MIGA.** We also see the need to develop better mechanisms to promote synergies with MIGA, mindful of the coordination challenges associated with the different scales of operations of MIGA, IBRD, and IFC. Greater participation by MIGA in the entire CAS process is one such mechanism.

## **B. Division of Labor with International Financial Institutions**

Selectivity and division of labor with the international financial institutions and other partners can be exercised at both the institutional and the country levels. The Bank and Fund have a well-developed framework setting out the respective roles of the two institutions, whereas the division of labor among the Bank and other international financial institutions varies from country to country. This raises the larger strategic issue of how partnerships among the MDBs should evolve over time.

### **1. International Monetary Fund**

The Bank and the Fund have distinct but complementary mandates and areas of responsibility and expertise.<sup>23</sup> Sustainable macroeconomic policies have to be grounded in strong social, structural, and sectoral policies, and vice versa—a key lesson of the East Asia financial crisis. The two institutions have long had in place a collaborative framework, which they have recently enhanced for the low-income countries under the Heavily Indebted Poor Countries (HIPC) and PRSP initiatives. The enhanced arrangements provide for each institution to take lead responsibility for distinct aspects of the policy dialogue with borrowers, and a common framework in which the Bank and the Fund jointly and separately assess and monitor progress. The Task Force sees a powerful case for similar mechanisms (though with inevitable differences in practice) in Bank-Fund cooperation with respect to the middle-income countries, with the Bank leading the dialogue and program support on the social, structural, and sectoral agenda and the Fund leading on macroeconomic and related structural issues. Such mechanisms place a premium on the Bank's rebuilding and systematizing its ESW to underpin the policy dialogue. The proposed integrative tools—a fiduciary assessment and development policy review—and greater use of programmatic lending would be especially important in this respect. Meanwhile, the successful Bank-Fund joint work on the Financial Sector Assessment program and on the Reports on Observance of Standards and Codes provides a strong foundation for a broad-based partnership on the shared aspects of the policy and institutional agenda for middle-income countries.

<sup>23</sup> See *The IMF and the World Bank Group: An Enhanced Partnership for Sustainable Growth and Poverty Reduction*, joint statement by Horst Köhler, Managing Director, and James D. Wolfensohn, President, September 6, 2000, available at [www.worldbank.org/developmentnews/](http://www.worldbank.org/developmentnews/), under Press Releases.

## 2. Regional Development Banks

The MDBs share a broad development mandate and offer many of the same development services to eligible member countries.<sup>24</sup> Partly because the other MDBs and development partners operate in a subset of countries, the main focus for collaboration is likely to remain at the country and regional levels. Collaboration on lending has increased considerably in recent years. This is reflected in a division of responsibilities at the country level through consultations with country authorities in their respective country assistance strategy processes. Analysis carried out by the Task Force suggests that MDB country programs do not overlap as significantly as is widely thought. Sectoral overlap in most country programs is fairly limited, and clients appreciate being able to choose among the assistance programs of two or more institutions. Also, collaboration in ESW and other analytic work has increased, as evidenced by joint work of the Bank and the Inter-American Development Bank (IDB) on public expenditure reviews and Bank Group collaboration with the European Bank for Reconstruction and Development (EBRD) on the World Business Environment Survey. A number of efforts are under way to improve coordination among the MDBs and to share lessons of experience, including meetings of the Presidents and other officials, formation of joint working groups such as those on harmonization of policies,<sup>25</sup> and preparation of memoranda of understanding. For the future, we see merit in using these fora to map out an agenda for further work designed to enhance the development effectiveness and reduce overhead costs of the MDB group. While the agenda of collaboration would apply not only to middle-income countries, and still needs to be discussed further among the MDBs, the Task Force recommends systematic arrangements for collaboration on ESW—starting with fiduciary assessments, complementing related work on the harmonization of procurement and financial management policies. Additional issues could be taken up over time. In the meantime, the Task Force believes that the World Bank’s own Networks should explicitly consider the scope for partnering with the MDBs in the context of their upcoming Sector Strategy Papers.

## 3. Other International Institutions

Several European financial institutions are major donors to middle-income countries, and much work is needed to ensure an effective division of labor with them, since there are important areas of overlap.<sup>26</sup> In the countries seeking accession to the European Union, collaboration of the World Bank and EBRD with the European Commission, the European Investment Bank (EIB), and other European multilateral financial institutions is particularly close, grounded in a memorandum of understanding on the complementarity

<sup>24</sup> This paper uses the term MDBs to include the World Bank Group and the four major regional development banks: the African Development Bank (AfDB), Asian Development Bank (AsDB), European Bank for Reconstruction and Development (EBRD), and Inter-American Development Bank (IDB). The mandate of EBRD focuses on the specific challenge of fostering the transition to open market-oriented economies and promoting private entrepreneurial initiative. Also, unique among the MDBs, the EBRD provides neither concessional support to poor member countries nor quick-disbursing and policy-based lending.

<sup>25</sup> See *Harmonization of Operational Policies, Procedures, and Practices: Experience to Date* (DC2001-0006), April 13, 2001.

<sup>26</sup> Among the institutions of the European Union, this includes the European Commission and the European Investment Bank. In addition to EBRD, the Council of Europe Bank, the Nordic Investment Bank, the Nordic Investment Fund, and the Nordic Environment Finance Corporation also are multilateral Europe-based institutions active in all or some of the middle-income countries of the Europe and Central Asia Region. In terms of net transfers, the Commission of the European Communities (European Commission) is the largest single source of public assistance to middle-income countries in Europe, Central Asia, the Middle East, and North Africa. All funding by the European Commission is on grant terms.

of financing, sectoral performance benchmarks, project eligibility criteria, cofinancing, and coordination procedures. For example, the Bank helps countries prepare for accession through analytic work and through lending in support of reforms in sectors—such as coal and agriculture—facing major adjustment pressure in the single European market. The EIB relies on the Bank to help countries establish adequate sector policies and institutions, particularly in the area of infrastructure funding, where the EIB has a strong focus. Regular consultations with European institutions take place on the working and institutional levels, including timely consultations on draft annual work programs. Such coordinating mechanisms also have been established among the Bank, the Commission, and EBRD for work in the newly independent states. In the countries of the Middle East and North Africa, the EIB is a major partner institution. Since the EIB focuses on infrastructure, overlap with Bank Group work is limited; however, stronger collaboration remains to be developed, to take advantage of the complementarity between EIB's approach to project financing with low conditionality and the Bank's strength in helping reform sector policies and institutions. In the context of the European Union's Mediterranean policy, furthermore, the European Commission has emerged as a major source of financial support for social, structural, and institutional reforms in the Middle East and North Africa region. The Bank's close engagement with the European Commission in Europe and Central Asia will need to expand to countries in the region. At the global level, the partnership with the Organization for Economic Co-operation and Development (OECD)—which deals with many of the key structural and social issues as they affect industrial countries—will also be important. OECD and the Bank have signed a joint statement of priorities, and collaboration has been strengthened across a variety of activities.

### C. Country Selectivity

The Bank Group also must ask whether its approach to country selectivity remains adequate. As a development institution, the Bank Group must ensure that its limited human and capital resources are used where they can have the largest impact on growth and poverty reduction. In the IBRD context, this translates into questions that shareholders have raised about performance-based allocations (which might ration lending to weak performers), inactive borrowers (eligible countries electing not to borrow), and graduation (which might reduce lending to strong performers).

