

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

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**O**n July 11, 2007, the Committee on Development Effectiveness considered the report *Development Results in Middle-Income Countries: An Evaluation of the World Bank's Support*, together with the Draft Management Response.

## Background

CODE discussed the Approach Paper for this report in February 2006. At the 2006 Annual Meeting, management presented its strategy for engagement with International Bank for Reconstruction and Development (IBRD) partner countries and committed to provide an updated action plan for implementation of recommended actions. A Board informal meeting on implementation progress was held on April 10, 2007.

## The IEG Report

The Independent Evaluation Group (IEG) report found that the outcomes of the Bank's country programs in middle-income countries (MICs) have been moderately satisfactory on average in meeting varied country-specific development objectives, including promoting growth and reducing poverty. It also noted that the Bank must become more effective on issues where its work has not yielded pronounced advancements, notably in dealing with inequality, combating corruption, and protecting the environment (IEG is currently undertaking an evaluation on the Bank's activities in the environmental field). IEG recommended that the Bank continue its engagement but take steps to produce greater development effectiveness. This would require the Bank to depart from business as usual and to reinvigo-

rate its relationship with clients, focusing on the following four dimensions: draw on MIC capacity, demonstrate best practice, become more agile, and make the most of Bank Group cooperation.

## Draft Management Response

Management found the IEG review comprehensive and timely, given the current process of implementing an action plan to strengthen the engagement with IBRD partner countries. In particular, management welcomed the IEG conclusion that the Bank should continue its engagement with MICs. Overall, management found the analysis and conclusions to be in line with its own priorities for action.

## Overall Conclusions

The Committee commended IEG for the depth and robustness of its analysis and for producing a clear and concise report that was not only largely on target but also very timely in informing the Bank Group's long-term strategy exercise, being prepared under the leadership of the chief economist. The Committee broadly endorsed IEG's findings and recommendations, which management substantially agreed to.

With regard to the overall findings, members commended the Bank for its support in fostering growth and reducing poverty in MICs. However,

some speakers noted that “average results” were not good enough and that the Bank must strive for excellence, more clearly demonstrating best practice to meet the needs of MICs, which have an expanding choice of sources of development assistance. Others expressed disappointment that the Bank’s work has not yielded significant results in addressing inequality, combating corruption, and protecting the environment. The role of knowledge services in the Bank’s portfolio drew a number of comments. Several speakers expressed strong support for the Bank to further draw on countries’ intellectual and analytical capacities and to adapt its modus operandi for knowledge sharing, including facilitating such sharing between middle-income and low-income countries. In this regard, some speakers emphasized the need to strengthen in-house professional capacity and skills.

Some speakers stressed enhanced cooperation within the World Bank Group (WBG) and greater agility to adopt different approaches, including use of country systems, given the diversity of MICs, including small MICs. The key was to design an approach centered on innovation, including within the Bank itself. More specifically, there were suggestions to adjust the business models, to further decentralize, to provide greater staff incentives, and to consider fee-based advisory services. The related issues of costing and pricing of lending services elicited a diversity of views. Some speakers felt that financial banking services remained the Bank’s core business, including a delivery mechanism for knowledge transfer.

The following issues were raised during the meeting.

### **General Issues**

Speakers generally concurred with IEG findings and recommendations and were pleased with this timely report. They also welcomed management’s substantial agreement with the IEG’s report as well as the matrix on the MIC Action Plan attached to the Draft Management Response. A number of speakers observed that the IEG report was highly relevant for considering the Bank Group engage-

ment with MICs and to the discussions on the Bank’s overall long-term strategy.

### **Performance of the Bank**

A number of speakers were concerned with the findings that the Bank has not been agile and has struggled to keep pace with the clients’ changing needs and demands. The need for more flexibility in the Bank’s approach, including adapting resources, staffing, and incentives, was noted.

