

# Chapter 7

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Boys playing soccer in Sanam Luang (a large park) in Bangkok, Thailand. (Photo from Michael S. Yamashita/Corbis.)

# Findings and Recommendations

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The environment for the Bank's work in MICs has changed significantly in recent years and is likely to continue to evolve rapidly. MICs' institutional capacity has been strengthening, while the increasing role of the private sector in most economies and growing globalization have added to the complexity of development challenges.

The group has enjoyed an expansion of choice in its sources of development finance—the number of MICs with capital market credit ratings has more than doubled since the mid-1990s—and knowledge over the last decade. Indeed, for MICs, the Bank's new lending amounts to only a small and declining share of national investment: 0.6 percent in 2005, down from 1.2 percent in 1995. Repayments on existing loans exceeded new disbursements by an average of \$3.8 billion per annum for the group over the last 12 years. How has the Bank's engagement with MICs fared in this setting?

## Performance on Major Priorities for MICs and the Bank

The Bank has tailored its individual country strategies astutely to be relevant to varied needs across this very diverse group. Most country strategies have focused on sectors and themes important for countries' development needs, including promoting growth. The strategies have brought together tools—finance, knowledge, and convening power—in a fairly well integrated fashion, thereby providing a mix of support not readily available from other sources. For some clients, however, particularly among the 30 small-state MICs, the Bank's mix of tools has fit less well with country conditions.

## Considerable success in fostering growth and reducing poverty

On the overarching priority of promoting

growth—emphasized at the corporate level in the two-pillar development strategy—Bank support to MICs has been effective and generally well regarded by clients. MICs as a group have grown robustly, particularly since 2001, when more than two-thirds of the group have achieved per capita growth above 2 percent per annum on average.

The close match between country and Bank priorities has created an environment for ownership of measures to enhance growth. Nearly 70 percent of respondents in the evaluation's *client survey* rated the Bank's support for fostering growth as moderately effective or better. The Bank's macroeconomic and structural policy analysis has been good, and this analytical work has been combined with policy-based lending in several cases, including Colombia and Romania, to put growth-enhancing measures into practice. Bank-financed projects in several sectors that can help facilitate growth, including those in infrastructure, have been particularly strong performers.

In moving beyond growth into poverty reduction, MICs have achieved some positive outcomes overall. The group as a whole has lifted nearly 400 million people beyond the \$2-per-day poverty threshold since 1993. In addition to the world-leading achievements of China, the other MICs have reduced their poverty rate by 20 percent, considerably faster than the reduction observed in LICs over that period. And clients in MICs across

the income spectrum have provided a favorable assessment of the Bank's overall support to reducing poverty—with three-fifths rating the Bank's help as moderately effective or better.

The Bank has certainly paid significant attention to poverty in its country strategies, including helping to quantify and analyze its incidence as well as to assist clients develop responses to their particular poverty issues. Across most of the MIC group, this stance in addressing poverty has proved pertinent to their needs and has been successfully meshed with work on supporting sustained growth. For example, in Bulgaria clients appreciated the Bank's antipoverty efforts that emphasized improving institutions and the investment climate as well as measures targeted specifically to pockets of poverty. And in Egypt the Bank's input attracted resources from other donors to support an innovative social development fund targeted at helping the poor.

Progress on poverty has been helped by the Bank's work in supporting poverty-focused interventions, including social assistance programs. In Tunisia, for example, the Bank's policy work helped support the government's focus on growth with equity, helping to increase incomes in remote rural areas. In many cases the combination of the Bank's knowledge work and its finance has proved valuable; social assistance projects have performed particularly well. The sharing of knowledge across countries has also been a positive ingredient of the Bank's work in this area, exemplified by the transfer of experiences with CCT programs in many locations—and noted by clients in Colombia and Turkey as a significant value added in the Bank's support.

But when it comes to helping protect the poor during a crisis—which is one of the rationales for the Bank's support to MICs suffering financial calamity—clients express some dissatisfaction with the Bank's efforts. Case studies confirm that the Bank's speed of response in assisting countries once a crisis has emerged has been good (although coordination with the IMF was suboptimal), its liquidity assistance has been

appreciated, and its work helped advance structural reforms. On the other hand, in Brazil, Russia, and Thailand, for example, neither the Bank nor the authorities had strong contingency plans to strengthen social safety nets to protect the poor during crises. Furthermore, what support the Bank provided for more substantial social protection reforms, where sustained government ownership was not always apparent, had a modest impact over the longer run.