**Performance-Based Lending.** Some shareholders have asked whether the Bank should not extend to IBRD the same kind of performance-based approach it uses for allocating IDA resources. IDA resources are allocated to countries according to a formula that takes into account country size, per capita income, and performance. IBRD resource allocation does take performance into account, even though a formula is not used. Implicitly, this occurs through the Bank's creditworthiness assessment, which in turn depends on country performance. Explicitly, CAS high-case programs are linked to triggers for improvements in policy and institutional performance. Other things being equal, good performers get greater access to IBRD funding than bad performers, and the IBRD lending envelope is increased when countries implement important reforms; weak performers get less access, in line with their high financial and development risk. This strategy is developmentally and financially sound, as the relatively stronger performers have better prospects and lower default risk than weak performers. But there also is a demand side to lending. Since the very best performers tend to have the most access to commercial financing, their borrowing is typically below what the Bank would provide on the basis of creditworthiness and performance tests alone. This

means that in practice, taking into account both performance and market access considerations, most lending (other things held constant) tends to be to countries that are in the middle range—those implementing second- and third-generation reforms. This is in line with current thinking on development effectiveness. For IFC, selectivity implies continuously pushing the frontiers of what market participants are willing to engage in.

***Inactive and Intermittent Borrowers.*** Several countries that are eligible for IBRD lending have stopped borrowing from the Bank for extended periods in which they had good access to commercial financing. The lessons of experience suggest that the Bank should be wary of disengaging prematurely from the policy dialogue in such countries. If a crisis should strike, the Bank may lack the necessary knowledge and engagement to address the country's renewed needs. So we are recommending continued engagement via a minimal CAS and basic ESW—a development policy review and a fiduciary assessment—even for inactive (but potential) borrowers. If adopted, the proposed deferred drawdown option (described in Box 1) could provide a more formal basis for continued engagement with these countries. For inactive borrowers not choosing a program loan linked to this option, access to funding would continue to depend on circumstances spelled out in the CAS, with incremental program lending subject to SSAL pricing. As explained above, we also believe that a Letter of Development Strategy could be useful for these countries; during the client consultations, several participants indicated interest in such a document as a way of signaling to financial markets and to domestic constituencies the fact that a comprehensive reform program is progressing.

***Graduation.*** The Bank's existing policy on formal graduation (losing access to IBRD lending)<sup>27</sup> uses an income threshold (currently \$5,225 in 1999 dollars) to trigger a review of the country's development situation.<sup>28</sup> The review takes into account (a) the volatility of income; (b) access to capital markets and volatility of capital flows; (c) persistence of poverty despite high per capita income; (d) unfinished agenda of institutional reform; and (e) spillover benefits, to other countries and to the Bank, from supporting the country. Some observers have argued that formal graduation should be linked very rigidly to income and capital market access thresholds, which should be set lower than at present. They suggest that this approach would free up substantial resources for assisting poorer countries. From a financial perspective, however, the opportunity cost of lending to creditworthy upper-middle-income countries with limited exposure is low, because a more concentrated portfolio would be riskier and therefore would require more risk-adjusted capital per unit of lending. Not only would aggregate IBRD lending—and the associated development benefits—decline, but so would revenues to maintain nonlending services, transfers to IDA and the HIPC Initiative, and support for global public goods. From a development perspective, the approach would prevent the Bank from supporting social spending and urgent reforms in countries suffering reversals in their access to commercial capital, and from assisting poverty reduction in a number of countries with pervasive poverty. No less important, a rigid cut-off at low thresholds would also limit the Bank's global experience, weakening its ability to assist the development efforts of other countries. These cautions about graduation were

<sup>27</sup> Among the regional banks, AfDB, AsDB, and EBRD also have policies on graduation. Uniquely, EBRD graduates areas of activities in country operations in response to advances in transition and in access to private sources of capital. Also, when most market segments are well served by the market, a country may indicate a wish to graduate. IDB takes a different approach, reflecting its explicit mandate to promote regional cooperation and integration.

<sup>28</sup> The current income threshold is defined in Annex D to OP 3.10, *Loan Charges, Currencies and Payment Terms of IBRD Loans and IDA Credits*, in the Operational Manual at [www.worldbank.org/whatwedo/policies.htm](http://www.worldbank.org/whatwedo/policies.htm).

reinforced during the Task Force's client consultations, which stressed the importance of considering graduation in the context of a country's ability to cope with external shocks. Nonetheless, at some point countries can and should graduate: indeed, we believe that the graduation process should be completed by the time a country moves beyond the upper threshold for middle-income status.<sup>29</sup> But it is important to recognize that graduation from IBRD lending is part of an evolving relationship between the Bank and its member countries; in this context, we believe that the present policy remains broadly adequate.

***IFC's Approach to Selectivity.*** Since 1993, activity in middle-income countries has declined as a share of overall IFC investments, and the pattern of IFC activity in middle-income countries has been shifting. IFC continually seeks investments that push the frontiers of what market participants are willing to finance. While this can mean encouraging markets to move into riskier countries, in many cases it means encouraging investors and lenders to move to riskier sectors—or less developed regions within larger countries. Within middle-income countries, this approach has meant an increase in activity in areas such as Northeast Brazil; a shift away from investments in telecommunications and blue chip manufacturers to transport, social sectors, and second-tier firms; and increased attention to innovative structures. As with IBRD, this selectivity is reflected at the country level in Country Assistance Strategies.

#### **D. Financial Sustainability**

Since middle-income countries are defined as the universe of IBRD borrowers, it is critical to assess any significant strategic shift in terms of its impact on the Bank's financial sustainability and the efficient use of the Bank's financial and other resources. The Bank's equity—consisting of usable paid-in capital and accumulated reserves—supports a necessarily broad and diverse loan portfolio approximately five times its size. Income from investments and loan charges (net of borrowing expenses and provisions) generates resources to provide development services (in the administrative budget), additions to reserves to support new lending, and grants to IDA, HIPC, and other shareholder priorities. Given current capital ratios and loan charges introduced in 1998, the Bank can absorb plausible risks, make adequate reserve allocations to underpin lending, and—in the absence of major credit events—generate the development resources mentioned above. In all this, it is important to bear in mind that there is potentially little opportunity cost to maintaining a lending relationship with a full range of middle-income countries.

***The "Zone."*** The Bank's finances are sound, but they do place real constraints on the amount of new lending. Given the structure of the loan portfolio, the fact that the Bank can just absorb plausible risks places an upper bound of about \$18-21 billion on annual new commitments. Lending more would translate into larger net disbursements, which in turn would require the Bank to tolerate higher risk, secure a capital increase, and/or again raise loan charges, none of which appears acceptable to shareholders. At the other extreme, if the Bank's annual lending volume consistently fell below current levels of about US\$9-12 billion in new commitments, and/or became more concentrated among less creditworthy borrowers, and if no new source of income were developed, it could become difficult to maintain current services, make transfers to IDA, HIPC, and other shareholder priorities, and retain the earnings necessary to support future lending. The

<sup>29</sup> Currently \$9,266 in 1999 dollars. See OP 3.10, Annex D, op. cit.

bounds establish a zone of financially sustainable lending. Lending reached the upper limit in FY98-99 and came close to the lower limit in FY00. Envisaged trends in lending demand, including the expected year-to-year volatility—as illustrated in Figure 1—are well within the zone. It is clear, however, that the Bank must watch trends in lending demand carefully. Peak demand for countercyclical lending in times of global crisis will necessitate careful rationing, as in FY98-99. Equally, if lending stagnates at the lower end of the zone or below, it could have major consequences for the sustainability of Bank efforts elsewhere. Our best assessment, based on analysis of lending trends and discussions with middle-income country clients on expected lending demand, is that the strategy for continued Bank engagement in middle-income countries set out in this report will leave lending fluctuating broadly within this acceptable zone, but this will need to be kept under close review.

