

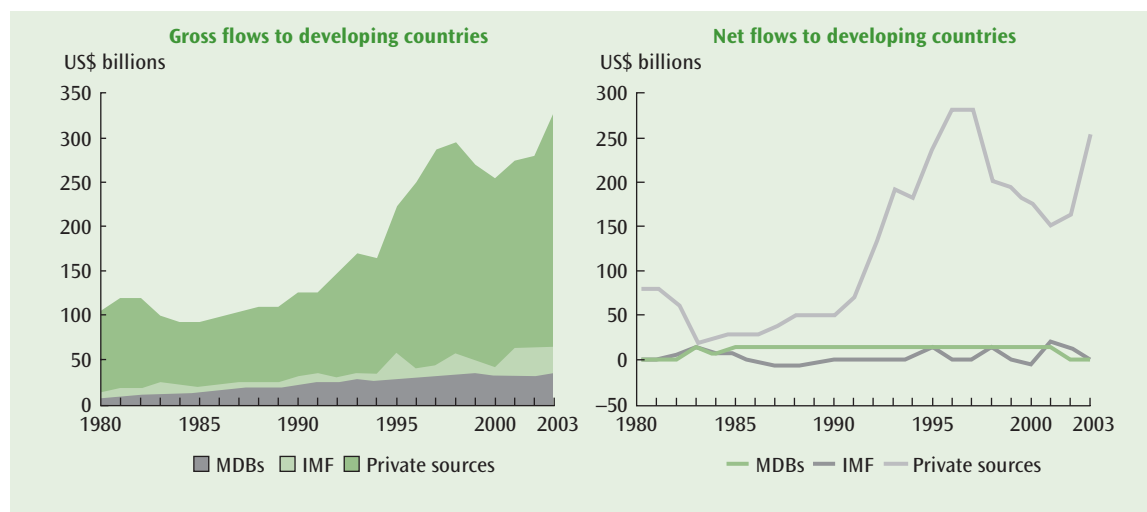
Strengthening and Sharpening Support from International Financial Institutions

This chapter analyzes the support provided by international financial institutions to help developing countries achieve the Millennium Development Goals (MDGs) and related development objectives, and sets out priorities for strengthening and sharpening that support. The focus is on the five largest multilateral development banks—the African Development Bank (AfDB), Asian Development Bank (ADB), European Bank for Reconstruction and Development (EBRD), Inter-American Development Bank (IDB), and World Bank—and the International Monetary Fund (IMF). The discussion is structured around the four-pillared organizational framework developed in the *Global Monitoring Report 2004*: country focus, global and sectoral programs, partnerships, and results.

In applying the framework, the chapter reflects the similarities across the international financial institutions and common directions of change, but also the differences—especially in the ways the multilateral development banks and the IMF contribute to progress on the MDGs. Operating in some ways like the aid agencies considered in chapter 5, the banks work

through a large variety of instruments and sectors tailored to country circumstances through decentralized processes; to a large extent the key to understanding their contribution lies in understanding how and how well those processes are working. The IMF's product line is simpler, with programs focused on substantive policy issues at a higher level of execution.

To provide historical context for the chapter, figure 6.1 shows development finance flows over the past 25 years. During that time there was a significant increase in private sector flows—albeit with considerable fluctuations. Measured by gross disbursements, the contribution of the multilateral development banks grew gradually but steadily through the late 1990s (peaking in 1999) while shrinking relative to private finance—increasing the banks' strategic and catalytic role in supporting policy development and institution building. Net flows also peaked by the end of the decade, turning negative in 2002 for the ADB and World Bank—reflecting transactions with middle-income borrowers. IMF support was sometimes countercyclical relative to private flows, and sometimes procyclical, with net flows negative in some years.

FIGURE 6.1 Financial flows from the Big 5 multilateral development banks, IMF, and private sources

Source: World Bank Debtor Reporting System.

Multilateral Development Banks

In line with the model set out in earlier chapters, the multilateral development banks contribute to the achievement of the MDGs through their support for country policies, institutions, and investments and for global and regional public goods. This section addresses how and how well the banks carry out these tasks. The comparative profile in box 6.1 provides a perspective for interpreting the observations on the individual banks, especially with respect to their mix of low- and middle-income borrowers.

Country Programs

In exploring how the multilateral development banks are helping their developing member countries achieve the MDGs, this section examines how the banks approach country ownership, strategies, financial support, and analytic and capacity-building support. It reflects the view that the banks' contribution to achieving the MDGs lies in the relevance of their country programs—especially the links between their country strategies and national

poverty reduction strategies (PRs) or other national strategies—and the implementation quality of those programs. The analysis draws on findings by the banks' independent evaluation departments and indicates plans for further evaluation studies that can inform future *Global Monitoring Reports*.

COUNTRY OWNERSHIP

All the multilateral development banks recognize the importance of country ownership, with an emerging consensus that country demand, balanced with staff analysis, should form the basis for the policy dialogue.

Low-income countries. The 61 low-income countries that are members of multilateral development banks are home to 2.2 billion people. Their populations range from around 150,000 people in São Tomé and Príncipe to more than 1 billion in India. They are islands, landlocked, peninsulas, and continents, with tremendous diversity across and within countries. Each faces unique development challenges, sharing a common statistic of annual per capita income of \$765 or less. They contain more than 70 percent of the world's people

BOX 6.1 Profile of the “Big 5” multilateral development banks

Together the five biggest multilateral development banks—the African Development Bank (AfDB), Asian Development Bank (ADB), European Bank for Reconstruction and Development (EBRD), Inter-American Development Bank (IDB), and World Bank—commit and disburse about \$35 billion a year. These banks share many characteristics. But they also have differences—in country coverage, mandate, voice and ownership, and location of work—that influence how they respond to the challenge of helping countries achieve the MDGs and other development goals.

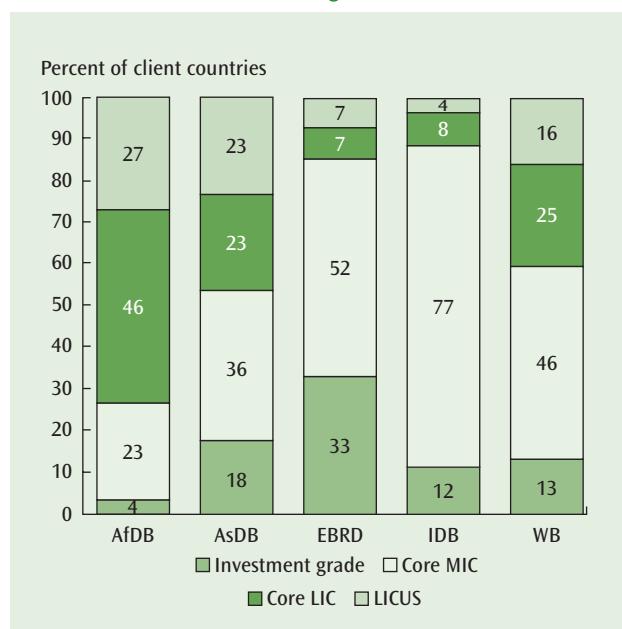
Country coverage. Most developing countries are eligible to borrow from two of the Big 5 multilateral development banks: the World Bank and their regional bank. Exceptions include countries in the Pacific that are members of the ADB and not the World Bank (Cook Islands, Nauru, Tuvalu), countries that are members only of the World Bank (Antigua and Barbuda, Dominica, Grenada, Iran, Iraq, Jordan, Lebanon, St. Kitts and Nevis, St. Lucia, St. Vincent and Grenadines, Syria, Turkey, Yemen), and countries that are members of the ADB, EBRD, and World Bank (Azerbaijan, Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan, Uzbekistan).

Differences in the income mix of the banks’ developing country members translate into very different client bases. The AfDB has the largest shares of low-income members, while the EBRD and IDB have the largest shares of middle-income members (see top figure). The ADB and the World Bank are in the middle. Accordingly, average income levels vary significantly for bank clients (see second figure).

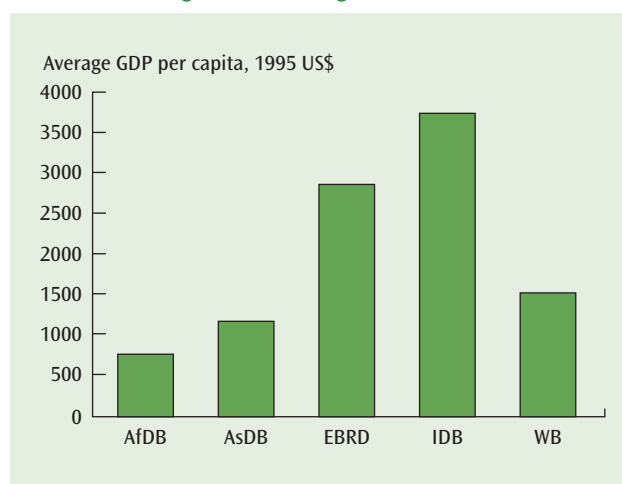
The relative importance of different funding sources also varies for the different categories of clients. For investment grade and other emerging market economies, private financing provides up to 95 percent of inflows. For the others the private share is much lower. These variations translate into differences across countries in the importance of the multilateral development banks’ financing role relative to their policy and catalytic role.

