APPENDIX E: MANAGEMENT COMMENTS

Introduction

This year's Annual Review of Development Effectiveness (ARDE) tracks World Bank performance and examines a particular thematic topic, the Bank's work in fostering global public goods (GPGs). Management welcomes the new two-part format of the ARDE and considers the thematic topic timely and highly relevant. In Part I, the Bank's Independent Evaluation Group (IEG) reports on recent trends in the outcomes of Bank projects and country programs and analyzes progress in the quality and coverage of monitoring and evaluation (M&E) systems employed by the Bank. In Part II, IEG reviews the Bank's experience with (a) country-based support for client contributions to the supply of GPGs and (b) its advocacy for action on GPGs. This appendix provides brief responses to IEG's findings and suggestions in Part I and Part II, respectively.

Tracking Bank Performance

Management values the review of development outcomes and the Bank's M&E practice. IEG's feedback fosters learning from experience and is a factor in the medium-term improvement of Bank performance documented in the ARDE. Management agrees that the weakening of development outcomes in projects that exited the portfolio in fiscal 2007 warrants attention and outlines its actions below. Management also agrees with most of the suggestions to further improve the quality and coverage of M&E in projects, country programs, and global programs and partnerships (GPPs).

Project Outcomes

The ARDE confirms that the ratings for project outcomes have significantly improved over the medium term and have exceeded the Bank's performance benchmarks in each of the three years to end-fiscal 2007. Improvements have been particularly impressive in the Africa Region and in the water supply and sanitation sector. The report goes on to highlight and discuss two signs of weaknesses in the data for fiscal 2007, including a jump in the so-called disconnect—that is, the difference between the outcome ratings provided by Bank staff in the final Implementation Status and Results reports (ISRs) for ongoing projects and IEG's ratings in its reviews of the Bank's Implementation Completion and Results reports (ICRs)—and a decline in the share of projects with satisfactory outcomes, from a high of 83 percent in fiscal 2006 to 76 percent in fiscal 2007.

Actions in response to warning signals. Management concurs that a correct rating of likely outcomes in ongoing projects is necessary for its ability to take timely remedial action in problem projects, and that the fall in IEG exit ratings and the increased disconnect in fiscal 2007 must be recognized as a warning sign. This parallels findings under our more detailed review of IDA controls as well as QAG reports and the India detailed implementation review. Management is taking on these issues in the context of investment lending reform, notably changes in our supervision practices. As IEG notes, the more problematic areas are the noninfrastructure sectors and low-income countries (LICs), especially fragile states. Management is considering a more customized approach for implementation to reflect the complexities of these operational situations, moving beyond the traditional notion of supervision and incorporating the possibility of implementation support directed at capacity building. However, management is not waiting for the introduction of these reforms. Each Region has conducted its own review of ratings in ongoing operations. In the South Asia, East Asia and the Pacific, and Latin America and Caribbean Regions, Regional vice presidents have taken the lead in reviewing ISRs, with instructions for action by task teams. The Africa Region has adopted specific measures (involving country management, sector management, and the quality and knowledge services units) to reduce the disconnect, ensure realism in the ratings of ongoing operations, and strengthen accountability for project quality. In addition, the upcoming Development Policy Lending Retrospective will review the Bank's rating practice for development policy loan operations and, as necessary, will recommend appropriate actions to ensure that management receives timely information on weak performance in such operations.

Decline in fiscal 2007 project outcome ratings and increase in disconnect—some observations. Effective support for members' development efforts requires the Bank to take risks; consequently, not all the operations it supports will achieve the desired outcomes. Against this background, the share of Bank projects with a satisfactory development outcome in recent years has risen to a reasonable level—a level at which year-to-year variations are to be expected. However, management agrees that vigilance is warranted to ensure that the fiscal 2007 drop in ratings signifies a variation around that trend and not the beginning of a decline. IEG is to be commended for examining the possible impact of sample composition bias and of changes in the evaluation methodology on the fiscal 2007 outcomes, and for recalling key factors about which the Bank must always be vigilant, including poor or overly complex project design, articulation of overly ambitious expected outcomes, implementation delays, and weaknesses in project supervision and staff performance. In addition, management believes the following considerations to be pertinent.