**Loan Pricing.** It is against this background that the Task Force considered whether its proposals would have any specific implications for loan pricing. One conclusion is that there are no implications for the general level of loan charges, which were revised in 1999 in the context of reviewing IBRD's long-term options for enhancing capacity.<sup>30</sup> (The underlying analysis is regularly updated as part of the annual net income allocation exercise.) The Task Force also considered various proposals that have been put forward for changes in loan pricing with respect to differences in charges on a country and/or sectoral basis. However, we found little rationale for changing the long-standing practice among MDBs to use means other than pricing to achieve appropriate selectivity among sector or country operations. Current arrangements already discriminate strongly between countries: after allowing for risk, or in comparison to market rates, the single price for IBRD loans provides a significant subsidy to less creditworthy countries in relation to more creditworthy countries. Indeed, for the latter, we have already noted the tendency for countries with good capital market access to borrow from the market rather than IBRD at current rates. As to discriminating among sectors, we do not believe that this would achieve results. Especially in middle-income countries, where Bank finance often accounts for only a small proportion of the total resource needs, what matters is the overall budget allocated to, for example, education or health. To offer low-priced Bank lending in these sectors would encourage countries to take their borrowing from the Bank in the form of loans for these sectors—and possibly reduce the Bank's influence in other parts of the policy spectrum—but there is no reason to think it would lead to an increase in total public spending on education or health. That is more likely to be achieved as a result of the Bank's overall policy dialogue on, for example, budgetary priorities. Where we do see scope for price differentiation is between products. Some, like SSALs, represent incremental financial risk to the Bank and therefore require a higher charge. Others, like the proposed deferred drawdown option for program loans, should carry fees and charges that reflect both the cost of the continuing client engagement and the reservation of Bank risk capital.

## E. Budget and Staffing

Many of the Task Force's recommendations have implications for the Bank's operational budget. In some cases there will be up-front cost increases—for example, changing the lending mix to include more program lending is expected to cost more at first, reflecting the larger preparatory costs associated with the needed diagnostic work and dialogue. In other cases it will be possible to offset some of the increases by tighter focus, stronger

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<sup>30</sup> See Annex F of this report.

management, and better collaboration with others, particularly on ESW. In still other cases, some of the extra costs will be financed by increased flows of loan fees and charges—if, for example, the proposed deferred drawdown option causes otherwise inactive borrowers to remain financially engaged with the Bank—but will nevertheless show up as an increase in the operational budget. In the context of working with staff who are preparing the Strategic Directions Paper, the Task Force has been able to narrow its earlier cost estimates; we now estimate that the recommendations imply additional annual costs on the order of US\$35-40 million. There will also be some long-term impact on the skills mix of Bank staff, primarily through the gradual change in emphasis toward programmatic lending, which will require expertise in regulatory environments and public sector management. The increase in fiduciary assessments may require a further buildup of staff with expertise in this area, depending on the extent to which the Bank can draw on the work of its partners.

## V. CONCLUSIONS

The Task Force has concluded that continued engagement by the Bank Group in the middle-income countries is vital to helping these countries address their particular development challenges in reducing poverty. In implementing this continued engagement, the Task Force believes that the Bank Group's approach must be more disciplined than hitherto—and also more steady, systematic, and strategic. Most of the building blocks are already in place, but important upgrades are needed. CASs need to be more businesslike, building on the country's vision and agenda and a clear diagnosis of its public financial accountability systems and its development priorities. ESW needs to be more systematic; there should be more of it; it should be developed in cooperation with partners, to better underpin the Bank's systematic engagement; and it should have a stronger emphasis on building analytic capacity in the country. Lending should be more strategically linked to the policy and institutional drivers of sustained growth and poverty reduction and focused more on capacity and institution building. More attention should be given to intermittent and inactive borrowers, to maintain the Bank's readiness to help them respond to shocks with support for their social, structural, and sectoral reforms.<sup>31</sup> Implementing all this will require additional resources for country programs. It also will involve tensions that will need to be managed, both in balancing the various interests of the middle-income countries, shareholders, and others, and in balancing the developmental benefits and risks associated with more programmatic approaches. But in the final analysis, we feel the Bank Group has no choice but to move in this direction if it is to remain relevant to this important group of countries and to deliver on its core mandate of global poverty reduction.

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<sup>31</sup> Annex G summarizes the application of existing and recommended Bank instruments in middle-income countries.



## TASK FORCE TERMS OF REFERENCE

The World Bank Group<sup>1</sup> serves a large and diverse group of countries, ranging from small states to huge federal systems, from quite poor countries to middle-income countries in transition and emerging market economies. Of these countries, those that are eligible for IBRD assistance—the middle-income countries and creditworthy lower-income countries—have, broadly speaking, greater public and private capacity, more resources, and better prospects. However, they are still characterized by widespread poverty—together, they are home to 87 percent of the world’s people who live on less than \$1 a day, and 88 percent of those living on less than \$2 a day.

Therefore, as the Development Committee paper *Supporting Country Development: World Bank Role and Instruments in Low- and Middle-Income Countries* argues, the Bank Group has a continuing role to play in these countries. Focusing on reducing poverty, the Bank Group must concentrate on adding value that private markets cannot or will not. This entails using lending and nonlending services to help middle-income countries strengthen their social and structural policies and institutions, promote equitable and efficient social programs, improve the investment climate, reduce vulnerability to capital market volatility and sustain reforms and social programs during crises, and implement the internationally agreed global public goods agenda.

The role and specific modalities for Bank Group support for IBRD-eligible countries are to be reviewed by the Task Force on the Bank Group Strategy in Middle-Income Countries, as a basis for proposing a strategy for the future. The Task Force is to be led by David de Ferranti; members include Sadiq Ahmed, Kemal Dervis, Jemal-ud-din Kassum, Johannes Linn, Gary Perlin, Halsey Rogers, Joanne Salop, Jean-Louis Sarbib, Bernard Sheahan, Anil Sood, Gerald West, and John Wilton. The Task Force will be advised and supported by Bank Group Senior Management. It is to start work at the beginning of October and to submit its report to the President of the World Bank Group by the end of December.

In carrying out its work, the Task Force will consult with Executive Directors, clients, and partners, as well as Bank Group managers and staff. Given the time constraints, the Task Force will need to draw to the extent possible on ongoing and completed work of others, both inside and outside the Bank Group. The Task Force will consider the areas listed below as inputs into its analysis, deliberations, and report on the Bank Group role and strategy:

- **Country Profiles.** The Task Force will consider the Bank Group’s role in countries at different stages of development, reform, and access to international capital markets, as a basis for assessing the appropriateness of Bank Group

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<sup>1</sup> The World Bank Group comprises five institutions, four of which provide financial assistance and advice to developing countries. Two of these institutions are the World Bank: IBRD, which provides loans and development assistance to middle-income countries and creditworthy lower-income countries; and IDA, which provides low-interest loans and other services to the poorest countries. Some countries (“blend” countries) are eligible for assistance from both IBRD and IDA. IDA and IBRD work in close cooperation with the other members of the World Bank Group: IFC, which finances private sector ventures in developing countries, in partnership with private investors; and MIGA, which encourages direct foreign investment in developing countries by providing guarantees against noncommercial risk to foreign investors. The fifth World Bank Group institution, the International Center for the Settlement of Investment Disputes (ICSID), provides facilities for the settlement of investment disputes between foreign investors and their host countries.

instruments and conditionalities for maximizing development effectiveness.