A third consideration is the size of borrowers, particularly between large states (more than 100 million people) and small states (less than 1.5 million people). There are nine large states, with one in the AfDB (Nigeria), five in the ADB (Bangladesh, China, India, Indonesia, Pakistan), one in the EBRD (Russia), and two in the IDB (Brazil, Mexico). Small states cut across the spectrum of country classifications, with Barbados being investment grade and the Solomon Islands a low-income country under stress, with most falling in between—whether middle income or low income—and more aid-dependent than larger states. Small states also cut across the multilateral development banks, accounting for 20–30 percent of country clients in the AfDB, IDB, and World Bank and more than 35 percent in the ADB, but less than 5 percent in the EBRD (see top figure, next page).

Differences in Big 5 client bases



Average incomes of Big 5 client countries



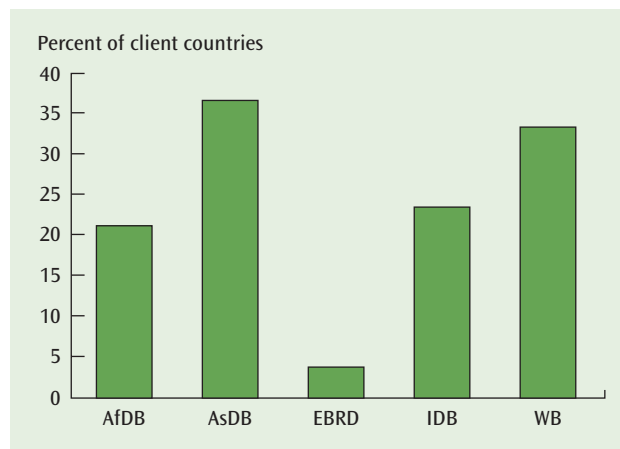
BOX 6.1 (continued)

Mandate. The mandates of the AfDB, ADB, IDB, and World Bank are similar: promoting growth and development and reducing poverty. The EBRD's mandate is to promote transition and private sector development. The mandates of the EBRD and AfDB, ADB, and IDB also include an important regional dimension—to focus on regional and sub-regional projects, programs, and trade.

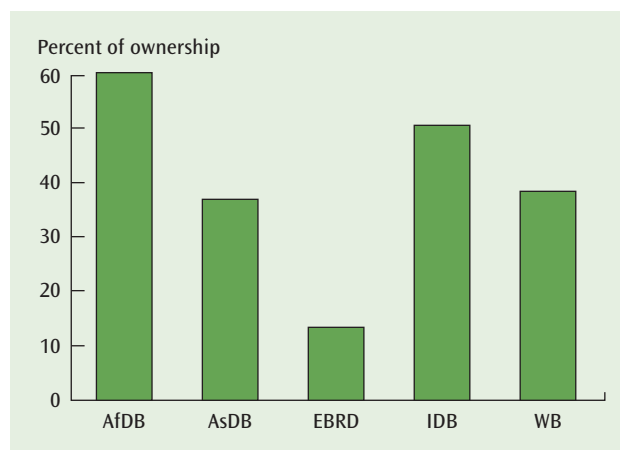
Voice. The Big 5 differ in their borrowers' shares of bank ownership, ranging from low in the EBRD to high in the AfDB (see middle figure, this page). But the influence of nonborrowers is affected by the role played by the banks' concessional windows, which are heavily supported by nonborrowing donors. In the AfDB concessional lending accounts for 44 percent of total lending; in the World Bank, 40 percent; and in the ADB, 27 percent. The IDB has a concessional Fund for Special Operations that accounts for 7 percent of all lending. Also relevant is the process for selecting the banks' presidents—with the heads of the ADB, EBRD, and World Bank traditionally selected from a developed country and the heads of the AfDB and IDB from a developing country.

Location of work. A final issue is the location of the banks and their work. The headquarters of the EBRD, IDB, and World Bank are in G-7 countries, while the AfDB and ADB are in borrower countries. Equally important is the location of work and staff. Two parameters are key: coverage of field offices and roles and responsibilities. Most of the Big 5 have full or fairly full field presence in their developing member countries (see last figure, this page). The exception is the AfDB, which had closed its field offices because of problems but is establishing new ones in 25 countries, following the example of the other Big 5 and lessons learned from recently established offices in Egypt, Ethiopia, Gabon, Mozambique, Nigeria, Senegal, Tanzania, Tunisia, and Uganda. All the Big 5 consider project administration a key task of their country offices. But the ADB, EBRD, and World Bank also see a critical role for their country offices in strategy formulation and program design, with most World Bank country directors located outside Washington, D.C.

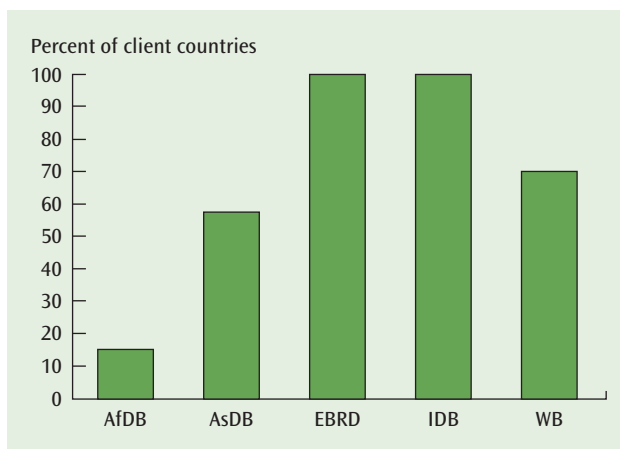
Small states in the Big 5 (percentage of client countries)



Borrower shares in Big 5 ownership



Big 5 decentralization
(percentage of member countries with bank office)



Source: Staff of the Big 5 multilateral development banks.

living on less than \$1 per day and 60 percent of those living on less than \$2 per day. They are eligible for concessional financing from the multilateral development banks—from the World Bank’s International Development Association (IDA) and, in their respective regions, from the African Development Fund, Asian Development Fund, and Inter-American Development Bank’s Fund for Special Operations. Low-income members of the EBRD are supported by the Early Transition Countries initiative, under which the EBRD accepts higher risks in the projects it finances.

Each of these facilities explicitly recognizes PRSs (or national strategies) as the vehicle for the banks to work with in low-income countries on their MDG priorities.¹ All the banks are committed to using the PRS process in the dialogue on, and as the starting point of, their country strategies. Recent reviews of the PRS approach carried out by the independent evaluation departments of the World Bank (Operations Evaluation Department, or OED) and IMF (Independent Evaluation Office, or IEO) highlight strengths and weaknesses of the PRS process, as well as priorities for change.² (See box 6.2 for the findings of the OED review; the IEO review is discussed in box 6.11.) Building on these reviews and their recommendations, steps are being taken to strike a better balance between country ownership and external involvement—including by international financial institutions—and to help countries broaden domestic participation, develop and monitor their strategies, strengthen analysis of the sources of growth and poverty reduction, link ambitious objectives with available resources and capacity constraints, and set out operational paths for sustained implementation.

Low-income countries under stress. Among low-income countries, low-income countries under stress (LICUS) are the most fragile—often affected by conflict, and with the weakest governance, policies, and institutions. This translates into severely limited progress on and prospects for poverty reduc-

tion and the other MDGs. The more than 400 million poor people living in these countries share bleak socioeconomic indicators, with per capita income levels half, and child mortality rates double, those in other low-income countries. Six LICUS are also small states—Comoros, The Gambia, Guinea-Bissau, São Tomé and Príncipe, Solomon Islands, and Timor Leste—making them particularly vulnerable to economic shocks and volatility; they also face unique challenges in sustaining support from donors. Clearly, LICUS face the most difficult circumstances for meeting the MDGs and other development goals. Hence the importance of focused attention on their special needs, a central topic of the recent Senior-Level Forum on Development Effectiveness in Fragile States hosted by the U.K. Department for International Development (DFID) and co-sponsored by the European Commission, OECD Development Assistance Committee (DAC), United Nations Development Programme (UNDP), and World Bank.³ The forum led to support by the OECD DAC High Level Meeting in March 2005 for a new set of principles for international engagement in fragile states, and an agreement to pilot them in donor programs in seven countries.⁴

Among the 25 LICUS in fiscal 2005, the World Bank has been working closely with 15 focus countries, while providing more general support to the larger group.⁵ For the 8 focus countries where the Bank had previously disengaged, there have recently been country missions to all, along with analytic work to regain basic knowledge. These reengagement activities have proved critical in positioning the Bank to move quickly when necessary, as has happened recently in Haiti, Liberia, and Sudan. Of the \$25 million in the LICUS implementation trust fund approved by the Bank’s Board in March 2004 to support governance and social service delivery in countries in arrears to the Bank, grants totaling \$20 million have been approved for the Central African Republic, Comoros, Haiti, Liberia, Somalia, and Sudan.

