

Chairperson's Summary: Committee on Development Effectiveness (CODE)

On July 23, 2008, the Committee on Development Effectiveness met to consider the *Annual Review of Development Effectiveness 2008: Shared Global Challenges* (ARDE), prepared by the Independent Evaluation Group (IEG), and Draft Management Comments.

2008 ARDE

Part I of the report tracked the Bank's performance (including trends in outcomes of projects and country programs), the evolution of monitoring and evaluation (M&E), and the role of evaluation in the results agenda. IEG found that overall development outcomes of Bank lending have improved over the medium term, albeit not over the past year. Noting the growing "disconnect" between project supervision ratings and final project outcome ratings (which could point to weak incentives for accurate project reporting), IEG cautioned against overoptimism in assessing ongoing project performance, and called for vigilance to ensure that the drop in project performance in fiscal 2007 does not foreshadow a persistent decline. IEG also noted opportunities to strengthen M&E.

Part II focused on a special theme, which this year was the Bank's work in fostering global public goods (GPGs). IEG found that the country-based model worked well when national and global interests coincided and when grant finance supports country-level investment, but the greatest challenges arise when actual or perceived local, national, and global benefits diverge significantly. IEG drew lessons for the Bank's consideration: (i) strengthen incentives to deliver GPGs at

the country level; (ii) consider clearer organizational arrangements to best select and link responses at country, regional, and global levels; (iii) enhance the delivery of global knowledge and capacity to country teams working on GPGs; (iv) ensure that the perspectives of developing countries are effectively connected with global responses; and (v) improve the justifications for the costs and benefits of actions being proposed to foster GPGs.

Draft Management Response

Management welcomed the insightful review and agreed that vigilance is warranted with respect to the weakening development outcomes of exiting projects and the increasing "disconnect" between the Bank's self-ratings of project performance and IEG's final ratings of development outcomes in fiscal 2007. In this regard, it noted that a deeper analysis of contributing factors, especially of differences among regions and sectors, would have been useful. Management commented on the need to address the different outcomes of middle-income country (MIC) and low-income country (LIC) programs, and the issue of lower outcome ratings for country programs than for projects. It had some different views about the obstacles to better M&E. Management also offered its

perspectives on efforts to integrate GPGs at the sector, country, and regional levels; its role in mobilizing and providing innovative financing; support for different types of global programs and partnerships; the proposal to set aside administrative funds to support high-priority GPGs at the country level; and the Bank's role in advocating the climate change agenda.

Overall Conclusions

The Committee heard that management found the structure and analytical context of the report to be of high quality and was broadly comfortable with the findings, with one exception regarding the recommendation to set aside earmarked country program budget for GPGs. This issue and, more broadly, the matter of the appropriate business model and incentives for integrating global and more traditional, local development interests elicited comments from most speakers, who expressed a diversity of views and also made suggestions. Another area that resonated with most participants was the "disconnect" between staff self-ratings and IEG's final ratings after project completion, which was higher in fiscal 2007 than in recent years.

The Committee appreciated management's focus on: (i) the differentials between country groupings or sectors with the aim of strengthening Bank business in dealing with the challenges of low-capacity countries and softer sectors; (ii) the findings related to low-income country programs, especially since IEG did not rate the overall development outcome of a single program beyond moderately satisfactory during the evaluation period; (iii) the distinction between project complexity and development risks related to challenging country circumstances; (iv) the emphasis on M&E not only to ensure data availability for assessing results (and avoiding complacency) but also to obtain a clearer perspective on the complementarities and tradeoffs between public goods and more traditional economic growth and development concerns; and (v) the new structure of the ARDE.

With respect to Part II on GPGs, in addition to ways of striking the appropriate balances in

country programs and operations, the discussion also drew attention to several findings of corporate relevance, namely the advocacy role where the Bank must push harder to strengthen the developing countries' perspectives and voices, which are presently underrepresented. To this end, it was noted that GPGs are relatively new in the development agenda, and the Bank is at the beginning of its learning curve in assisting countries to address GPG issues. Therefore, the Committee should keep an open mind about the challenges of GPGs and avoid reaching premature conclusions.

Next Steps

The Board is scheduled to consider the report on September 9, 2008. IEG will provide a summary of actions to which management committed, in response to IEG recommendations and where IEG has seen limited progress after three years. For future ARDE reports, IEG was asked to consider a closer link between Parts I and II. Management noted that M&E and results management in country programs will be discussed under the upcoming Country Assistance Strategy (CAS) Retrospective Report.