- ***Leveraging Poverty Reduction.*** The Task Force will consider the evidence on poverty reduction outcomes associated with Bank Group programs and activities—IBRD lending and nonlending services and guarantees, IFC investments, and MIGA guarantees—including their impact on private investment, and in turn on growth and poverty reduction, as a basis for ensuring the results focus of the proposed Bank Group strategy going forward.
- ***Division of Labor with other International Financial Institutions.*** With a view to sharpening institutional selectivity, the Task Force will examine the framework for and record of collaboration in the middle-income countries between the Bank and the IMF on the one hand and between the Bank Group and the regional development banks on the other.
- ***Nonlending Instruments.*** The Task Force will explore the appropriate coverage of diagnostic and other economic and sector work, and options for paying for it. This work will take into account the growing demand for economic and sector work, both to underpin Bank Group lending and investment programs, and as free-standing analysis, including from countries that borrow infrequently or only in times of constrained access to capital markets.
- ***Trends in IBRD Lending.*** IBRD commitment levels have been highly volatile in recent years. The Task Force will examine the trends, the reasons behind them, and the strategic implications, as a basis both for assessing the need for change and for benchmarking possible options.
- ***Cost of Doing Business.*** Borrower attention has increasingly focused on the implementation costs of the Bank’s operational policies and procedures—especially the procurement, financial management, and social and environmental safeguards. Drawing on work that is under way elsewhere in the Bank, the Task Force will consider the particular implications for IBRD-eligible countries, programs, and instruments, including any evidence of impact on the level or composition of IBRD lending—or on its development effectiveness.
- ***Lending Instruments and Conditionalities.*** The Task Force will explore the operational modalities and financial implications of expanding programmatic adjustment lending as a developmental instrument in middle-income countries, and the scope for streamlining conditionalities to increase development impact. It also will explore the scope and conditions for providing more financial support for social and structural programs at times of capital market dislocation, and in that context review the options for contingent lending instruments, including any implications for IBRD’s financial structure.
- ***Product Pricing.*** The Task Force will explore the financial implications of its proposals. This will reflect the prospective impact of any such changes on IBRD’s risk profile, loan charges, and other means of cost recovery, as well as any incentive effects on borrowers.

## IBRD-ELIGIBLE BORROWERS

The following list of the Bank members included in the Task Force's definition of middle-income countries is based on 1999 per capita GNP figures.

IBRD-Only and IBRD/IDA Blend Countries				
Upper-Middle-Income Countries		Lower-Middle-Income Countries		Low-Income-Blend Countries
Antigua and Barbuda	Mauritius	Algeria	Lithuania	Azerbaijan*
Argentina	Mexico	Belarus	Macedonia, FYR*	India*
Botswana	Palau	Belize	Marshall Islands	Indonesia*
Brazil	Panama	Bosnia and Herzegovina*	Micronesia	Nigeria*
Chile	Poland	Bulgaria	Morocco	Pakistan*
Croatia	Seychelles	Bulgaria	Namibia	Zimbabwe*
Czech Republic	Slovak Republic	China	Papua New Guinea	
Dominica*	South Africa	Colombia	Paraguay	
Estonia	St. Kitts and Nevis	Costa Rica	Peru	
Gabon	St. Lucia*	Dominican Republic	Philippines	
Grenada*	Trinidad and Tobago	Ecuador	Romania	
Hungary	Uruguay	Egypt, Arab Rep.	Russian Federation	
Korea, Rep.	Venezuela	El Salvador	St. Vincent and the Grenadines*	
Lebanon		Equatorial Guinea	Suriname	
Malaysia		Fiji	Swaziland	
		Guatemala	Syrian Arab Republic	
		Iran, Islamic Rep.	Thailand	
		Iraq	Tunisia	
		Jamaica	Turkey	
		Jordan	Turkmenistan**	
		Kazakhstan	Ukraine**	
		Latvia	Uzbekistan**	

*Note:* Country groupings used by the Task Force for analytic purposes:

- Upper-middle-income countries: countries with 1999 GNP per capita of \$2,996 or more. Slovenia, a high-income country according to the *World Development Report 2000/01* (1999 per capita GNP of \$9,266 or more), is still IBRD-eligible. However, the recent CAS Progress Report for the Republic of Slovenia sets out a 3- to 5-year phaseout of World Bank assistance.
- Lower-middle-income countries: countries with 1999 GNP per capita between \$756 and \$2,995. Also includes Turkmenistan, Ukraine, and Uzbekistan, which are in the lower-income group by virtue of their per capita income but included in this group for analytic purposes.
- Low-income blend countries: countries with 1999 GNP per capita \$755 or less, and which are eligible for both IDA and IBRD funding.

\* Denotes eligibility for both IDA and IBRD funding—blend countries—in principle, as set out in OP3.10. In practice, several countries are not currently eligible for new IBRD loans, for reasons of creditworthiness.

\*\* Countries in the low-income group by virtue of their per capita income, but for analytic purposes included by the Task Force in the lower-middle-income group.

Source: OP 3.10, Annex D, *IBRD/IDA Countries: Per Capita Incomes, Lending Eligibility, and Repayment Terms*, op. cit.



## PROPOSED FIDUCIARY ASSESSMENT

Attention to public expenditure and financial management issues has grown in recent years, as combating corruption and promoting good governance have moved to the center of the development agenda. This points to the potential usefulness of country fiduciary assessments for looking across the policy and institutional frameworks for public expenditures, financial management, and procurement to identify the priorities for policy action and capacity building. Improved public financial accountability is also important to ensure the additionality of Bank resources provided through both project lending and program lending. Thus support for strengthening public financial management frameworks takes on heightened importance in the context of programmatic lending.

**Strategic Document.** The fiduciary assessment would be prepared periodically, providing an integrated assessment of a country's public financial accountability arrangements—including the country's systems for public expenditures, procurement, and financial management—and priorities for changes in policies and institutions. It would synthesize the findings of in-depth diagnostic work produced within and outside the Bank. With respect to public expenditures, it would draw on the Bank's public expenditure and institutional reviews, which would remain free-standing diagnostic products providing in-depth analysis, as needed, and on public expenditure analyses produced by others, including institutions in the country. In the area of financial management and procurement, the fiduciary assessment would integrate the work currently divided between the country financial accountability assessments and country procurement assessment reviews. Thus it would include reviews of the legal and regulatory framework in the public sector and of current practices relative to international standards and codes for the management of public finances. It would also identify the reforms needed and the possibilities for Bank Group assistance. As an integrative document, the fiduciary assessment would be concise, summing up the main strengths and weaknesses of the country's public financial management and areas for further development and Bank support, referring to the underlying in-depth diagnostic work or annexes where necessary, rather than providing an encyclopedic or exhaustive analysis itself.