BOX 6.2 Independent evaluation of the World Bank's role in poverty reduction strategies

A recent review by the World Bank's independent Operations Evaluation Department (OED) found that the poverty reduction strategy (PRS) initiative is relevant to the development challenges in low-income countries and warrants continued World Bank support. But according to OED, the initiative has not yet fulfilled its full potential to enhance poverty reduction efforts in low-income countries because it has led countries to focus more on completing documents—which give them access to resources—than on improving domestic policies and practices. Other identified weaknesses include the absence of an effective mechanism for adapting the initiative to different country conditions, especially in the context of the weak public sector capacity found in most low-income countries. Moreover, most PRSs pay too little attention to infrastructure, rural development, and other areas with substantial growth and poverty reduction potential. External partners have supported PRS formulation, and changes in donor processes are evident—but donors have not specifically defined whether and how they should change the content of their programs to reflect PRSs.

The review also assessed the World Bank's role in the PRS initiative. Most problematic in OED's view, the Bank's process for presenting PRSs to its Board undermines country ownership. The Joint Staff Assessment mechanism was designed to provide the Bank and IMF Boards with an assessment of the soundness of a country's PRS as a basis for support; it was also designed to provide feedback on how a PRS could be improved over time. But OED found these assessments to be of mixed analytic quality and coverage, with limited awareness of their findings and recommendations among stakeholders.

On the positive side, OED found that the World Bank has effectively supported national stakeholders in PRS formulation, that Bank lending since the launch of the initiative has increased for countries with PRSs completed through 2003, and that economic and sector work has added value to country planning, with poverty assessments and public expenditure reviews useful for PRS formulation. OED also found that the Bank has promoted PRSs as a coordinating framework for donor activities—although apparently with limited success, in light of the evidence.

Going forward, OED recommends that the World Bank make changes in:

- *PRS content*, by helping countries address key analytic gaps about the poverty impact of policies and programs.
- *PRS process*, by emphasizing ways of improving country processes for planning, implementing, and monitoring public actions geared toward poverty reduction; placing less emphasis on completion of documents; and developing a review procedure that is more supportive of ownership and more effectively linked to decisions about the World Bank's program.
- *Partnerships and alignment*, by assisting countries in using the PRS as a partnership framework and encouraging government-led aid management and selectivity; and better integrating its assistance with the efforts of other partners.

Source: OED 2004e.

Of the LICUS, 14 are also members of the AfDB, 9 of the ADB, 3 of the EBRD (of which 2 are also members of the ADB), and 1 (Haiti) of the IDB. Responding to the African Development Fund's Deputies in the context of the recent replenishment process, the AfDB is preparing a comprehensive strategy for institutional engage-

ment, with implementation of the strategy to begin later this year. In the meantime the AfDB is continuing to implement its Post-Conflict Country Facility, approved by its Board in July 2004.⁶

The ADB is developing an approach for working with fragile states in the context of the Asian Development Fund's IX replenish-

ment. The approach will emphasize highly focused interventions at points where assistance can be used effectively, with an increased emphasis on strategic partnerships. Other issues under consideration include the importance of an initial assessment of absorptive capacity, use of stakeholder and partner analysis to refine interventions, instruments that allow flexibility in situations where existing institutions are essentially nonfunctional, and the potential role of subregional cooperation.

Middle-income countries. Some 2.9 billion people live in middle-income countries, which range in size from the very small, such as Dominica (with less than 100,000 people), to the very large, such as China (with almost 1.3 billion people). Relative to low-income countries, middle-income countries have greater public and private sector capacity, more resources, and better prospects, although there are large variations across middle-income countries. Though they have less poverty than low-income countries, middle-income countries still have too much: They are home to almost 30 percent of all people living on less than \$1 a day and 40 percent living on less than \$2 a day.

Few middle-income countries are bound by the PRS process, as they are generally not eligible for concessional funding.⁷ But they have long been in the development driver's seat and are articulate in expressing their views. Most set out clear plans for growth and poverty reduction in the context of their annual budget and planning documents, which in turn provide the starting point for their dialogue with multilateral development banks (and donors). Multilateral development banks help middle-income countries through a combination of knowledge, lending, and financial services tailored to each country's needs and circumstances. They strive to ensure that their country strategies respond to the countries' diverse needs, as covered by their mandates. By supporting policy and institutional reforms, they aim to catalyze private investment and support from

other development partners. The access to international capital markets of many middle-income countries reinforces the banks' shared premise that their job is to add value that private markets cannot or will not—crowding in private sector support, not crowding it out—a factor to be considered when reviewing trends in lending and net transfers.

COUNTRY STRATEGIES

The country strategy process forms the basis for multilateral development banks' support for country development, and in turn for the MDGs. In each case the process begins with the country's own priorities—as expressed in PRSs or similar national strategies in low-income countries (including plans for Early Transition Countries in the EBRD) and country plans in middle-income countries. The process takes into account participatory approaches and performance under earlier strategies and reflects diagnostic analyses by the country, the bank, and partners. Options for future support are set out, reflecting the likelihood of success in contributing to sustained growth, the MDGs, and other development goals. Throughout this process, the banks' financial, analytic, and capacity building support is customized to country needs, aimed at ensuring the most effective package in light of the priorities articulated by the country.

All multilateral development banks have evaluation departments that assess their strategies upon program completion, affording opportunities to test and validate results—including with respect to the banks' contributions to the MDGs—and lessons for the future (table 6.1). A recent OED retrospective concluded that roughly two-thirds of the 70 World Bank country assistance programs it had reviewed over the past decade had satisfactory outcomes, with tailoring to country contexts, strong knowledge bases, and realistic policy outlooks considered critical success factors.⁸ Conversely, the absence of these factors was an important ingredient in the third of the programs judged unsatisfactory.

TABLE 6.1 Country strategies of multilateral development banks

| Issue | AfDB Country Strategy Paper | ADB Country Strategy Paper | EBRD Country Strategy | IDB Country Strategy | World Bank Country Assistance Strategy |
|---|--|--|--|---|---|
| Basis for strategy's country vision and objective | PRS for low-income countries; national development plans for middle-income countries | PRS or national strategy for low-income countries; country documents for middle-income countries | PRS or national strategy for Early Transition Countries; country documents for middle-income countries | PRS for low-income countries; country documents for middle-income countries | PRS for low-income countries; country documents for middle-income countries |
| Frequency of bank strategy | Every 3 years | Every 3–5 years | Every 2 years | With every new government | Every 4 years |
| Progress report | Annual | Annual | Annual | Annual | Every 2 years |
| Results-based strategy? | Being launched in 2005 | 1 pilot completed; 2 under way | No | No | 7 pilots completed; assessment under way |
| Strategy completion report? | To be launched with results-based strategies | Under consideration as part of results-based strategies | No, but lessons reflected in new strategies | No, but lessons reflected in new strategies | 7 completed; discussed with Board |
| Independent evaluation ^a | 5 completed; 4 under way | 8 completed; 3 under way | 2 completed | Conducted for every strategy; 17 completed | Conducted every 8–10 years; 70 completed |
| Overall strategy retrospective? | Under way | Under consideration | Every 5 years | No | Every 3–4 years |

Source: Staff of the Big 5 multilateral development banks.

a. Country program evaluations carried out by the banks' independent evaluation departments are available at www.afdb.org; www.adb.org; www.ebrd.com; www.iadb.org; and www.worldbank.org.