### ***Less progress on other challenges beyond the growth agenda***

More than half of MICs have seen inequality rising over the last decade, and although the Bank's work has shown increasing awareness of the issue, it has not yet succeeded in helping countries deal convincingly with the problem. More than half of *client survey* respondents rated the Bank's work in addressing inequality as moderately ineffective or worse. In many MICs, inequality has a strong geographic dimension, with particular regions within countries facing a growing prosperity gap against better-performing locations. In Ukraine, for example, the Bank has supported regional development efforts, but reductions in regional inequality have yet to be secured.

Progress has also been sketchy and deficient in some respects on other important corporate priorities to which the Bank has ascribed prominence. On the challenge of fighting corruption, which is relevant to many MICs, there is limited evidence that the Bank's efforts have found much traction. Perception indicators measuring control of corruption have not moved significantly in the majority of MICs over the review period. In Indonesia, for example, despite some positive steps taken by the government and useful Bank contributions, corruption remains problematic, and the outcome of the Bank's work in this field has been assessed as moderately unsatisfactory.

In the *client survey*, views across MICs were quite stark on this issue—two-thirds of respondents judged the Bank's contributions to reducing corruption as moderately ineffective

or worse, the most negative response received on surveyed topics. To some extent, these observations may reflect the complex, sensitive, and long-haul nature of dealing with corruption. There are some signs of progress, for example in Turkey and Ukraine, including for improved procurement practices and better monitoring and awareness of corruption.

Meeting environmental challenges in MICs has proved problematic. The Bank has given some attention to the topic, and most MIC CASs mention environmental issues. Some country programs—for example, those in Brazil in the review period—have helped to deliver satisfactory progress by positioning environmental issues as integral to the sustainable growth agenda, securing government ownership, and building domestic institutional capacity in the environment field. But this experience has not been widespread, and lending for projects mapped to the environment sector board have performed poorly compared with other sectors. Difficulties have included overly complex project design, a lack of institutional capacity for implementation—for example, in the land use rationalization project in Paraguay, wavering political support—and weaknesses in ongoing coordination between implementing agencies and the Bank.

### Features Influencing Bank Performance

Development needs differ across MICs. Countries at the lower end of the income band tend to face a broad range of challenges, and those with higher incomes concentrate on more specific issues. There are also considerable variations in the nature of Bank country programs, including volume of lending and its scale relative to country resources, the balance between lending and advisory services, and the sectors and themes of primary emphasis. The evaluation found that across different country and program types, several features relating to the Bank's way of working have enhanced—or impaired—the success of its support:

- The adaptability and responsiveness of its instruments and programs

- The quality of expertise
- The extent of drawing on MICs' own capacity, including in global programs
- Internal Bank Group cooperation.

### Agility

The Bank has not been agile and has struggled to keep pace with the speed at which client needs and demands have been changing. The lack of agility has taken several forms. In various countries clients emphasized slow responsiveness to changing country conditions, including changing client preferences on financing instruments. This may have undermined the Bank's relevance and led counterparts to look elsewhere for financing.

Another client perception is cumbersome processes and procedures that impede access to Bank support. Certainly clients take into account the specific financial terms of Bank products as they make borrowing decisions. But nonfinancial costs of doing business, alongside other considerations, such as the Bank's quality and program relevance, carry even more weight for many clients.

Perhaps because of its institutional set-up, the Bank consideration and implementation of significant but useful changes—such as use of country safeguards in place of Bank-specific systems—has been too slow in relation to the needs and opportunities in MICs. One timing issue the Bank got right, however, is alignment of its individual country programs with national planning cycles—noted by clients in Colombia and China, among others—which improves the prospects of success.

### Expertise

Clients find the Bank's quality stamp—reflected in its technical expertise, project design, and supervision skills—to be a key strength. For some countries, it is what is embedded in this quality stamp that provides the main benefit in Bank financing. And across MICs, the Bank's analytical and advisory work has been in most cases of high technical quality and has satisfacto-

rily embodied the lessons of international experience. For example, in Thailand, the Bank's support for recent work on the economics of effective AIDS treatment helped link policy makers with the latest international experience, thus further strengthening the country's programs. But on other occasions, the effectiveness of the Bank's knowledge services in shaping opinion for public policy and investment has been hampered by inadequate presentation and dissemination of reports. These communication issues have held back the Bank's contribution to the information marketplace.

#### **Drawing on MICs' own capacity**

An opportunity has been missed in failing to draw on MICs' own national capacity in a strategic or ample manner. In some sectors, such as education and health, specific local knowledge is vital, but even in sectors where international best practice is more clearly established, such as the financial sector, local perspective on how to implement development solutions is essential. In this regard, the Bank's knowledge services have too often been good on diagnostics but weak in applying expertise to specific local needs. This may be in part because they have not fully used or helped build national capacity. And although some MICs recognize the potential for the Bank to help transfer knowledge to other countries, the Bank's efforts to incorporate this explicitly in its country programs, or indeed through a clear Bank-wide framework, have been modest.