Main issues raised at the meeting were the following:

Project Performance. Members agreed that vigilance is needed to identify problem projects and risks in real time, an issue previously raised by the Quality Assurance Group (QAG). They took note of management's recognition that the current supervision for large infrastructure projects does not differentiate between countries (low-income vs. middle-income countries and fragile situations) and between hard (infrastructure) and softer sectors (human development or public sector management). Some members acknowledged the higher fiscal 2007 "disconnect" between the Bank's self-rating of project performance and IEG's final ratings of development outcomes. They sought further comments on the cause of this "disconnect." One member suggested that the Bank and IEG should find a mutually agreed scheme; IEG noted that the rating systems were comparable.

This member also recommended that the CAS Progress Report should address the issue of quality of supervision.

Issues were raised relating to project complexity and development risks under challenging country circumstances. A point was made that project complexity should be commensurate with implementation capacity. Speakers cautioned against messages or incentives that may induce staff to avoid risks necessary to achieve development impact. One member noted that (i) for measuring complex projects, there was a question about how to integrate a risk premium into the rating system, to ensure quality but without undermining the risk-taking incentives to staff; (ii) innovative approaches were needed to address development issues in difficult countries, and (iii) the challenge was in designing interventions adapted to different categories of countries (for example, LICs, MICs, or fragile states).

Country Programs. One member noted, with concern, IEG's finding that not a single program concentrated in smaller countries or countries with extensive poverty has been rated "satisfactory" in meeting their stated development objectives. Given the long engagement of the Bank with LICs, the question arose about whether there are some systemic issues and whether these have been suitably identified.

M&E and Results Management. Members suggested that the use of impact evaluation, though still at an early stage, could improve understanding of the outcomes of projects, programs, and policies. The importance of disseminating the methodologies of impact evaluation was noted. One member observed that the quality of M&E was associated with the quality of outcomes, and expressed concern that while measuring intermediate and final outputs require appropriate data gathering, these activities were not built into project design. While acknowledging that results on the ground and success may be hard to attribute to interventions by the Bank, he questioned how it can be a knowledge bank if it cannot learn from its successes and failures. This member

further suggested that Implementation Completion Reports should include a formal requirement to rate a project's M&E. Questions were raised more generally on the quality of M&E, simplification of country results framework, and knowledge base of corporate results.

Challenge of GPGs. Members generally agreed that GPGs were a relatively new topic in the development agenda, and the Bank needed to gain experience about what may work well, including enhancement of country ownership and the demand-driven approach, as well as strengthened partnerships. They also stressed the need to identify the Bank's comparative advantage in the GPG work, given that the Bank was only one of many players in this field. One member was disappointed about the perception that "networks are not working." Some members encouraged the identification of sectoral comparative advantages beyond health and climate change, such as market stabilization of key commodities like oil and grains, and the development of innovative financing. If GPGs are in conflict with a country's interest, there is a question of ownership, incentives, and perception of tradeoffs between GPGs and development. In this sense, one member felt the Bank was focusing on "rounding a square." This member also felt that it was difficult to operationalize IEG's recommendations to improve the Bank's support for GPGs.

GPG Country-Based Model. Members felt that the country-based model was a clear comparative advantage of the Bank's work on GPGs. However, they regretted that systems for integrating GPGs into the country-based model were underdeveloped when country and global interests diverge significantly. In this context, some members underscored the importance of addressing the limitations of the current business model to promote GPGs, while avoiding imposing conditionalities and supply-driven approaches. There was a sentiment that the country-based model was not enough to address GPGs and should be complemented with a global-level framework, which will provide incentives to countries, including financial

mechanisms for incremental costs. In addition, a question was raised about whether the issue was the effectiveness of Bank instruments rather than the country model.

Resource Allocation for GPGs. There were comments on the need for a new approach in allocating and tracking spending on GPGs (both budget and trust funds), and in recognizing performance, but there were a variety of views as to how this should be done. One member shared management's reservation about IEG's suggested option of setting aside significant administrative funding for allocation of high-priority GPG work at the country level.

ARDE Format. The new structure of the report generally found favor with the Committee.

Speakers welcomed the new format but would have liked greater substantive integration of the two parts. A more specific suggestion was to deepen the analysis of several key points in Part I, to make the report a more robust instrument of management's accountability. One member found that the aggregate view of the Bank's development effectiveness did not give an indication of how various areas of the Bank perform, what lessons could be drawn from the report, and thus how resources should be allocated. A few members sought clarification on why the report was not accompanied by the Management Action Record for monitoring progress of the Bank's agreed actions. IEG provided additional information regarding the implementation report that sets out which older IEG recommendations will be retired from formal consideration.

Jiayi Zou, Chairperson