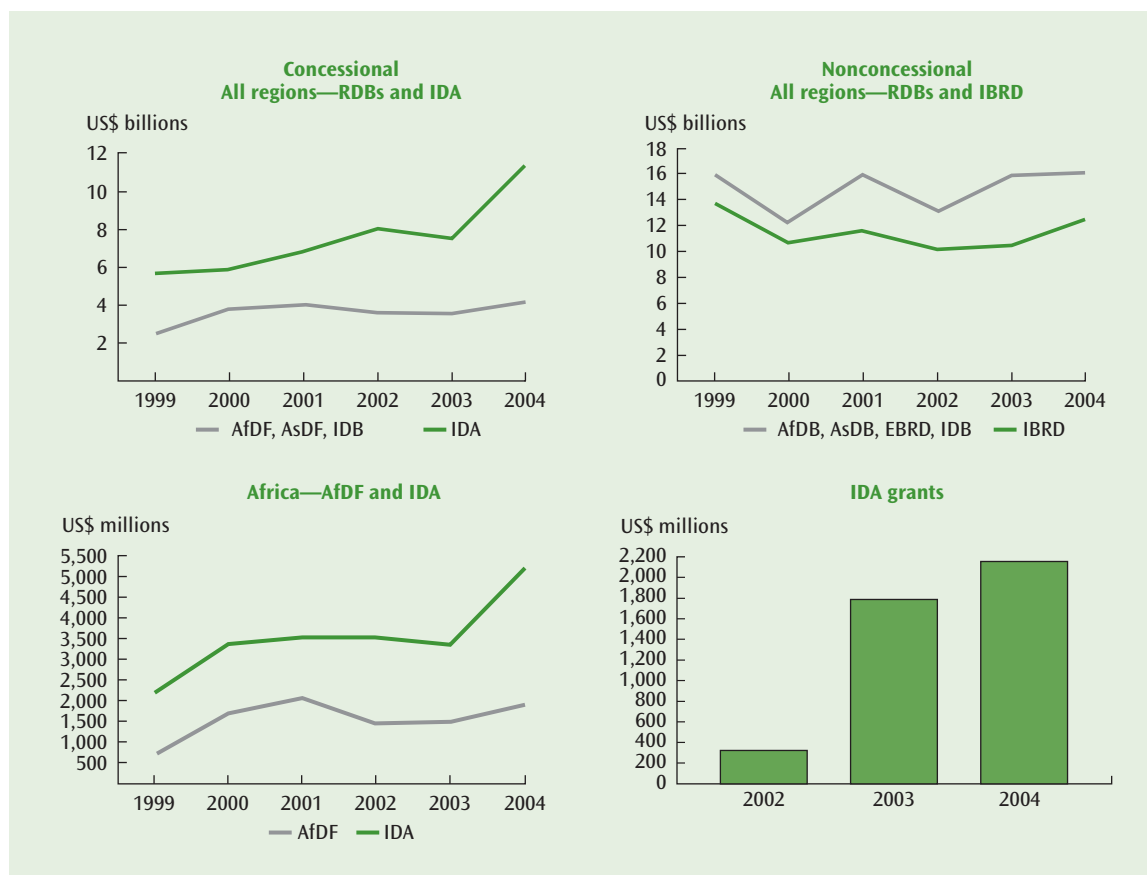
Looking to improve their effectiveness, the banks are increasingly focused on results, with the AfDB, ADB, and World Bank piloting results-based strategies. The aim is to sharpen the relevance of the banks' country support programs by focusing on interventions with the greatest expected impacts and to improve their implementation through enhanced monitoring and evaluation using clearly identified indicators and baselines. The EBRD's country strategies do not have results indicators as such, but they do contain transition indicators, which are also included in unit business plans. The IDB's Office of Evaluation and Oversight (OVE) has consistently identified the need for better "evaluability" of

the bank's country strategies and projects, including better results frameworks in country strategies and indicators for measuring progress.⁹

FINANCIAL SUPPORT

Multilateral development banks provide financial support through lending, grants, and debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative.

Lending. Lending by multilateral development banks serves two development purposes: financial, and policy and institutional. Recent growth in concessional lending commitments has been driven by IDA, with support for Sub-Saharan Africa growing

FIGURE 6.2 Trends in lending and grant commitments by multilateral development banks

Source: Staff of the Big 5 multilateral development banks.
 Note: Data are for calendar years.

sharply in 2000 and 2004, and for East and South Asia in 2004 (figure 6.2). Commitments for nonconcessional lending have been more volatile. World Bank lending commitments have fluctuated narrowly, following a sharp correction from a spike in policy-based lending in 1998–9 that reflected turbulent conditions in global financial markets for many emerging market economies. For the regional development banks, trends in nonconcessional lending have been driven by substantial annual variations in commitments by the IDB, largely associated with emergency lending, and strong growth in EBRD commitments, in part, reflecting the appreciation of the euro, in which many loans are denominated.

For many years there was a proliferation of lending instruments among the multilateral development banks, responding to specific requests from shareholders and clients. More recently, attention has focused on the two main kinds of instruments—project-based and policy-based lending—with the others recognized as variations on these two.¹⁰ All the banks offer project-based lending (or investment lending, as it is often called). The EBRD does not offer policy-based lending, but it does have a substantial program in equities, equity funds, and guarantees.

Though there are many specific differences between project-based and policy-based lending, they are fundamentally distinguished by the rules governing the use of the funds they

provide, with disbursements of project-based lending historically tied to complex requirements for procurement, financial management, and environmental assessment, and policy-based lending disbursed in a more untied manner, albeit associated with policy conditionality.¹¹ Recent reforms have narrowed the differences between the two instruments. Table 6.2 summarizes the status quo in each of the banks, illustrating the trend toward greater flexibility for both project-based and policy-based lending:

- For project-based lending, reforms are moving the banks in the direction of sectorwide approaches (SWAs) and related approaches, allowing greater reliance on country systems—where the systems meet agreed standards—and in turn encouraging the banks to do more to help countries meet those standards.
- For policy-based lending, reforms are moving the banks toward streamlining conditionality, relying more on country ownership and selectivity to align flows of financial resources with the policies and institutions needed to ensure their effective use—and in turn encouraging the banks to help countries design and implement the needed reforms, often in advance of actual lending.

Grants. Multilateral development banks have long provided grant facilities, whether funded out of net income or donor funds. Traditionally, these have taken the form of small grants to countries, public agencies, and private entities to carry out specific tasks. Such grant funding continues at all the banks—including on a large scale through the IDB's Multilateral Investment Fund (MIF), which together with its partners has directed more than \$2 billion in technical assistance and investment projects for private sector development. Replenishment negotiations for MIF II are expected to be finalized in April 2005, with a clear focus on poverty reduction and economic

growth and an enhanced focus on measurable results.

Grant funding to public agencies took a giant step under the IDA13 replenishment, allowing for 18–21 percent of the resource envelope to be used for grants. The African and Asian Development Funds have taken similar approaches. Under the recently completed IDA14 replenishment, concerns about debt sustainability led to the expansion of grants and mainstreaming of their use for eligible countries, based on the World Bank–IMF debt sustainability framework (box 6.3; see also figure 6.2). Grants under the African Development Fund X replenishment will follow the same approach, with the fund using its own performance assessment ratings for eligible member countries. Similarly, the grants program under the Asian Development Fund IX replenishment aims to reduce the debt burden of development finance in the region's poorest countries, help poor countries accelerate their transition from postconflict situations to peace and stability, combat HIV/AIDS and other infectious diseases, and undertake priority technical assistance.

The HIPC Initiative and debt sustainability. Along with the World Bank and IMF, the regional multilateral development banks have participated in the HIPC Initiative. The estimated combined cost to AfDB and IDB broadly equals the cost to the IMF and is half the size of the cost to the World Bank. The ADB is agreeable, in principle, to consider HIPC relief; however, none of its members has requested it.

Cooperation on debt relief and sustainability has taken on a new dimension, with the African and Asian Development Funds and IDA starting to allocate grants and credits based on debt sustainability considerations, and with announcements by the G-7 and others of their interest in further debt relief. Plans are under way for the regional development banks to collaborate on debt sustainability analysis—using the

TABLE 6.2 Lending instruments of multilateral development banks

| | AfDB | ADB | EBRD | IDB | World Bank |
|---|--|--|-----------------|---|---|
| Project-based lending | | | | | |
| Available? | Yes | Yes | Yes | Yes | Yes |
| Share of commitments in fiscal 2004 (percent) | 77 | 81 | 81 ^a | 71 | 78 (IDA) 61 (IBRD) |
| Recent reforms | Sectorwide approaches (SWAps) | SWAps; scope for use identified | | SWAps; liberalization of expenditure eligibility | SWAps; liberalization of expenditure eligibility |
| Forward agenda | Simplification | Developing similar proposals on liberalizing expenditure eligibility | | Eliminating minimum disbursement periods and “matrix” for foreign exchange financing; ^b increasing use of country systems | Increasing use of country systems in procurement; piloting use of country systems for environmental and social safeguards; reviewing conditionality |
| Policy-based lending | | | | | |
| Available? | Yes | Yes | No | Yes | Yes |
| Share of commitments in fiscal 2004 (percent) | 23 | 19 | | 29 | 22 (IDA) 39 (IBRD) |
| Statutory limit on amount or share (percent unless otherwise indicated) | 25 | 20 | | Under New Lending Framework (NLF); ^b ordinary capital, \$9.8 billion in 2005–08; Fund for Special Operations (FSO), \$100 million a year | Shares monitored regularly ^c |
| Recent reforms | Development budget support loan policy | Scope for use of program-based approaches identified | | None | From adjustment lending to development policy lending |
| Single-tranche operations permitted? | Yes | Yes | | Yes for ordinary capital, under NLF; ^b No for FSO | Yes |
| Stance on conditionality | Streamlined: fewer and simpler | Country ownership essential | | None explicit | Minimize legally binding conditions |
| Forward agenda | Further streamlining of conditionality | Review of program-based approaches under way | | NLF eliminates limits on disbursement periods ^b | Review of conditionality under way |

Source: Staff of the Big 5 multilateral development banks.

a. Remainder is equities, equity funds, and guarantees.

b. Pending approval by Board of Governors.

c. With regard to IDA, the IDA14 Deputies noted that Development Policy Operations (DPOs) should remain below 30 percent of total IDA commitments during the IDA-14 period. Management will monitor annually the overall share of DPOs in IDA countries. If it is projected that it could exceed 30 percent for any year, management will report that projection to the Executive Directors for review and guidance.