Similarly, the Bank's drawing on MICs to help shape priorities for global programs has been limited. IEG's global programs evaluation (IEG 2005a) recommended that the Bank and its global partners work to enhance the voice of client countries on the governing bodies of global programs. Even though there have since been some positive changes, and MICs typically have more voice in the governance of global programs than LICs, their input remains modest. Even large MICs' involvement in the governance of significant global programs occurs only about one-third as often as it does for high-income countries. In turn, this inhibits MICs' enthusiasm for and engagement in such programs.

#### **Extent of Bank Group cooperation**

Within the Bank Group, despite considerable high-level attention directed toward making the best use of its combined resources, internal cooperation among the Bank, IFC, and MIGA has been underwhelming.

What efforts there have been to cooperate at the country level have been more apparent in strategy than in implementation. In country programs, Bank Group cooperation has been modest—barely half of planned instances of cooperation have come to fruition, and its purported potential has not been fully exploited. In Kazakhstan, for example, although several areas of cooperation were planned, only one-quarter of those took place.

The main factors inhibiting cooperation are the incompatible timelines for projects, differences in organizational culture, and prevailing staff concerns that their time can neither be easily allocated to cooperation nor recognized in performance assessments. Another facet that has to be properly managed is risks associated with perceived potential conflicts of interest across the WBG, especially in turbulent market conditions at times of financial crises.

#### **Overall Assessment**

The Bank's country programs in MICs have been moderately satisfactory on average in meeting varied country-specific development objectives, including promoting growth and reducing poverty. This IEG assessment made in CAEs is underpinned by many of the factors highlighted above. Such outcomes are better than the Bank's work in LICs. Indeed, the most recent outcomes in large MICs, including Brazil and China, have been satisfactory—a notch higher on the rating scale.

Yet there is significant pressure for the Bank to do better—to get closer to a “gold standard”—in an environment where MICs' demands are becoming more stretching and they have choices of support beyond the Bank. A collection of indicators—from *client surveys*, in-country consultations, project reviews, and country

program assessments—when taken together suggests that for the Bank’s work to have a more pivotal demonstration effect, a greater proportion of it must reach the highest standards of effectiveness. A renewed focus on this could build on and go beyond Bank efforts that have already successfully reduced the occurrence of unsatisfactory assistance over recent years.

## Recommendations

This evaluation recommends that the Bank continue to engage with MICs, contrary to the views of some observers. The Bank’s services have been and remain relevant to the challenges faced by many MICs, and its past record of effectiveness suggests that it has the potential to deliver useful packages of assistance in the coming years.

But the Bank should take steps to produce greater development effectiveness. This requires departing from business as usual and reinvigorating its relationships with clients, incorporating four main dimensions.

### *Draw on MIC capacity*

To promote greater country ownership of the Bank’s work and to create better opportunities for the Bank to learn from MICs and share their experience with LICs, Bank support needs to more systematically draw on and develop each country’s own expertise. To this end, management should require that CASs and significant AAA assignments in MICs plan for how the Bank’s work will develop and draw on the country’s own expertise.

For CASs, the plan needs to be grounded in consultations with national stakeholders, identifying how projects will build capacity, and links between elements of the AAA program and specific sources of MIC expertise to be tapped. For significant AAA assignments—including those associated with research emanating from the Bank’s central departments—arrangements would be made to identify a tie-in with national capacity. The Bank’s knowledge broker role should help develop domestic expertise, improve the practicality and dissemination of the

Bank’s reports, provide a platform for better integration of knowledge resources from other donors, and potentially contain the Bank’s own budget costs over the medium term as more input comes forth from domestic sources.

The Bank ought to identify incentives and obstacles to MICs’ involvement in the governance of global programs. This could involve producing an inventory of governance arrangements for global programs it supports and conducting a formal consultation exercise with MICs (and other developing countries). The Bank could highlight examples of good practice and use its own influence—including its voice at the table and any financial support it provides—to work with international development partners to deepen and widen developing countries’ contribution to governance. Management should expect country teams actively to consider global programs and their integration as well as other tools in the preparation of CASs. The Bank could also take advantage of its special position, which combines country-specific relations with a global perspective, to help MICs identify opportunities to enhance their engagement with pertinent global programs—including through making financial contributions. All this would encourage participation and help sustain and direct existing and emerging programs.

### *Demonstrate best practice*

To deliver the maximum impact from the Bank’s limited financial role in MICs, in partnership with clients the Bank’s projects and programs must be selected to go beyond conventional approaches and clearly demonstrate how they will add to best practice development activity in the respective country setting.