- Reduced outcome ratings for development policy loans contribute to the reported overall drop in fiscal 2007 ratings. That reduction likely reflects in part the temporary impact of a recent decision to report on programmatic development policy loans only at the end of the series. As a result, for a few years, one-off development policy loans will make up a larger share of the sample for which outcome ratings are available. With programmatic development policy loans rated better than one-off development policy loans, on average, this shift in composition has an adverse, but likely transitory, effect on the average rating for the sample.
- Vigilance about "overly complex" project designs must not discourage staff from responding to client demand for sophisticated—and at times necessarily complex—products, particularly in middle-income countries (MICs). The risk of not achieving satisfactory outcomes may be higher in such circumstances, but taking that risk is necessary for the Bank's continued relevance to its members. The issue is not so much reducing complexity as it is having clear objectives and effective systems for tracking operational performance.
- In addressing task team performance, it is important to take into account the challenges that result from the Bank's commitment to increased harmonization and collaboration with development partners, particularly in LICs. Staff must devote more time to coordination and are generally more dependent on the actions of others for achieving results, notably pending greater harmonization around agreed results frameworks.
- The jump in the disconnect can in part be traced to the introduction of a new evaluation methodology in fiscal 2007, specifically to different paces of implementing the agreed rating system and rating criteria between IEG and the larger and more layered Bank operational complex. The ARDE estimates this effect as accounting for one percentage point of the jump in the disconnect, but it may have been higher. As more ISRs and ICRs apply the methodology already used in IEG's reviews, the divergence in ratings can be expected to decline.

Country Program Outcomes

The ARDE reports the average development outcome ratings for some two decades of country programs on the basis of IEG's Country Assistance Evaluations (CAEs), and, for more recent country programs (starting in fiscal 1999), on the basis of IEG's reviews of Country Assistance Strategy Completion Reports (CASCRs). The ARDE observes that in both sets, average outcomes for MIC programs surpass those for LIC programs by a considerable margin, and that higher outcome ratings for the more recent country programs—those for which CASCRs are available—reflect improvements in MIC programs only. It also compares average country program outcomes with average project outcomes and suggests that the lower rating for country program outcomes may indicate a failure of such programs to exploit synergies between the Bank's development services. Management offers two comments.

- The gap between the outcomes of MIC and LIC programs is a matter of concern to management. However, averages over long durations do not shed light on the underlying factors. Management encourages IEG to analyze changes in outcomes over time for subgroups of countries, with the analysis taking account of major changes, such as the introduction of CAS results frameworks and changes in evaluation methodology. Moreover, management wants to note that it has not yet introduced a standard rating methodology for CASCRs, and the methodology used by IEG self-initiated ratings of CASCRs has been evolving and has not yet been finalized.
- IEG's suggestion that lower outcome ratings for country programs than for projects indicate that country programs fail to exploit synergies among Bank development services is not substantiated in the report. The report acknowledges some of the factors that, in management's view, deprive the comparison of informative value (for example, different performance standards). Management notes that performance in country programs predating the introduction of CAS results frameworks in fiscal 2005 is measured against objectives that do not clearly distinguish between country outcomes and CAS program outcomes. As program outcomes come to reflect more realistically the Bank's role in supporting a country's development strategy, outcome ratings tend to improve. It is also important to recognize that CAS program outcomes can change during the CAS period as the Bank responds flexibly to changing client demand for its services.

Monitoring and Evaluation

The ARDE recognizes that as part of the results agenda the Bank has put in place strong policies and procedures for the monitoring and evaluation (M&E) of project and country program outcomes. For the projects and country programs reviewed, however, it reports a low quality of M&E and results frameworks. Management agrees with IEG's recommendations for improving the quality and use of M&E, including increased focus on providing good baseline information for project outcomes, articulating more clearly the link between project outputs and targeted outcomes, simplifying the CAS results frameworks, and using them not only for evaluation but also for program management. Ongoing efforts in the Regions to improve M&E are indeed focusing on these aspects, as is management in its reviews of proposed development policy loan operations and CASs. Management believes that the ARDE could have given more recognition to initiatives such as Regional M&E support for task teams, the development of scorecards in a number of countries, and greater use of M&E frameworks for management purposes (for example, for annual country portfolio performance reviews in the Latin America and the Caribbean Region). The ARDE might have also given greater recognition to the commitments and actions to date under the IDA14 and IDA15 Results Measurement Systems, notably in terms of baseline operational data.