BOX 6.3 Grant financing in the African and Asian Development Funds and IDA

Recent empirical research has emphasized the need to fully consider the specific factors that affect debt sustainability in low-income countries. It calls for country-specific external debt thresholds that take into account the importance of policies and exogenous shocks. This recommendation emerges from the research finding that the risk of debt distress in low-income countries is inversely correlated with the quality of policies and institutions in these countries, and positively correlated with the severity of shocks that may affect them. This research has also formed the basis for a new joint World Bank–IMF debt sustainability framework for low-income countries. Additional analysis of the risks associated with exogenous shocks and how country responses might be strengthened is under way—with due consideration being given to the role to be played by the IMF and other partners.

African Development Fund. During the recently concluded discussions for the African Development Fund X replenishment, donors recommended that terms of financing be based on analyses of country prospects for debt sustainability, and it was agreed that eligibility for the fund's grants will be based on the World Bank–IMF debt sustainability framework. This means that eligibility will be guided by the same policy-dependent external debt thresholds as used for IDA14, although the African Development Fund will continue using its own country policy and institutional assessments to evaluate the performance of its member countries. Meanwhile, the share of grants has been more than doubled under this replenishment, to nearly 45 percent. Under the African Development Fund IX replenishment, as under IDA13, the grant share was limited to 18–21 percent of total resources and covered multiple objectives.

Asian Development Fund. Negotiations for the Asian Development Fund IX replenishment were concluded before the IDA14 and African Development Fund X negotiations were finalized. The Asian Development Fund's IX grants program is similar to the IDA13 and African Development Fund IX programs, incorporating a 21 percent limit on the overall grant share and broad coverage, including grants for debt-vulnerable poorest countries, postconflict countries, HIV/AIDS operations, and priority technical assistance. Donors recommended that the Asian Development Fund IX grants program be assessed during the fund's midterm review and that the fund coordinate closely with the World Bank and IMF on debt sustainability issues.

IDA. Participants in the IDA14 replenishment discussions recommended that debt sustainability be the primary determinant of the program's grant and credit mix. They agreed that IDA should adopt the Bank–IMF debt sustainability framework for low-income countries as the analytic basis to link debt sustainability and grant eligibility in IDA14. Therefore, unlike in IDA13, grants in IDA14 will no longer be allocated according to multiple, special-purpose eligibility criteria. In IDA13 the overall grant share was expected to fall between 18 and 21 percent of the total resource envelope, covering postconflict countries, countries with per capita gross national income below \$360 a year, debt-vulnerable poorest countries, and HIV/AIDS and natural disaster relief projects. Under the new grant allocation system the share of grants in total IDA financing will emerge from a country by country analysis of the risk of debt distress. The resulting overall grant share is expected to be around 30 percent.

Sources: Kraay and Nehru 2004; IMF and World Bank 2004a; African Development Fund 2004; Asian Development Fund 2004; World Bank 2005f.

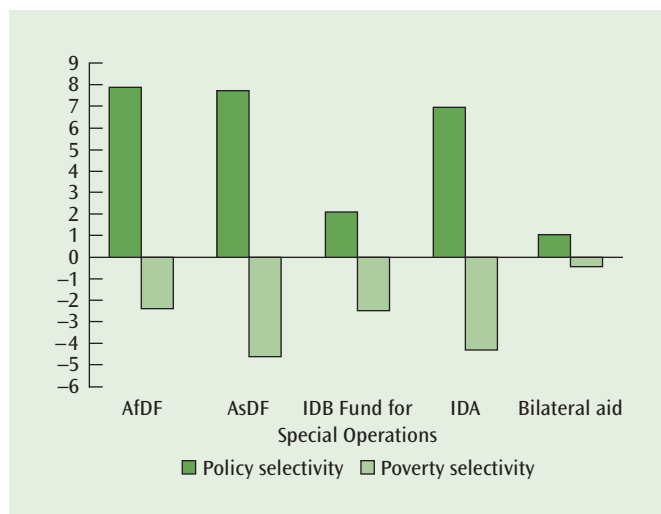
new debt sustainability framework (see box 6.3)—to provide a common platform for judgments on the mix of financial assistance provided to low-income countries. This also moves in the direction previously recom-

mended by OED, which had found that the World Bank and its partners did not always calibrate the size and financing of their assistance to recipients' debt carrying capacity.¹²

Cross-country determinants of financial support. While within-country lending and other resource allocation decisions are determined through country strategy and programming processes, cross-country allocations are determined differently. To allocate their scarce concessional funds in low-income countries, the four banks with concessional windows—the AfDB, ADB, IDB, and World Bank—follow broadly similar performance-based allocation processes. Country policy and institutional assessments are carried out by staff as part of an allocation formula that also takes into account population, degree of poverty, and track record for effective use of multilateral development bank funds. As discussed elsewhere in this report, the criteria used by the banks are converging, as are the scores for countries rated by two banks.

Recent research has examined the selectivity of the concessional assistance provided by the multilateral development banks and other agencies. The findings suggest that selectivity in aid allocation by the banks, as measured by the policy and poverty elasticities of their aid, is generally high—both absolutely and relative to bilateral donors—and has held up well in recent years, with a modest trend toward further improvement (figure 6.3; see chapter 5, table 5.1, for more details on the calculation of these elasticities). The Asian Development Fund's allocations are the most targeted to the poor countries within its region, followed by IDA's. On policy selectivity, the African Development Fund is the most selective for countries with good policies and institutions within its region, followed by the Asian Development Fund and IDA—which the research suggests are also well aligned with policy performance. Meanwhile, the performance-based allocations of the banks' concessional financial resources preclude substantial financial allocations to low-income countries under stress (LICUS), where the banks continue to engage through focused capacity building to help restore essential state functions and through social

FIGURE 6.3 Policy and poverty selectivity of aid from multilateral development banks, 2003



Sources: Dollar and Levin 2004; World Bank staff estimates.

service delivery to the most vulnerable groups, in some cases relying on trust fund support.

For middle-income countries the level of the banks' support is determined by institutional financial constraints, country creditworthiness considerations, and country demand factors. In recent years—especially in the context of the negative net transfer positions of the ADB, IDB, and World Bank—country demand has received much attention from the banks, reflecting “cost of doing business” concerns cited by developing country members as a factor discouraging them from borrowing from the banks for infrastructure and related investments,¹³ along with other constraints such as limited fiscal space. The banks are implementing broadly similar reforms to respond to these concerns, which are also being applied to low-income borrowers. Being developed under different names—the New Partnership Framework in the AfDB, New Lending Framework in the IDB, and Middle-Income Country Action Plan in the World Bank—these initiatives have involved a healthy rethinking of many bank processes, leading

them toward more risk-adjusted approaches that are also likely to enhance the efficiency of operations even as they contribute to country capacity building through the aforementioned increased attention to country systems.

ANALYTIC AND CAPACITY BUILDING SUPPORT

The multilateral development banks also contribute to country development through their analytic and capacity building support—both in terms of their inputs into the selection, design, and implementation of lending operations and in terms of the more fundamental challenge of helping countries manage their development efforts, regardless of the financing source. While the banks' analytic work is important for all developing member countries, it is relatively more important for the countries at the opposite ends of the performance spectrum, given the relatively smaller financial role played by the banks in those countries: for middle-income countries, targeted analytic support adds value that can catalyze private financing; for LICUS, more basic capacity building support is key. Future *Global Monitoring Reports* could usefully quantify the banks' contributions in the various areas of analytic and capacity building support. But this will require further work, including agreeing among the banks on appropriate metrics and monitoring tools.

Analytic work. Economic, technical, and sector work underpins the multilateral development banks' policy dialogue with member countries—on policies, strategies, lending, and capacity building support. In its 10-year retrospective on 70 World Bank country programs, the Bank's Operations Evaluation Department (OED) found that economic and sector work was critical for good outcomes, and that successful country programs were associated with timely analytic work.¹⁴ It also concluded that the absence of analytic work leads to unsatisfactory project outcomes, and

that such work can be an effective vehicle for engaging governments in policy dialogue and informing civil society. Though the review was focused on World Bank programs, its broad conclusions about the importance of analytic work are echoed in the evaluation reports of the other multilateral development banks.