**CAS Input.** The fiduciary assessment would be a key analytic input for the Country Assistance Strategy. It would facilitate policy dialogue with the country on the further development of public financial accountability arrangements, and would provide key input for the design of assistance through appropriate investment lending and, particularly, programmatic adjustment lending. Given the shared interest of the MDBs, other international financial institutions, and donors in assessing and helping to strengthen country fiduciary standards, the fiduciary assessment and assistance for policy and institution building would become an important area for partnership with other development agencies, as well as more fundamentally with clients.

**Structure.** The fiduciary assessment would consist of five main sections.

- The first section, "Public Expenditure Management," would summarize a country's strengths and weaknesses in budget formulation, execution, and reporting. This would include a summary of the country's institutional setup and its impact on public expenditure outcomes.

- The second section, “Public Financial Management,” would summarize a country’s arrangements and practices in the areas of public sector budgeting, accounting and financial reporting, internal control systems and record management, auditing, legislative oversight, and public access to information. The practices would be described relative to international standards and codes in the areas.
- The third section, “Procurement Systems,” would provide a short assessment of the existing procurement arrangements and practices, including the relevant legal framework, trade practices, financial framework, procurement organization and procedures, decisionmaking authority, and anticorruption programs.
- The fourth section, “Integrative Assessment,” would analyze the coherence of these arrangements within an integrated framework of public financial management. This would lead to a discussion of strengths and weaknesses and priorities for further development.
- The final section, “Scope for International Support,” would identify key priorities for Bank assistance. It would also consider the scope for cooperation with the regional development banks and other development partners, in line with institutional comparative advantage.

## PROPOSED DEVELOPMENT POLICY REVIEW

The Bank faces the challenge of taking on a clearer and stronger lead role in supporting the social, structural, and institutional dimensions of development in client countries, and of moving toward a more programmatic approach to lending to support policy and institutional reform. To meet this challenge, the Bank needs an integrated and up-to-date assessment of the countries' development policy agendas and priorities. The Bank currently lacks an instrument that would provide such an assessment on a regular basis. The proposed development policy review is designed to fill that gap as one of the Bank's core integrative analytic instruments. This note provides only an indicative outline.

**Strategic Document.** The development policy review would be prepared at regular intervals, providing an integrated view of the main elements of a country's policy agenda to achieve sustainable growth and poverty reduction. It would synthesize the findings of the Bank's diagnostic and customized economic and sector work and other analysis available inside or outside the Bank, and would present the development policy agenda in an integrated framework within which issues of policy consistency, priorities, and sequencing could be addressed. As a strategic document, the development policy review would be concise, summing up the main policy issues and referring to the underlying in-depth economic and sector work or annexes where necessary, rather than providing an encyclopedic or exhaustive analysis itself.

**CAS Input.** The development policy review would be a key analytic input for the Country Assistance Strategy. It would facilitate policy dialogue with the country and constitute an essential underpinning of programmatic lending. By providing a comprehensive yet compact up-to-date statement of the Bank's analysis of the development policy agenda, it would facilitate interaction with other development partners, especially the IMF. In the low-income country context, the development policy review would underpin Bank contributions to the Poverty Reduction Strategy Paper process. Given its integrative character, and through its facilitation of interaction with other development partners, the development policy review would become an essential part of the Comprehensive Development Framework process.

**Key Points.** The development policy review would address the following key questions: What are the main structural, institutional, and other policy impediments to achieving rapid and sustained economic growth? What factors constrain poor people's ability to participate in economic growth? What are the main sources of vulnerability and risk for the country? And what is the policy agenda for addressing these impediments and risks?

**Structure.** The development policy review would consist of three main sections.

- The first section, "Assessment of Development Outcomes," would crisply summarize what has happened in terms of key development outcomes: for example, what is the picture with respect to economic growth and the sources of growth; and what are the key developments with respect to poverty, understood as a multidimensional concept that encompasses income poverty, vulnerability, and health and education outcomes, with attention to the gender-related dimensions of development. The section would provide a succinct overview of the principal causes of these development outcomes.

- The second section, “Discussion of Development Policy Agenda,” would be the core of the development policy review, and would focus on key issues in the country’s policy agenda to promote sustainable growth and reduce poverty. Based on discussions with the government and other stakeholders, the policy assessment would be anchored in the country’s development objectives and priorities and reflect the ongoing discussion in the country on policy issues and options and the dialogue with the Bank. It would encompass social, structural, institutional, and relevant macroeconomic issues. The approach would be selective and strategic, not encyclopedic. The policy assessment would focus on those policy issues that are judged to be important to the desired objectives of growth and poverty reduction in the particular context of the country under review.
  - The policy discussion would normally cover the policy and institutional framework for private sector development, the financial sector, public sector management and governance, social sector policies and participation, and relevant macrostructural linkages. The relative emphasis on issues would vary depending on the specific country circumstances.
  - In addition, the policy discussion would include other important areas—for example, natural resource management and environmental sustainability or rural/urban issues may be key in some country contexts.
  - This section would conclude with a development policy agenda that integrates the various policy areas and issues discussed, clearly spelling out issues of policy priorities and sequencing. For a concise, and integrated exposition, it may be useful to summarize the policy agenda in a matrix formulation.
- The final section of the development policy review, “Medium-Term Outlook and Risks,” would provide a compact set of country projections, preferably in the form of a range of outcomes, and accompanied by a brief discussion, drawing on the preceding assessment of the policy agenda. It would include a summary assessment of major risks to the outlook.

**Annex.** The development policy review would include an annex with a standard set of tables and indicators covering key development outcomes and the major policy areas (there would be a minimum standard set of tables; other tables may be added depending on country circumstances). The standard indicators would relate to the international development goals. The standard set of statistics would help monitor progress on the economic and social goals and would facilitate cross-country comparisons.

## PROPOSED DEFERRED DRAWDOWN OPTION

### A. Objectives

The Bank's upper-middle-income borrowers have expressed an interest in more flexible IBRD instruments. There is particular interest in instruments that would support ongoing reforms while allowing flexibility with regard to the timing of disbursements, even if borrowers may not desire IBRD financing at the present. Such instruments would be useful tools for asset/liability management for some borrowers and by providing resources in times of limited market access, could help countries protect core programs for the poor. Such instruments would also allow IBRD to remain engaged in dialogue with borrowers, including currently inactive borrowers, who continue to be interested in IBRD technical support to formulate and implement policy change and who remain interested in access to IBRD credit in case circumstances change. This annex illustrates what the main features of such an instrument might be; more detailed design would require careful consideration, discussion, consultation, and Board approval.

### B. Current IBRD Instruments

The financing terms of IBRD's current lending instruments are structured with the assumption that borrowers would want to draw immediately upon loan availability. The standard term for upper-middle-income countries, for example, is 15 years, with a 3-year grace period and a 12-year amortization period<sup>1</sup> (see Figure E1); though under the fixed-spread loan borrowers have the flexibility to select alternative repayment terms within policy limits for maximum average repayment maturity and final maturity. A commitment fee of 0.75 percent<sup>2</sup> (0.25 percent after the current waiver is applied) is charged 60 days after signing, a 1 percent up-front fee is charged on effectiveness, and a fixed spread<sup>3</sup> is applied over LIBOR (this spread currently amounts to 0.55 percent over LIBOR on U.S. dollar loans, or 0.30 percent after the current waiver on post-1998 loans is applied).