Management does not share IEG's view that staff incentive problems continue to be a major obstacle to the improvement of M&E in projects and country programs; rather, it believes that the new policies and procedures and the ongoing efforts for enhancing practice are improving quality in the more recent projects and programs. It would have been appropriate in this regard to highlight the challenge of country capacity for results management, since lack of data in poorer countries often is the most important obstacle to improving M&E frameworks. Helping partner countries overcome these data problems is a Bank priority, notably through the Marrakech Action Plan for Statistics, the framework discussed by the Board in May 2006. While this is a long-term effort, there has been progress. A key target of this plan is to help all low-income countries develop a national strategy for improving their statistical system. All but one Sub-Saharan African country (Somalia) have a strategy or are working on one. The Bank's multidonor Trust Fund for Statistical Capacity Building has provided 20 new grants to countries for strategy preparation since 2006. Following the Third International Roundtable on Managing for Development Results, in Hanoi, staff have been working closely with other development partners through the Partnership for Statistics for Development in the 21st Century to find the resources to scale up the implementation of these strategies. Part of the effort is mainstreaming statistical capacity building in country operations. New statistical capacity-building (STATCAP) lending projects have been approved for Kenya and Russia, and pipeline countries include Bolivia, Tanzania, and India. Two donors—the Netherlands and the United Kingdom—are working with the Bank to establish a new Statistics for Results Facility, which will promote better coordinated efforts by donors at the country level, and will provide grants to help finance the implementation of national statistical improvement plans and link them more closely with national development strategies. Staff are working to launch this facility in Ghana at the forthcoming High-Level Forum on Aid Effectiveness.

In discussing the M&E of projects and country programs reviewed, the ARDE could have paid more attention to an obvious legacy effect. The large majority of projects reviewed were approved prior to the adoption of the new policies and procedures; and nearly all results-based CASs reviewed were from the first round, in which results came from an existing portfolio of operations that had been approved prior to that date. As noted in the report, in the small sample of reviewed projects approved since fiscal 2005, the share of projects with substantial or high M&E quality doubled. As more IEG reviews of results-based CASs from the second round become available, the ratings for the quality of results frameworks are likely to improve as well.

Management finds the ARDE's review of experience with the Bank's impact evaluations helpful and agrees that their increased use is important for strengthening the knowledge base for reporting on the Bank's corporate results; however, management is also aware of practical barriers to impact evaluation work in the context of specific operations. Management concurs with the emphasis in the report on strengthening results reporting at the corporate level. It recently proposed to prepare a Bankwide results report that will provide an overview of results achieved through Bank activities and report on progress in the Bank's results focus and measurement systems.

Shared Global Challenges

The ARDE reviews the Bank's experience with country program support for GPGs and offers a number of recommendations on bridging the gap between global needs and country preferences. It also reviews the Bank's advocacy work on GPGs.

Country-Based Support for GPGs

Management welcomes the report's many valuable insights into the challenges of supporting countries' contributions in cases where global and country interests diverge significantly and international agreement on a course of collective action has not yet been reached. Management also appreciates the careful review of the Bank's work on the country level—in the context of country programs and through country-level activities of global programs and partnerships—and the proposals for strengthening that work. Management agrees with many of the observations and assessments. Some, however, require comments, notably those on the extent of Bank involvement on the country level, the Bank's ability to provide attractive financial support for the GPG efforts of MICs, the reliance on the country program model, the attention paid to fostering GPGs in country and regional strategies, the deployment of global programs, and the option of setting aside corporate administrative funds for high priority GPG work at the country level.