- The AfDB's analytic work is being strengthened, building on the recommendations of an independent external evaluation, which emphasized the work's central importance to the Bank's policy dialogue, country strategies, and lending operations.¹⁵ To that end, the Bank has introduced the Country Governance Profile as a new diagnostic tool to systematically identify governance-related structural and institutional weaknesses and inform participatory dialogue. In 2004 such profiles were prepared for Benin, Cameroon, Chad, Malawi, Senegal, and Swaziland. The AfDB is also developing Private Sector Country Profiles, setting out its private sector strategies for member countries and building on investment climate assessments and other diagnostic work.
- Analytic work is the basis for all ADB policy discussions, strategy formulation, and preparation of lending and nonlending programs. Macroeconomic and poverty analyses and assessments on gender, governance, private sector development, the environment, and other areas provide the necessary background to formulate the Bank's country strategies, while detailed roadmaps steer operations in individual sectors. The ADB has carried out investment climate surveys in selected Asian countries, in partnership with the World Bank.
- The EBRD's analytic work is mostly conducted as part of project due diligence (for example, market studies and least cost analyses). To support its policy dialogue on the investment climate, the EBRD (together with the World Bank) has undertaken periodic Business Environment and

Enterprise Performance Surveys (BEEPS). The next round of BEEPS is planned for 2005, covering all 26 EBRD borrowers—and, as noted below, the survey is to be extended to all developing countries under a joint initiative of the multilateral development banks. A parallel EBRD-only exercise will focus on Early Transition Countries. The EBRD's knowledge transfer activities focus on market economy skills for the private and public sectors and on results-based demonstration projects.

- The IDB's country strategies benefit from analytic work carried out in partnership with governments and other development partners. Sector policy notes and, increasingly, debt sustainability assessments (in both HIPC and other countries) are becoming an integral part of the country strategy preparation process, albeit within a highly constrained administrative resource envelope—as reflected in the findings of the country program evaluations of the Bank's Office of Evaluation and Oversight (OVE), which has identified underinvestment in economic and sector work as a factor hindering the policy dialogue at the sectoral and country levels.¹⁶
- The World Bank has adopted a partnership approach to economic and sector work. Carrying out its analysis with borrowers helps promote capacity building while grounding the analysis in country conditions. Sharing the work with bilateral and multilateral partners helps contain costs by reducing duplication and promoting harmonization. Much of the Bank's diagnostic work on country fiduciary systems is carried out with partners, a trend also observed in the preparation of Poverty and Social Impact Assessments and Investment Climate Assessments. Growth in the Bank's economic and sector work has begun to level off from the rapid rates recorded several years ago when the Bank was overhauling its economic and sector work program. Sector work on human and social development and social protection, the rural sector and agricul-

ture, and other discretionary topics is gaining ground relative to fiduciary diagnostic studies as gaps in the latter have increasingly been filled. But the status of country fiduciary systems, assessments, and knowledge gaps will continue to require careful attention—especially given the capacity building role played by the multilateral development banks in helping countries implement the financial accountability systems needed to absorb higher aid levels.

Capacity building. Capacity building constitutes the quintessential challenge of development assistance, and support for it is embedded in almost all multilateral development bank activities. As discussed later in this chapter, support to build capacity in statistics and managing for results is central to the results agenda of the multilateral development banks. Of equal and complementary relevance to this report—given the recommendations of earlier chapters—is support for enhancing countries' absorptive capacity in managing and accounting for aid (and other resource) flows, in view of the need for increased volumes if the MDGs are to be met, improving capacity for private sector-led growth, and trade capacity building—particularly for trade facilitation, financial services, and transport infrastructure.

- *Aid management.* Increasing aid absorptive capacity requires credible country systems for accounting for and managing the money—including, importantly, fighting corruption. This involves arm's-length financial audits, competitive procurement, and accountable public expenditure management. All the multilateral development banks are working in these areas, with lessons learned shared through the Working Group on Governance, Anti-Corruption, and Capacity Building. Meanwhile, as part of the shift from enclave projects to SWAps, budget support operations, and broader lending support vehicles, the banks (and others, such as the U.K. Department for International Development, European

Commission, and IMF) have been helping to strengthen country systems for managing public funds from all sources, using diagnostic instruments such as Country Financial Accountability and Procurement Assessments, Public Expenditure Reviews, and HIPC Public Expenditure Management Assessment and Action Plans. All these efforts focus on the supply side of aid management and have generally received satisfactory marks in evaluation reviews. In a recent review of anticorruption activities, the World Bank's OED also stressed the importance of underpinning such efforts with demand-side initiatives—geared to fostering public support among a wide spectrum of stakeholders.¹⁷

- *Investment climate.* The multilateral development banks' approach to private sector development has evolved over time, from support for credit institutions to a greater focus on macroeconomic policies, and now to a greater focus on the quality of a country's investment climate. Institutions—including the “rules of the game”—and associated capacity building efforts are seen as key, and all the banks have major programs of support and analysis, including extensive investment climate surveys.¹⁸ As noted, the banks also recently announced their intention to extend the BEEPS currently used by the EBRD and World Bank in Europe to all developing countries, opening a new window into the conditions faced by the private sector in different country circumstances. Such country-specific information is especially valuable given multilateral development bank evaluation findings on investment climate assessments, highlighting the need for greater knowledge of country-specific constraints and opportunities. Going forward, the multilateral development banks need to ensure that this information—and that emerging from the investment climate assessments and Doing Business surveys—is fully reflected in the design and supervision of their country programs.

- *Trade facilitation.* The banks are active in facilitating trade, but more needs to be done, especially to coordinate better—avoiding duplication and gaps in country coverage and promoting synergies. The ADB has been supporting customs harmonization and streamlining and anti-money laundering and other measures, focusing on the Greater Mekong Subregion and Central Asia. The EBRD—using donor funds in conjunction with its Regional Trade Facilitation Programme—has been providing training and advisory services to help banks in countries such as Armenia, Azerbaijan, Georgia, and the Russian Federation improve their international trade finance services.¹⁹ The IDB provides direct loans and guarantees to local financial institutions to support their trade finance activities, including through its recently established Regional Trade Finance Facilitation Program, while its Multilateral Investment Fund supports the modernization of customs facilities and border crossings throughout Latin America and the Caribbean. Focusing on diagnostic work, in 2004 the World Bank carried out Trade and Transport Facilitation Audits in Benin, Chad, Guinea, Malawi, Mozambique, Rwanda, Tanzania, and Zambia—as part of an intensive program of support for Sub-Saharan Africa—as well as in Bangladesh, the Dominican Republic, and Tajikistan. It also approved 16 new projects with trade facilitation components, with commitment levels more than doubling over the previous year. Noting the marked shift in World Bank support from adjustment to trade facilitation during the 1990s, its OED has launched an evaluation of Bank assistance on trade; the findings should be available for next year's *Global Monitoring Report*.

Sectoral, Regional, Global, and Research Programs

The multilateral development banks' country focus is supported by four complementary activities, considered in turn below. First are

the banks' sectoral and thematic strategies and programs. Second are their regional programs—for addressing regional issues and regional public goods. Third are their global programs—for addressing global issues and global public goods. Fourth is their research, itself an international public good.

SECTORAL AND THEMATIC STRATEGIES, PROGRAMS, AND OUTCOMES

As the banks have become increasingly country focused, they have relied on sectoral and thematic strategies to guide country strategy formulation, program and project design, and implementation, building on the lessons of operational experience and research. These strategies set out the banks' sectoral and thematic modalities for helping developing member countries achieve their objectives. Of course, to fully understand the banks' different sectoral and thematic orientations, the evidentiary picture needs to go beyond statements of strategies and intentions. It must also include analysis of actual interventions, assessing how underlying sectoral and thematic strategies have been reflected in country strategies and programs—as well as in the banks' sectoral and thematic “results,” once their interventions have worked their way through country systems.

Neither of these other dimensions is easy to address across the multilateral development banks with current data. What is sketched below is the very beginning of an analysis that could in due course be linked more directly to the results measurement initiatives being developed by the banks in other contexts. Taking it further in future *Global Monitoring Reports* will require more in-depth work, including investment by the banks in harmonizing their sectoral and thematic classifications for lending and analytic work.