**Drawdown.** The incentives built into the current financing package assume the borrower will drawdown immediately upon effectiveness. First, the grace period of three years starts upon Board approval, irrespective of when the borrower decides to draw on the loan. Second, the up-front fee frontloads some of the costs of the loan.

### C. Proposal for a Deferred Drawdown Option

To respond to clients' request for an instrument with greater flexibility, we propose the creation of a "deferred drawdown option" under single-tranche program loans that would give the borrower flexibility on the timing of disbursements. The deferred drawdown option would be programmed in the Country Assistance Strategy and would be subject to appropriate policy conditions. Its main new feature would be a drawdown period—perhaps up to 3 years—during which the borrower could elect to draw on the loan when a financing need arose, subject to minimal review (see below). The proposed pricing of the deferred drawdown option is based on the notion that loans with such an option

<sup>1</sup> This assumes *annuity* repayments of principal. Under *level* repayments of principal the standard terms are 15 years final maturity including 5 years of grace.

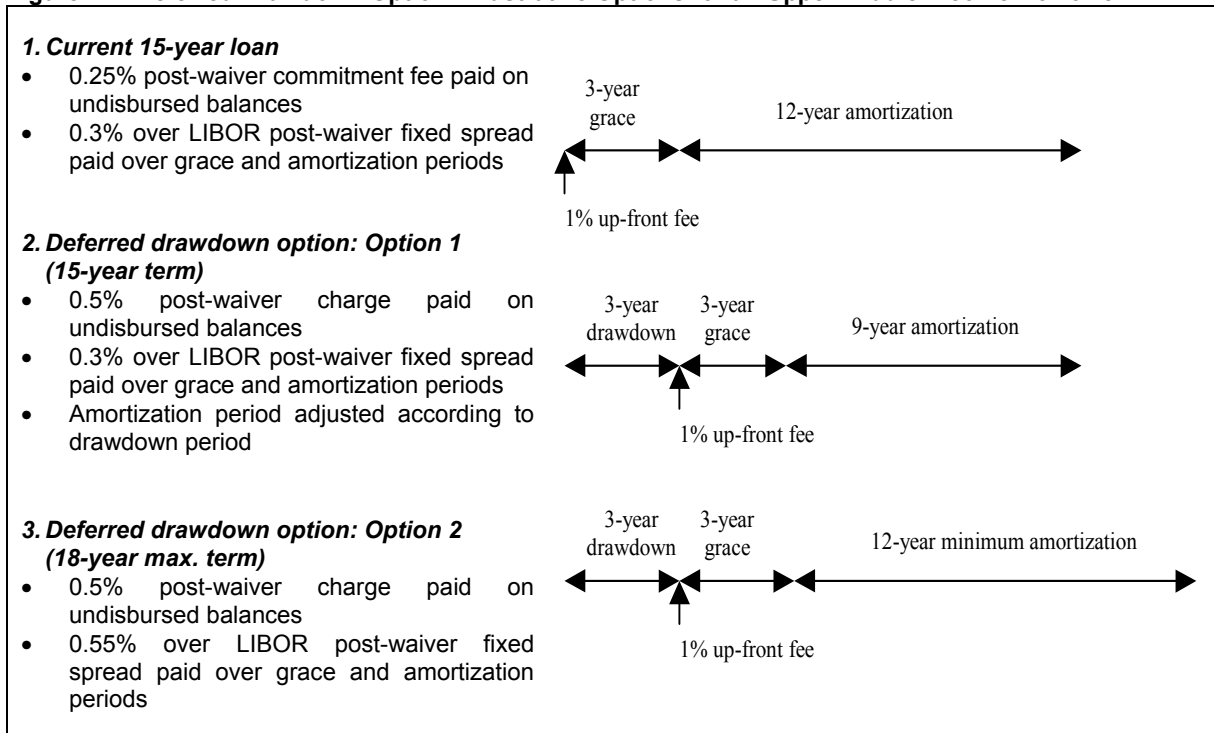
<sup>2</sup> On fixed spread loans the commitment fee is 0.85 percent for the first four years and 0.75 percent thereafter.

<sup>3</sup> The fixed spread consists of a spread that reflects IBRD's projected funding cost margin (currently 0.25 percent below LIBOR), a 0.05 percent risk premium, a basis swap adjustment (if applicable), and the standard lending spread (currently 0.75 percent).

would not normally be drawn, unless the borrower experiences market dislocation. For this reason, some of the terms of the deferred drawdown option would differ from traditional adjustment loans so as to make the borrower indifferent about the timing of the disbursement. Thus the standard grace period would be preserved, irrespective of when the loan is drawn—for example, if the loan for an upper-middle-income borrower were drawn at the end of year 3, the grace period could commence then and run through year 6 of the loan. In addition, the up-front fee of 1 percent could be charged only if the loan were drawn. During the drawdown period, an annual charge of 100 basis points (before waiver) could be imposed to cover the costs of loan preparation, associated economic and sector work, and the attribution of capital.

**Two Variants.** On this basis, we could design two variants of the instrument. The first variant (see Figure E1) would keep the term of the loan with a deferred drawdown option to the same number of years as under traditional Bank loans, that is, to 15 years for upper-middle-income borrowers. The repayment period would then vary, depending on the timing of the drawdown: for example, it would be 9 years if the loan were drawn after 3 years (15 years minus 3 years' grace minus 3 years' drawdown period). In this case we would impose the same spread as under our current fixed-spread loans of 0.55 percent over LIBOR (or 0.30 after the current waiver on post-1998 loans is applied). Under the second variant (see Figure E1), the term of loan with a deferred drawdown option would be extended by up to 3 years; for example, for upper-middle-income borrowers, the borrower would have a full 12-year repayment period (as under current loans), following the 3-year grace period and a drawdown period of up to 3 years, for a total of 15 to 18 years. Thus, if the loan were drawn in year 2, the loan term would be 17 years. In this case we would impose a charge of 0.80 percent (0.55 percent after current waivers). Under both variants the right to draw on the loan would expire at the end of the 3-year drawdown period; and it is assumed that repayments would be based on

**Figure E1. Deferred Drawdown Option: Illustrative Options for an Upper-Middle-Income Borrower**



equal payments of principal.<sup>4</sup> The borrower would have the right to cancel the loan at the end of the first year or any time thereafter, but would incur a cancellation fee of 50 basis points at that time. The cancellation fee would help to cover the costs of loan preparation, associated economic and sector work, and the attribution of capital.

#### **D. Eligibility and Conditions**

The deferred drawdown option would be available to all IBRD borrowers. Like other single-tranche adjustment operations, those with a deferred drawdown option would be conditioned on the implementation of a program that is laid out in a Letter of Development Policy. The Letter of Development Policy would cover a specific set of policy reforms as well as a satisfactory macroeconomic policy framework, including prudent long-term debt management plans. The scope for policy conditions at the time of approval would thus be the same as under other single-tranche adjustment operations. As is the case with all adjustment operations, the Bank and Fund would cooperate on assessing the adequacy of the macroeconomic framework.<sup>5</sup> Under the deferred drawdown option, a borrower could request disbursement any time during the drawdown period, if an external financing need materialized. The request would be granted subject to confirmation that the reform program supported by the loan remained on track, and that the macroeconomic framework remained adequate.