Projects and programs should also clearly show whether, when, and in what way they are expected to play a catalytic role, being scaled up using resources beyond those initially provided by the Bank. Some resources might be usefully earmarked to give incentives to staff teams and to help finance administrative costs associated with identification of and experimentation in best

practice. Scale-up of in-country programs beyond the initial Bank support should be monitored.

Country programs, prepared in full partnership with MIC clients, must pay attention to achieving greater effectiveness in three pressing and complex issues: combating corruption, reducing inequality, and protecting the environment. Programs need to draw on the full range of Bank and other resources to meet these challenges.

The Bank could more actively share best practices and encourage arrangements for knowledge transfer across countries, regions, and sectors. Three specific measures to do this would be (i) give more weight to this goal in strategically managing staff rotation; (ii) ensure that research and policy expertise has a clearer requirement to be applied in ways that go beyond general principles and focus on specific country-by-country needs; and (iii) review the performance of the networks on this dimension.

The Bank may also have to be more selective in its project work by focusing on sectors where already strong performance can be uplifted. The success of steps such as these would ultimately be measured in terms of development outcomes, but it could also be tracked by intermediate indicators, including the prevalence of client feedback that rates Bank services in the highest category, and also the frequency with which QAG and IEG assess the Bank's work as being highly effective.

### ***Enhance the Bank's agility***

To help the Bank more quickly and easily adapt its services and areas of focus for the evolving needs of MICs, it needs to set up a program to test new approaches for a select group of countries. The first element of the program would be a much more decisive push on the existing slow-moving pilot for the use of country systems in the execution of Bank lending. Significantly increasing the number of countries and projects actually implementing the new approach on the ground is also needed by the middle of fiscal 2008.

This would be a clear sign of the Bank's seriousness—and progress—in its more broad-based efforts to reduce the costs of doing business with the Bank. It would do so by empowering clients, using and building their capacity, and having an impact beyond the first-level application in respect of Bank projects.

The program would do well to go further and offer the selected MICs a new menu of support: (i) greater flexibility for management on several aspects of the lending program, including the pace of commitment of finance, subject to managing the Bank's credit risks; (ii) a target for reducing project approval times, perhaps through fast-track procedures; and (iii) extended duration of CAS planning periods, with a simplified midterm review.

Participating countries should be selected on the basis of their established track record of successful Bank engagement, good macroeconomic and governance performance, strong institutional capacity, and willingness to participate in new arrangements. Consideration could be given to producing an indicator that encapsulates key aspects of the nonfinancial costs of doing business with the Bank—for example, expressed as an implicit addition to the basis points cost of borrowing from the Bank—thereby proving an additional tool for monitoring progress in this area. The pilot program would be reviewed within three years, at which point successful innovations would be extended to other clients.

The Bank should continue efforts to expand the choice of services it offers. This can be done by accelerating the development and deployment of (i) new financial instruments, such as those that help countries manage and reduce vulnerability to external shocks; (ii) existing and new products that help tackle subnational challenges; and (iii) new arrangements with clear, consistent, and user-friendly guidelines for fee-for-service technical expertise. The opportunity to pay for AAA would be more attractive to clients if they were given a more direct influence on the composition of the Bank's AAA programs in their countries.

Clients should also be offered the chance to buy the Bank's project design, management, and supervision expertise—which are valued by many MICs—even if Bank lending is not bound to follow. Steps that help better integrate Bank finance with domestic resources and other international assistance can also be useful.

These proposed changes should not be viewed as a one-time shift in procedures or instruments. Rather, they would be a phase in an ongoing process whereby management and the Board become able to make such adjustments more smoothly, quickly, and frequently, as demands dictate. In undertaking this type of reform, development progress is the goal and care must be taken to avoid the impression of lending targets driving the process.

***Make the most of Bank Group cooperation***

The Bank Group must develop a more pragmatic and tightly drawn approach to cooperation across the Bank, IFC, and MIGA to successfully offer clients a more effective package from its combined resources.

As a first step, the Bank Group should conduct a jointly managed and staffed review to identify how specific types of cooperation—including in knowledge services, where the Bank and IFC's instruments and clients are similar—will improve development outcomes in particular circumstances. That understanding can be enhanced over time by establishing performance monitoring designed to trace the net gains from cooperation in these areas of synergy. A new approach could include new incentives or channels for cooperation, such as piloting single country management arrangements in more than one case, to allow for proper comparative assessment of results. In cases where joint country strategies are appropriate, they should be prepared more rigorously and followed through with better performance monitoring.

Any new approach must be communicated to and gain the support of staff, who ultimately determine the extent and success of such cooperation.