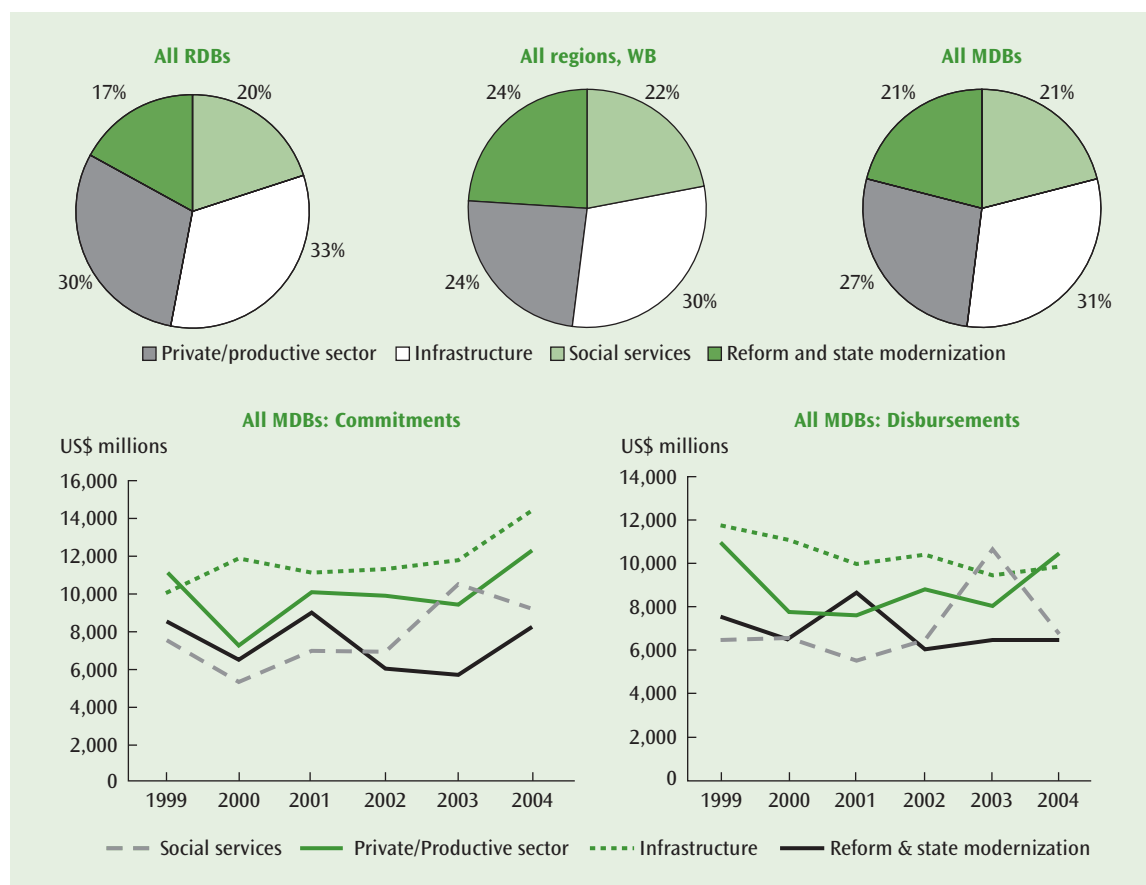
Strategies. In line with the themes of this report, all the banks' strategies stress the importance of private sector-led growth, infrastructure, governance, and—with the exception of the EBRD—delivery of social services. Specifics include:

- The AfDB's sectoral policies and strategies cover agriculture and rural development, the social sectors (especially education and health), fighting HIV/AIDS, integrated water resources management, water and sanitation, infrastructure, private sector development, gender and the environment, governance, finance, and regional economic cooperation and integration.
- The ADB's sectoral and thematic policies and strategies set out the Bank's institutional priorities, directions, and guidance to staff, including for safeguards and gender, which were updated last year. At that time the Bank also reviewed its overarching poverty reduction strategy—assessing progress, evaluating the conceptual framework, and addressing implementation challenges—and enhanced its country focus through alignment with national PRSs, introducing capacity development as a new thematic priority and integrating timebound indicators in all operations.
- The EBRD's sector strategies cover its main activity areas—agribusiness, energy, financial sector, microfinance and small and medium-size enterprises, municipal infrastructure, property and tourism, transport, and telecommunications—setting out the approaches that must be followed in its operations.
- The IDB's “2+4+1” program focuses on seven sector strategies developed in 2002–3 in the priority areas of the Bank's institutional strategy.²⁰ The seven strategies cover sustainable economic growth, poverty reduction and promotion of social equity, modernization of the state, competitiveness, social development, regional integration, and the environment. In addition, there is an implementation plan for the strategies, including a series of output indicators, designed to help focus Bank actions and enhance their development impact.
- Among the World Bank's many sector strategies, the most relevant for this report are those that focus on private sector-led growth in manufacturing, agriculture, and services, for which the Bank Group—

drawing on the synergies across the Bank, International Finance Corporation (IFC), and Multilateral Investment Guarantee Agency (MIGA)—can provide full-service support; infrastructure, through the Bank Group Infrastructure Action Plan, which seeks to revitalize this critical sector by internalizing recent innovations involving pragmatic approaches, output-based aid, public-private partnerships, and so on; governance, where the focus is on institutional development through sustained reform, effective public financial management, transparent processes, and anticorruption efforts; and the delivery of social services, especially for primary education and health care.

Lending shares and trends. Sectoral lending shares across the multilateral development banks are summarized in figure 6.4. Measured by disbursements over the 1999–2004 period, infrastructure is the largest sector for the multilateral development banks as a group. It is also the largest sector for the ADB and IDB individually, and for the World Bank overall and in East Asia, South Asia, and Europe and Central Asia. For African and Latin American and Caribbean borrowers from the World Bank, social sector lending is the largest. While new commitments for infrastructure have been increasing, disbursements have been declining—reflecting the lagged effect of developments in the 1990s, when infrastructure commitments fell because of concerns about

FIGURE 6.4 Big 5 multilateral development banks: sectoral distribution of lending, 1999–2004



Source: Staff of the Big 5 multilateral development banks.
 Note: Data are for calendar years. Sectoral classification of MDB operations is not fully comparable across the institutions, indicating the need for better harmonization of the classification systems to provide a firmer basis for comparison and analysis.

environmental risks, fiscal space, and crowding out of the private sector, which was expected to play a larger role than materialized. With infrastructure commitments on a recovery path, disbursements will also recover, albeit with a lag.

Regional differences in bank support warrant further analysis—especially between Asia (where ADB and World Bank sectoral shares are similar) and Latin America and the Caribbean (where IDB and World Bank sectoral shares are different). Further analysis is also warranted of the different approaches taken by the banks to lending support for state reform and modernization, which constitutes a much larger share of disbursements by the World Bank than by the regional development banks. Such analyses could be undertaken for the next *Global Monitoring Report*, including trends in banks' analytic work across sectors and countries.

Results and evaluations. The methodological challenges of going beyond lending tallies to assess the multilateral development banks' sectoral contributions and results are not insignificant, involving complex methodological issues on causation and attribution. Adopting a pragmatic approach, the banks are beginning to measure their sectoral outputs more systematically—for example in the context of the IDA14 Results Measurement System (discussed later in this chapter). But it is still early in this process, and much work needs to be done to see how to move credibly from measuring bank-supported sectoral outputs to outcomes.

Whatever solution ultimately emerges, it is likely to rely heavily on the findings of the banks' independent evaluation departments, which have carried out a number of relevant reviews. These generally paint a mixed picture, in which the banks are found to have made contributions in infrastructure, private sector development, governance, and the social sectors, but where performance could have been better—especially at it has affected country, program, and project outcomes, institutional development, and sustainability. While individual findings vary, three themes run through many of the banks' sectoral and thematic evaluations:

- The need for clearer evaluability at the design stage, with the intended results and measurement platform (including indicators and baselines) clearly set out along with the instruments and modalities of implementation.
- The importance of analyzing the political economy of reform—and the incentives of key players in sector reform—to allow the strategies to take those factors into account and be more likely to lead to sustained implementation at the country level.
- The importance of providing country typologies for guiding localization, so that the strategies can be more easily customized to country conditions.

REGIONAL PUBLIC GOODS AND PROGRAMS

The multilateral development banks support a number of regional and subregional programs and initiatives in collaboration with other partners, as highlighted below. Especially important for the regional banks, given their regional mandates, these programs are a mix of regional public goods programs, including for regional infrastructure projects, and multicountry programs.

- Regional cooperation and integration are key areas for the AfDB, including transboundary water rights and river basin development. Support has been provided for capacity building for regional economic communities, development of regional infrastructure, creation of an enabling regional environment for the private sector, promotion of sustainable development at the regional level, and the fight against HIV/AIDS. The AfDB supports the NEPAD Secretariat, the African Union, the Global Environment Facility (especially on the development of the Environmental Action Plan for Africa), and the Africa Regional Coordination Unit for the UN Convention to Combat Desertification.
- In Asia the Greater Mekong Subregion Program has long been a prominent area of ADB support, promoting cross-country

cooperation in a number of sectors through investments in infrastructure, policy initiatives, and institutional mechanisms.²¹ Other regional programs cover the Pacific Islands, Central Asian regional economic cooperation, South Asian subregional economic cooperation, the Indonesia, Malaysia, and Thailand growth triangle, and the Brunei, Indonesia, Malaysia, Philippines growth area. The Asian Development Bank also implements technical assistance projects and loans supporting regional cooperation. Areas of support range from infrastructure (transport, energy, trade facilitation) to health (combating infectious diseases), environment, urban development, financial and capital market development, and capacity building in public sector management, including managing for development results. Particularly noteworthy is the collaboration between the ADB and IDB on regional public goods—including their joint sponsorship of the recent Tokyo Forum on the Operational Dimensions of Supplying Regional Public Goods through Regional Development Assistance—and ADB leadership on tsunami-related work, including the recent high-level conference it organized²² and its pledged support for an interim tsunami warning system.