These conditions would avoid a potentially costly continuous recertification of eligibility, which might create the impression among borrowers of having to “pay twice” in terms of policy reform for access. Under the drawdown option the borrower and the Bank would maintain close policy dialogue, and the understanding would be that as long as the borrower remained broadly on track in implementing the reform measures that provided the basis for a deferred drawdown option and the macroeconomic framework was adequate, disbursement would be largely automatic. Periodically during the drawdown period the Bank would monitor the progress of the reform with the borrower and consult with the Fund on the continued adequacy of the macroeconomic framework.

***IBRD Reviews.*** Following disbursement of the loan, IBRD would initiate a more comprehensive review of the country’s structural and social policies to assess the causes that led to a crisis situation and the need for potential additional IBRD financial or technical support.

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<sup>4</sup> It is currently proposed that the borrower would have the flexibility to select alternative repayment terms as outlined in the term sheet.

<sup>5</sup> Operational Directive 8.60 states that the Bank does not normally conduct an adjustment operation unless an appropriate Fund arrangement is in place. If there is no Fund arrangement, Bank staff ascertain, before making their own assessment, that the Fund has no major concern about the adequacy of the macroeconomic framework.

## Draft Term Sheet Illustrating Example of Upper-Middle-Income Borrowers

### Deferred Drawdown Option: Terms and Conditions

<b>Currencies</b>	Loans are offered in EUR, JPY, USD, and other currencies <sup>6</sup> in which the IBRD can efficiently fund itself. Borrowers may contract loans in more than one currency to obtain multicurrency liabilities in preferred currency proportions.
<b>Maturity</b>	Standard maturity of 15 years for the first variant, and 15-18 years for the second variant. The choice of variant and terms is fixed at commitment. A three-year grace period starts at drawdown. Standard terms are based on equal repayments of principal. However, borrowers have the flexibility to select alternative repayment terms to meet their project/program and asset/liability management needs. Flexibility is governed by the specified policy limits for fixed-spread loans in terms of the maximum sum of the expected average disbursement period and average repayment maturity for the disbursed amount for country categories IV and V, and in terms of the maximum maturity. For the second variant of the deferred drawdown option (15-18 years), the limits on terms of the maximum sum of the expected average disbursement period and average repayment maturity for the disbursed amount for country categories IV and V would be increased by up to 1.5 years.
<b>Drawdown</b>	The deferred drawdown option can be disbursed at any time during the first 3 years following loan signing. The loan will be disbursed in one tranche. The loan will automatically expire if not drawn down at the end of 3 years following signing.
<b>Conditions for Disbursement</b>	If a borrower encounters an external financing need and requests disbursement, this would be granted subject to a review that confirms IBRD's satisfaction with progress on agreed reform programs and the macroeconomic framework (including a reasonable external financing plan).
<b>Lending Rate</b>	The lending rate consists of a base rate and a spread.
<ul style="list-style-type: none"> <li>• <b>Base Rate</b></li> </ul>	The 6-month LIBOR quoted by the British Bankers Association for most currencies, and the recognized commercial bank floating rate reference for others. (For Euro-denominated loans, should Euribor become the recognized commercial bank pricing reference for floating-rate instruments, the Bank would consider pricing such loans relative to Euribor, rather than Euro LIBOR.)
<ul style="list-style-type: none"> <li>• <b>Spread</b></li> </ul>	Fixed for the life of the loan, to be based on the Bank's projected USD funding cost margin, a risk premium, a basis swap adjustment, and the Bank's standard lending spread. For loans of 15+ years maturity, the standard lending spread +25 basis points will apply.
<b>Currency Conversions</b>	<p><b>Undisbursed Amounts:</b> All or part of the undisbursed balance may be converted into another currency.</p> <p><b>Disbursed Amounts:</b> All or part of the disbursed balance may be converted into any currency offered for all or part of the residual life. All currency conversions of disbursed balances will be effected at market rates prevailing at the time of conversion.</p>
<b>Conversion of Interest Rate Basis</b>	<ol style="list-style-type: none"> <li>1. The variable lending rate on the disbursed balance may be converted into a fixed rate, and vice versa. The borrower may exercise these options at any time during the life of the loan for all or part of the disbursed and outstanding balance, and for all or part of the residual maturity.</li> <li>2. Borrowers may also direct the Bank to automatically implement a series of interest rate conversions, for instance, at regular time intervals, or upon certain levels of disbursements, and so forth. Such options may be exercised on all or part of the amounts to be disbursed, and for all or part of the residual maturity. Borrowers may cancel this automatic rate-fixing arrangement at any time.</li> </ol> <p>The rate can be fixed for up to 10-12 years from the rate-fixing date (depending on the currency). All interest rate conversions will be made at market rates prevailing at the time of conversion.</p>

<sup>6</sup> EUR (Euro), JPY (Japanese yen), and USD (United States dollar).

## Draft Term Sheet Illustrating Example of Upper-Middle-Income Borrowers

### Deferred Drawdown Option: Terms and Conditions

<b>Interest Rate Caps/Collars</b>	A cap or collar on the variable lending rate may be purchased for up to the entire disbursed amount, for all or part of the residual maturity.												
<b>Transaction Fees for Currency and Interest Rate Conversions, and for Caps/Collars</b>	<p>Fees will be expressed as a percentage of the principal amount involved, as follows:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;"><i>Transaction Type</i></th> <th style="text-align: center;"><i>Transaction Fee</i></th> </tr> </thead> <tbody> <tr> <td colspan="2">Currency conversion</td> </tr> <tr> <td> <ul style="list-style-type: none"> <li>• Of undisbursed loan amounts</li> <li>• Of disbursed loan amounts</li> </ul> </td> <td style="text-align: center;">As under fixed-spread loans</td> </tr> <tr> <td colspan="2">Interest rate conversion</td> </tr> <tr> <td> <ul style="list-style-type: none"> <li>• Rate fixings for up to the full maturity of the loan for amounts up to the outstanding loan amount</li> <li>• Additional rate fixing/unfixing</li> </ul> </td> <td style="text-align: center;">As under fixed-spread loans</td> </tr> <tr> <td>Interest rate caps and collars</td> <td style="text-align: center;">As under fixed-spread loans</td> </tr> </tbody> </table>	<i>Transaction Type</i>	<i>Transaction Fee</i>	Currency conversion		<ul style="list-style-type: none"> <li>• Of undisbursed loan amounts</li> <li>• Of disbursed loan amounts</li> </ul>	As under fixed-spread loans	Interest rate conversion		<ul style="list-style-type: none"> <li>• Rate fixings for up to the full maturity of the loan for amounts up to the outstanding loan amount</li> <li>• Additional rate fixing/unfixing</li> </ul>	As under fixed-spread loans	Interest rate caps and collars	As under fixed-spread loans
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Interest rate caps and collars	As under fixed-spread loans												
<b>Lending Rate Reset Dates</b>	The lending rates will be reset every six months, on the interest payment date for the loan. Interest payment dates will be on the 1st or 15th day of a month and semiannually thereafter, as specified in the Loan Agreement.												
<b>Annual Commitment Charge</b>	An annual commitment charge of 1 percent pre-waiver (0.5 percent after current waivers) will apply on undisbursed loan amounts, beginning 60 days after the Loan Agreement is signed.												
<b>Front-end Fee</b>	1 percent on the loan amount, payable on date of drawdown. Front-end fees may be financed out of the proceeds of the loan.												
<b>Loan Charge Waivers</b>	Determined annually by IBRD Executive Directors.												
<b>Prepayment</b>	Borrowers may at any time prepay all or any part of the disbursed and outstanding balance.												
<b>Prepayment Charges</b>	The prepayment premium will consist of IBRD's redeployment cost of the prepaid loan amount, as reasonably determined by the Bank. The redeployment cost calculation would be made considering the difference between the rate at which prepaid funds could be reinvested and the Bank's funding cost for the prepaid loan amount. In the event of prepayment of amounts that were converted by the borrower, the borrower would be charged an Early Termination Fee consisting of a transaction fee plus or minus any unwinding amounts (i.e., loss, gain, cost, or expense to the Bank arising from the unwinding of any transaction related to or associated with any conversion exercised by the borrower). In the event of currency substitution, no prepayment fee would be charged while a substitute currency is outstanding.												
<b>Cancellation Fee</b>	At the end of the first year, the borrower has the right to cancel at any time thereafter until the deferred drawdown option expires at the end of the third year. Upon cancellation, the borrower would be charged a 50 basis points cancellation fee.												
<b>Suspension of Disbursements</b>	Loan cannot be disbursed if borrower is over 60 days late in making payments on outstanding IBRD loans.												



