



INDEPENDENT EVALUATION GROUP

## **MIDDLE-INCOME COUNTRIES VALUE CONTINUED WORLD BANK SUPPORT**

### **Yet, for greater impact, the Bank must depart from business as usual, says Independent Evaluation Group**

**Washington DC, September 6, 2007.** The World Bank Group's work with middle-income countries (MICs) over the past decade has contributed to growth and poverty reduction, but needs to yield stronger results in dealing with inequality, corruption and the environment. A new report, "Development Results in Middle-Income Countries", released today by the Independent Evaluation Group (IEG), makes a clear, two-fold recommendation: that the Bank should continue to engage with the important group of middle-income countries, but depart from business as usual for a greater impact.

The IEG report evaluates the effectiveness of World Bank programs from 1995 to 2006, drawing on extensive inputs from MICs themselves. Over this period the Bank provided US\$163 billion in financing to MICs—nearly two-thirds of the total for all developing countries—together with technical expertise and policy advice.

The report emphasizes that MICs have a rapidly increasing role in the global economy. As a group, these 86 countries, including powerhouses such as Brazil, China and Russia, have raised average real incomes by 4 percent a year since the mid-1990s, and now account for one-fifth of world output. Their economic fortunes affect the prospects of neighboring low-income countries, as well as international financial markets and world trade and capital flows.

At the same time, MICs face daunting challenges. They are home to over one-third of the world's poor. More than half of them have seen inequality in income rise over the last decade. Environmental concerns, such as rising air and water pollution, are equally pressing. Nearly 60% of the world's total forest area can be found in MICs, with severe deforestation evident in Brazil, Indonesia, Mexico, and the Philippines. Furthermore, MICs currently account for 40% of global emissions of carbon dioxide from fossil fuels.

MICs increasingly access private markets for the financial services needed to tackle these problems. The Bank's menu of financing, policy advice and more recently credit enhancement and risk management tools is available in addition to the private market solutions.

"Even as MICs have seen an unprecedented rise in their access to private capital, they perceive the combination of the World Bank Group's financial and advisory services as a valued asset – a quality stamp," said Vinod Thomas, IEG's Director-General.

The report finds that the Bank's work with MICs contributed to their growth and poverty reduction objectives in many cases. Over the last decade almost 400 million people have been lifted out of poverty. Four-fifths of respondents to an IEG survey covering government, the private sector, and civil society in MICs, said they value the Bank's programs and services.

Tunisia provides a good example of the Bank's policy work supporting the government's focus on growth with equity, which led to higher incomes in remote rural areas. In China, the Bank's research on rural poverty helped the authorities to re-orient their strategy toward this issue, and in

Colombia the Bank's substantial lending—as well as its advice—was instrumental in launching a major social assistance program that helped reduce poverty.

A key challenge that needs urgent attention is rising inequality, among people and among regions. China, Turkey, and Russia are experiencing growing disparities between rich and poor regions. Despite the Bank's support to regional development efforts, inter-regional inequality remains a daunting challenge faced by Governments there.

Fighting corruption is another area where progress needs to improve. So far, there is limited evidence that the Bank's efforts have found much traction. In some countries the Bank's work has been helpful in drawing attention to the problem of corruption, but has not yet delivered tangible results to reduce it. But signs of progress have emerged in other countries in recent years. In Ukraine the Bank has helped to monitor corruption, and in Turkey it has worked with the Government to create a more transparent procurement process.

Other crucial areas of concern are environmental degradation and climate change where Bank and partner efforts need to have far more impact. Although the Bank has given attention to the topic, complex project design, weak coordination and insufficient institutional capacity for effective implementation thwarted success in Paraguay, Bolivia and Venezuela. In larger middle-income countries, such as Mexico and Indonesia, outcomes were hampered by a lack of participation by relevant local and national groups. The Bank and development partners could do much better both in delivering results from environmental projects in MICs, and in linking MICs to global programs which take collective action on problems such as climate change.

“When it comes to global issues, such as the environment and climate change, MICs are an increasingly important part of solutions that are urgently needed,” said Vinod Thomas, “And since the role of MICs in the global setting is changing fast, the World Bank Group and partners need to become more flexible and innovative to be effective.”

The evaluation recommends four key steps for the World Bank Group. First, it must become more agile to respond to swiftly changing conditions in MICs. Second, it needs to draw upon MICs' own capacity more systematically and facilitate the use of MIC expertise to both help low-income countries and tackle global challenges. Third, in order to extend its impact well beyond a limited financial role, the Bank must work with partners in MICs to create new innovations and jointly demonstrate best practices that can be replicated nationally and globally. Fourth, the Bank and the International Finance Corporation, the Group's private-sector arm, need to collaborate more closely to offer clients integrated support combining public and private sector solutions.

Going forward, the Bank has developed a new strategy for working with MICs that was endorsed by the Bank's shareholder governments at the last Annual Meeting. The proposed strategy aims to improve the Bank's offerings in the following five areas: strategy and coordination services, financial services, knowledge services, World Bank Group synergies, and international cooperation and partnerships.

“Some observers have questioned whether the Bank should continue to operate in MICs, but that ignores the evidence that the Bank has helped produce positive results and MICs still have challenges and opportunities on which they welcome Bank support,” said Thomas O'Brien, the report's author, “Provided the Bank can adapt rapidly and continuously, there is a double-dividend to be grasped—of helping meet development needs in MICs and using those lessons and resources to be more effective in low-income countries, too.”

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**To view World Bank Senior Management's response to the evaluation:** Please visit

<http://www.worldbank.org/ieg/mic/managementresponse>

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