One member noted that decentralizing resources and authority can help promote flexibility. Several members stressed the importance of rethinking the Bank Group’s role and business model to address different needs of a diverse group of countries. In this regard, they noted that the Bank would require innovation in new instruments, subnational lending, and high-quality advice.

Many speakers stressed the need to accelerate the use of country systems in Bank lending, and simplification and modernization of internal processes and procedures. One member observed that the Bank was losing institutional memory and in-house capacity, including staff with expertise in key development areas such as agriculture, infrastructure, and technology transfer. A few speakers felt the IEG report should have analyzed financial aspects such as MICs’ access to international financial markets.

*IEG responded that its evaluation was centered on an examination of the development effectiveness of Bank work. The evaluation reviewed but did not dwell on issues of the Bank’s financing terms, which have been discussed by the Bank and others elsewhere at some length.*

### **Relevance of the Bank’s work**

Several speakers shared the view that the precise financing terms of Bank lending were less of a pivotal determinant in clients’ borrowing decisions and other factors were very important, including the quality of Bank’s work, program relevance, and nonfinancial costs of doing business. However, others emphasized that the financial services of the World Bank and their competitive pricing were still pertinent. Several

speakers commended the evaluation's positive reports on the Bank's technical assistance and advisory services. They supported the Bank creating more flexibility in unbundled knowledge from financing, while recognizing bundled services can remain a main strength of the Bank. Regarding fee-based services, a few members indicated that consulting services should not become the mainstream of Bank services to clients. While the Bank's good work on diagnostics was highlighted, its weakness in applying expertise to specific needs was also noted.

### **Country programs**

A number of speakers commended the Bank for its considerable success in fostering growth and reducing poverty over the evaluation's 12-year review period. However, they were concerned that less progress was observed in reducing inequality and protecting the poorest during crisis, combating corruption, and protecting the environment.

The importance of considering small MICs and MICs in Sub-Saharan Africa was cited. The moderately satisfactory outcomes, on average, of the Bank's country programs in MICs was welcomed, but some found this disappointing, because the Bank's performance should be excellent, adding value and providing high-quality support. A few speakers expected some discussion on gender issues.

*IEG noted that its report contains some analysis on gender issues and points to significant challenges and opportunities for MICs and the Bank on this topic.*

### **Sharing and use of knowledge**

Several speakers commented on the Bank's role in demonstrating "best practices" to ensure it adds the maximum value it can to MICs in meeting their development challenges. They also noted that MICs' demand for knowledge, including analytical and advisory activities tailored to particular country circumstances. A few members stressed the Bank's comparative advantage in knowledge

dissemination. There were also comments on the role of the Bank, which management viewed as a peer-to-peer collaboration rather than a teacher-student relationship. One member agreed that the Bank was a partner, but another saw it as a knowledge "clearing house" or a teacher helping to identify best practices.

Some members emphasized the Bank's need to draw on the country's own capacity and expertise, partnering with governments and local research institutions to create greater ownership and engender learning. A question was raised on the role of other international financial institutions in knowledge creation and dissemination. One member questioned the application of MICs' experience to less-developed countries. He observed that in the Country Assistance Strategies, the Bank Group was focusing on social development and governance in low-income countries and on economic development in MICs. He felt this trend should be reversed. Another speaker noted that there are different definitions associated with the MIC label and that there are valuable experiences in those countries that are IBRD eligible and often considered as "middle income."

### **Engagement in global programs**

Some speakers agreed that it is the Bank's key role to engage MICs in global initiatives, given MICs' growing share of global income and population. However, they found gaps in approach, and a few noted that MICs' commitment to global programs should involve financial contributions and consistent policies.

### **Cooperation across the Bank Group**

Several speakers emphasized cooperation within the WBG, which is a recurrent theme in recent discussions. They broadly agreed with IEG's recommendation that such cooperation should be pragmatic and tightly drawn. One member felt that cooperation should be possible while enhancing the comparative advantages of each institution. In this regard, he cautioned about the risks of having a single country management arrangement proposed by IEG.

*Jiayi Zou, Chairperson*