## REVIEW OF IBRD LOAN PRICING

Loan pricing is an integral element of IBRD's financial policies. These policies are designed to ensure that the Bank retains the financial strength necessary to sustain its poverty alleviation activities in good times and bad. The Bank's excellent financial standing, as reflected in its AAA credit rating, serves the interests of all shareholders. It allows the Bank to provide borrowers with financing on the finest possible terms, which in turn supports their development efforts and reinforces the "preferred creditor" position they accord to the Bank. The Bank's financial strength also underpins IBRD's capacity to manage the risk of substantial credit shock inherent in its business. This helps to minimize the probability of a call on shareholder capital, thereby allowing the Bank to support the many facets of its development mandate and to remain an active lender even in times of generalized market distress.

**Review of Loan Charges.** In July 1998, when the Board approved an increase in standard loan charges and a reduction in the interest spread waiver for existing loans, it requested a comprehensive review of loan charges. That review was completed in September 1999, in the context of the Board's consideration of options for enhancing IBRD's long-run financial capacity. The review concluded that the new, higher level of loan charges was appropriate in light of the Bank's prudential financial requirements, the administrative costs of delivering development support services to clients, and the returns on invested paid-in capital and retained earnings (the Bank's other principal source of income). In the absence of credit shocks, this framework of charges also provides capacity for supporting additional high-priority development commitments (including IDA, Heavily Indebted Poor Countries, post-conflict reconstruction, and select global initiatives) and for granting loan charge waivers.

**Triggers for Review.** Any subsequent review would likely reach the same conclusion, unless one or more key assumptions changed. What might trigger the need for a new review?

- A change in the risk characteristics of the IBRD portfolio, resulting from shifts in the ratings of major borrowers with outstanding loans or in the country composition of the portfolio, or both.
- Changes in shareholder preference, such as a revision in their risk tolerance as defined in capital adequacy tests.
- A change in the minimum expected return needed to support future lending or immediate transfers for developmental priorities.
- A reassessment of the desired balance between the financial contribution of loan charges and those of other sources of income.

The most recent Board actions related to IBRD annual net income allocation, loan loss provisioning, and programs and budgets are consistent with the assumptions that underpinned the 1999 review of loan charges and, in turn, confirm its conclusions. While there is no reason at present to undertake a new review of IBRD loan pricing, it will be important to remain alert to the potential pricing implications of any significant changes in the external environment or of major strategic initiatives within the Bank Group. For example, if the Bank sought to recover a significant portion of its operating costs through

charges unrelated to lending, this could affect both required loan margins and the composition of the Bank's credit portfolio. Other actions that would substantially alter the risk profile of the Bank's exposure—say, by affecting the distribution of prospective borrowers who access Bank loan products, or a significant shift in the cyclical nature of Bank lending—would also have an impact on the appropriateness of current loan charges.

## POSSIBLE APPLICATIONS OF BANK GROUP INSTRUMENTS

	<i>Low-Income-Blend Countries</i>	<i>Lower-Middle-Income Countries<sup>a</sup></i>	<i>Upper-Middle-Income Countries</i>	<i>Inactive Borrowers<sup>b</sup></i>	<i>IBRD Graduates<sup>c</sup></i>
CAS	Bank Group CAS			Minimal CAS	No CAS
LDS	<ul style="list-style-type: none"> <li>At the government's option, sets out the country's vision and strategy</li> <li>Attached to the CAS document</li> </ul>				--
<b>IBRD Instruments</b>					
<b>ESW</b> Core integrative analyses	<ul style="list-style-type: none"> <li>Fiduciary assessment</li> <li>Development policy review</li> </ul>				--
Other diagnostic ESW	<ul style="list-style-type: none"> <li>CAS-based analyses underpinning future policy dialogue and lending</li> <li>As needed, includes poverty analysis, public expenditure analysis, country financial accountability assessment, country procurement assessment review, financial sector assessment (produced in the context of the Bank-Fund FSAP), and sector specific studies</li> </ul>				On demand; full cost recovery
Customized ESW	On demand from clients, on a cost-sharing basis, including services commissioned on a full cost-recovery basis				On demand; full cost recovery
<b>Lending</b>	<ul style="list-style-type: none"> <li>Project loans/credits</li> <li>Program loans/credits PSAL/PSAC/PRSC<sup>d</sup>SAL/SAC SECAL/SECAC SNAL/SNAC</li> </ul>	<ul style="list-style-type: none"> <li>Project loans</li> <li>Program loans PSAL SAL SECAL SNAL</li> <li>Program loans with deferred drawdown option</li> <li>SSALs</li> </ul>	<ul style="list-style-type: none"> <li>Program loans with deferred drawdown option</li> <li>SSALs</li> </ul>	--	
<b>Guarantees</b>	<ul style="list-style-type: none"> <li>Project-based, partial risk</li> <li>Project-based, partial credit</li> </ul>	<ul style="list-style-type: none"> <li>Policy-based, partial credit</li> <li>Project-based, partial credit</li> <li>Project-based, partial risk</li> </ul>		--	
<b>IFC Instruments</b>	Loans, equity, quasi-equity, guarantees, technical assistance, privatization services, advisory services				
<b>MIGA Instruments</b>	Guarantees and technical assistance services				
<sup>a</sup>	Plus a few IBRD-only low-income countries.				
<sup>b</sup>	Mostly upper-middle-income countries; some lower-middle-income countries.				
<sup>c</sup>	Countries normally graduate from IFC five years after graduating from IBRD lending. MIGA has no formal graduation policy.				
<sup>d</sup>	In PRSP countries.				
<b>Acronyms</b>					
CAS	Country Assistance Strategy		PSAL/PSAC	Programmatic Structural Adjustment Loan/Credit	
ESW	Economic and Sector Work		SAL/SAC	Structural Adjustment Loan/Credit	
FSAP	Financial Sector Assessment Program		SECAL/SECAC	Sectoral Adjustment Loan/Credit	
LDS	Letter of Development Strategy		SNAL/SNAC	Subnational Adjustment Loan/Credit	
PRSC	Poverty Reduction Support Credit		SSAL	Special Structural Adjustment Loan	
PRSP	Poverty Reduction Strategy Paper				