Bank involvement in GPGs at the country level. The ARDE observes that GPGs other than environmental commons are not sufficiently emphasized in CASs and that the extent of Bank involvement in GPG issues varies widely among countries. This observation fails to take into account the framework for such Bank involvement.[1] Since the Bank is only one player among many, the framework calls for identifying where there is a gap not being met by other agencies and then filling the gap in areas where the Bank has the capability and a comparative advantage. At the country level, country ownership and response to client demand is the primary principle of Bank involvement—that is, the Bank works with clients on issues of global or regional concern and supports their efforts at addressing such issues. In sum, the appropriate role for the Bank at the country level is situation-specific to the GPG being supported and to the country context; hence, variations in the extent of Bank involvement at the country level among GPGs and among countries are to be expected. For example, on communicable diseases, substantial funding is flowing from large vertical funds. Here the challenge is to ensure that the funding is balanced by Bank support for health sector systems and other government priorities for the delivery of health services. While not presented in CASs as support for a global public good, such support by the Bank is key for bridging the gap between global and country interests in the area of communicable diseases (that is, it provides indirect support to the respective GPG). Regarding climate change, pending a future global climate agreement, country ownership and an effective country support program can be built only on demonstrated development opportunities and advantages of a low-carbon, climate-resilient strategy tailored to specific country circumstances.

Financial support for MICs' contributions to GPGs. The ARDE presents ample evidence of the effectiveness of concessional finance in bridging gaps between global needs and country preferences in International Development Association-eligible countries. With respect to International Bank for Reconstruction and Development (IBRD)-eligible countries, the report recognizes the Global Environment Facility (GEF) as a source of concessional financing and carbon finance as an innovative mechanism the Bank can deploy also in MICs. But the report pays insufficient attention to the Bank's ability to further mobilize and innovate finance for scaling-up action on climate change, in cooperation with development partners and the private sector, and it also neglects the possible leveraging of IBRD and International Finance Corporation financing and risk management services through blending with concessional donor funds. Management considers overly pessimistic the report's conclusion with respect to future Bank work on GPGs in MICs that ". . . the Bank has not been able to call on an attractive large-scale funding program . . . to encourage comprehensive action on climate change." Given that the World Bank Group only recently began full-fledged efforts to step up climate action to scale, the conclusion appears premature. For example, the Bank works with donor countries to mobilize some $5 billion in new and additional financing for the proposed Clean Technology Fund, with the expectation that these new resources will leverage another $25–30 billion in financing for low-carbon investments.

Use of the country program model. Management is aware that country-based work on GPGs faces challenges in cases where global and country interests diverge and there is no international framework for collective action, but it believes that such challenges can be addressed. Management does not agree with the report's broad conclusion that relying on the country program model for the Bank's work on GPGs is a "double-edged sword." The Bank's ultimate clients are poor people. Using the country program model, the Bank is better able to provide analysis that puts growth and poverty reduction at the core and relates GPG challenges to this goal. Importantly, using the country program model also helps ensure country ownership of the actions supported by the Bank. These considerations argue for integrating the country-level activities of GPPs into country programs and against allowing them to bypass country programs. The example of Ethiopia's health budget, which due to the proliferation of vertical health funds devotes some 50 percent of resources to HIV/AIDS, is instructive. That the Bank can balance resource flows by targeting its resources to other health needs in the country is a considerable strength of the country program model. The key challenge, in management's view, is to more thoroughly integrate GPGs into the diagnosis of countries' development challenges and the dialogue with the government as part of the CAS process. With this analysis in place, the appropriate contribution of global programs and trust funds as part of the CAS support program can then be determined, consistent with the plans by vice-presidential units for implementation of the Trust Fund Management Framework.

Country and regional strategies. The report provides valuable information on the treatment of GPGs in CASs, Regional strategies, sector strategies, and Bankwide strategy documents. In light of recent developments, however, management finds too categorical the general statement in the report that the Bank's attention to GPGs ". . . wanes as one moves down from corporate strategies to sector or regional strategies, and then down one level further to country strategies." For example, the 2008 Latin America and Caribbean Regional strategy update emphasizes support for clients' efforts to address global issues, and this priority is translated into specific actions planned in the recent round of CASs, including those for Brazil, Colombia, and Mexico. (In March 2008, the Board approved a $500 million loan to Mexico to support implementation of its National Climate Change Action Plan.)

Global programs. The report shows that there is room for improvement in deploying global and regional programs at the country level. Management welcomes the report's proposal to strengthen M&E quality in GPPs, though it notes that an M&E framework for Development Grant Facility-supported global programs is in place and the Consultative Group on International Agriculture Research program offers an example of good practice. Management appreciates IEG's insight into factors influencing the integration of global program activities into country operations, notably the strong positive effect of substantial developing country representation in the governing body of a GPP in both enhancing legitimacy and fostering stronger linkages with country operations. But management also believes that the report should more clearly distinguish among subsets of GPPs (instead of treating GPPs as if they are all interchangeably applicable at the country level or all deal with GPG issues) and should also recognize that the Bank's role at the country level is limited in GPPs where the Bank is not an implementing agency. Management agrees that better integration of global funds at the country level is important. To that end, over the last two years, the Bank has been working closely with the Development Assistance Committee of the Organisation for Economic Co-operation and Development and with bilateral donors and partner countries on an initiative to better align global programs with country operations. This initiative has contributed to preparations for the Accra High-Level Meeting.

Strengthening country program support for GPGs. Management agrees with the report's suggestions for strengthening the Bank's country-based support for GPGs, notably through improved organizational arrangements to coordinate global, regional, and national activities; better delivery of the Bank's global knowledge to country teams and improved deployment of network anchor experts; support for clients' efforts to gain greater voice in shaping responses to global issues; and the exercise of greater selectivity in the Bank's engagement in global programs. Management agrees on the desirability of strengthening incentives to deliver GPGs at the country level where that is appropriate, but has reservations about the suggested option of setting aside significant administrative funding at the corporate level for allocation to high-priority GPG work at the country level. This could distort incentives and encourage supply-driven initiatives. A more effective approach—as already demonstrated in the Latin American and Caribbean Region—is Regional management commitment and clear guidance to staff on the need to be attuned to client demands for support for their GPG priorities. There also needs to be an ongoing dialogue among the networks and Regions on staffing and resource allocation, to address key corporate priorities through country operations where there is demand at the country level. This would be strengthened by recognition in staff performance evaluations, as indicated in the report.

Advocacy on GPGs

Management appreciates IEG's thoughtful analysis of the Bank's successful advocacy work on GPGs and its achievements in creating innovative financing mechanisms. Management agrees with most of the assessments, though it believes that the report could have provided more recognition to the Bank's performance in preserving biodiversity, with funding from the GEF and own Bank resources. Two comments are warranted.

- The report acknowledges the Bank's many activities in support of the international climate change agenda, including securing resources for the GEF (the financial mechanism of the United Nations Framework Convention on Climate Change), developing methodologies to put the Kyoto Protocol's Clean Development Mechanism into action, launching carbon funds, and supporting the demonstration, deployment, and transfer of low-carbon technologies and adaptation technologies. In this light, management believes that the report's summary assessment that ". . . the extent to which the Bank has been a leading influential advocate on climate change is more debatable" does not fully reflect this reality.
- Management agrees that increased Bank efforts are merited to strengthen the voice and representation of developing countries in the governance of global programs. For example, the participation of developing countries in the design of the Climate Investment Funds, including the design of a governance structure with equal representation of donor and recipient countries, has been critical to providing legitimacy for these funds. This participation is essential to set the stage at the global level for climate change mitigation programs at the country level.

Conclusion

This year's ARDE has again provided a valuable service by tracking development outcomes and improvements in M&E frameworks, a service that helps the Bank improve its performance. Management commends IEG for an insightful review of the Bank's experience with fostering global public goods through support for countries' efforts and through constructive advocacy. In its lessons of experience, the report appropriately focuses on ways to strengthen the Bank's country-level support for GPGs. As detailed above, management generally agrees with the report's suggestions, although it has reservations about the option of setting aside administrative funding at the corporate level earmarked for country-level GPG work. But management also stresses the need for clarity on the Bank's role in supporting a country's efforts at addressing issues of global or regional concern. Such support must build on the Bank's core mandate to foster the country's growth and poverty reduction goals, support measures that are owned by the country, and take into account, for each GPG, the involvement of other agencies and partners and the Bank's capability and comparative advantage.