- The EBRD administers a number of regional programs supporting private sector development, including for trade facilitation and small and medium-size enterprise development. These programs include a series of country-specific subprojects, which are monitored and processed as country-level operations. In addition, a growing number of projects cover more than one country (for example, regional equity funds, projects in which sponsors from one country invest in another, and energy trade).
- The IDB's approach to regional issues has long focused on facilitating cross-fertilization on policy issues. Its Regional

Policy Dialogue provides a forum for policymakers to discuss issues of common concern in its seven network areas (education, natural disasters, environment, central banks and finance ministries, poverty and social protection, public policy management, and transparency), with 15 regional and subregional meetings in 2004. Its Regional Technical Cooperation Program has focused on promoting modernization of the state, supporting the private sector through competitiveness strengthening, and addressing social issues of development. Finally, responding to the growing demand for regional public goods over the past decade to support country reform efforts, the IDB's Initiative for the Promotion of Regional Public Goods is now operational. Since its approval in March 2004, it has received 35 proposals for an amount close to \$64 million. The initiative will provide up to \$10 million annually to help finance selected projects.

- The World Bank supports a large number of regional programs and initiatives, in cooperation with the other multilateral development banks and relevant partners. Examples of direct relevance to the priorities set out in earlier chapters include the Trade and Transport Facilitation in Southeast Europe Program, which promotes more efficient and less costly trade flows and provides customs standards compatible with the European Union; the Latin American regional initiative on infrastructure, in cooperation with the IDB; and the strategic framework for IDA assistance to Africa in cooperation with the AfDB and other partners (box 6.4).

GLOBAL PUBLIC GOODS AND PROGRAMS

Like their regional programs, multilateral development banks' global programs are a mix of global public goods programs and multicountry programs. As implementing

BOX 6.4 IDA's strategy in Sub-Saharan Africa

Strategic context and vision

The International Development Association (IDA) is the World Bank's main source of development assistance for the world's 81 poorest countries, including 39 in Sub-Saharan Africa. This year's international focus on Africa offers unique opportunities—and challenges—for IDA to support African development. In February 2005 donor countries reached a milestone agreement to replenish IDA over the next three years with the largest expansion in two decades—at least 25 percent, to \$33 billion—with about half of IDA resources going to Africa. This increase represents a major step in international efforts to promote stronger, broadly based economic growth in order to fight poverty and achieve the MDGs. Among other things, the funds will be used to improve access by poor communities to clean water, better communications, and power; support private sector development and a better investment climate to promote faster growth; provide grants to alleviate severe debt problems in Sub-Saharan Africa and elsewhere; promote transparent assessments of country performance on economic policies, governance, and poverty reduction efforts; better coordinate donor support for these efforts; and fund an innovative monitoring system of development results. In addition to IDA, Africa's performance can be enhanced by positive outcomes in other forums, especially the Doha Round of international trade negotiations and meetings on the quality and quantity of donor funding, as discussed in earlier chapters.

Against this background, IDA's outlook for Africa is one of hopeful realism. Hopeful because:

- The New Partnership for Africa's Development (NEPAD) and the African Union are leading more actively in the areas of postconflict recovery, economic management, public accountability, and governance, and promoting regional integration within countries: Ghana, Nigeria, Senegal, South Africa, and others are shaping their economic agendas and taking ownership of their development.
- Macroeconomic management is improving, as are country policies and institutions.
- Growth is widening, with 15 countries having maintained growth rates of more than 5 percent for several years.
- Subregional integration efforts are growing.
- HIV/AIDS prevention is beginning to show promise.
- The Extractive Industries Transparency Initiative is taking root.

But realism is needed as well, because:

- 7 percent growth is needed to achieve the poverty reduction MDG.
- Conflict remains a threat to stability, investment, and growth.
- HIV/AIDS and malaria are exacting enormous costs in terms of lives, public services, productivity, and growth.
- Aid remains insufficient in terms of both quantity and quality (with weak harmonization and alignment).

Strategic directions

The new emphasis in the IDA strategy is to accelerate and deepen shared growth to achieve sustained poverty reduction and make faster progress toward the other MDGs, and to increase investment in the assets (human, physical, financial) of poor people to enable them to participate in and benefit from growth. An action plan is being developed to scale up World Bank activities in the context of Commission for Africa, IDA14, and other international efforts. Elements will include:

- *Trade and regional integration*—focusing on a trade policy agenda that promotes an export push in agriculture (particularly for commodities with strong processing linkages).
- *Agriculture and rural development*—developing a multisectoral approach explicitly linked to IDA's private sector development and infrastructure programs.
- *Private sector and infrastructure*—concentrating on reducing the transaction costs of doing business in Africa. The region will have a combined strategy with the International Finance Corpo-

ration (IFC) and the Multilateral Investment Guarantee Agency (MIGA) to help fill the gaps in infrastructure. Regional projects, concessions, and privatization operations will increase.

- *Alignment and partnership*—aligning World Bank support consistently with government-led programs and processes as well as with other donors.
- *Governance, capacity building, and conflict*—addressing key dimensions: on governance, clearer benchmarks will be set for measuring performance in difficult environments, drawing on the work of the UN Economic Commission for Africa; on capacity building, a task force is developing innovations in these areas; and on conflict, Bankwide experiences and lessons point to the value of explicit attention to conflict prevention and, in postconflict cases, the need to be engaged early and deeply.
- *Investing in people*—focusing on three strategic areas: strengthening frameworks and delivery systems to accelerate progress toward the MDGs; helping to develop integrated macro-micro systems for social protection and risk mitigation; and emphasizing selected areas of strategic leadership and advocacy, including for infectious diseases (especially HIV/AIDS and malaria) and the education MDGs.

Source: World Bank staff.

agencies geared to supporting country development, all the banks are involved in helping their clients meet their commitments under international agreements governing the provision of global public goods—from peace and security to disease control and support for the global commons to financial stability and anti-money laundering, open trade, and knowledge sharing. They are implementing agencies for the Global Environment Facility and participate in the Global Fund to Fight AIDS, Tuberculosis, and Malaria, the Global Alliance for Vaccination and Immunization, and so on.

As the single global institution among the banks, the World Bank's support for global programs has grown rapidly in recent years, with 70 different programs funded by the Bank's core budget, the Development Grant Facility, and donor-supported trust funds. World Bank support for global programs has been the subject of an extensive evaluation by its OED. The *Global Monitoring Report 2004* reported on the findings of the OED phase 1 report.²³ As noted there, OED concluded that the Bank had played a useful role in these programs by providing a platform for learning, advocacy, and collaborative action to

address key global challenges. But it generally found the programs to be undermanaged. The phase 2 report finds a lack of results orientation, focus on advocacy without the necessary resources for technical assistance or investments, unclear poverty impacts, and weak knowledge management.²⁴ OED's recommendations stress the need for a global strategy, based on a consultative process involving key partners, and better day-to-day management of the existing global portfolio, designed to enhance returns to Bank country operations and help set international standards for quality. In line with these recommendations, the Bank has established a small, central Global Programs and Partnerships Secretariat to better manage and monitor these activities and is currently fleshing out its strategy.

RESEARCH

Research by multilateral development banks has helped to articulate the global and regional development agenda, with notable contributions on aid, private sector-led growth, and trade, as reflected in earlier chapters of this report. It has also provided a basis for the application of emerging lessons at the

country level, albeit somewhat less successfully according to the banks' evaluation reviews, which have generally pointed to the need for greater specificity based on country conditions. OED, for example, has argued that the World Bank's research on the investment climate provides insufficient guidance to client governments and staff.²⁵

Meanwhile, consistent with the partnership theme of this chapter, another area identified for improvement involves cross-fertilization across the multilateral development banks. At present, the banks' researchers meet in a variety of contexts, but more systematic approaches would also be fruitful, especially given the banks' different vantage points—with the regional banks often intermediating between the global development agenda and regional considerations. The AfDB and ADB are currently reviewing the roles and contributions of their research capacities; it would be useful to broaden these initiatives to the other banks, and more generally to increase interactions across the banks in this area.

- The AfDB has launched efforts to upgrade its research capacity—in tandem with the strengthening of its economic and sector work discussed above. These efforts are focusing on poverty analysis, growth, and debt sustainability; macroeconomics and forecasting; public policy and public sector management; agriculture and food security; financial sector development; science, technology, and industrial development; human capital and social development; and international trade and regional integration.
- The ADB undertakes research, including innovative, experimental, or theoretical work to acquire new knowledge, normally directed toward a specific purpose such as developing a new policy or evaluating a program. The bank's intellectual work includes advocacy, capacity building, and research, with each of these roles contributing in different ways to development thinking and knowledge. In 2004 the ADB adopted a knowledge management framework to enhance knowledge sharing among its clients and to become a better learning organization. As noted, the Bank is currently carrying out a detailed review of its research function, including analysis of cost, user demand, and quality, with a view to enhancing quality and impact.
- Flagship EBRD research publications are the *Transition Report* (autumn) and *Transition Report Update* (spring), which include indicators on progress in transition at the country level, as well as topical analyses. Areas of particular research interest include transition economics, social transition, the business environment, energy, infrastructure, and the financial sector. The Office of the Chief Economist, which oversees EBRD research, provides the transition impact ratings for projects, which are a key input for assessing operational performance.
- Mainstays of IDB research are a focus on macroeconomics, the private sector, and growth; trade and integration; and sector strategies and policies. The bank has also been active in supporting regional research networks promoting academic research and policy dialogue and in strengthening the research capacity of regional institutes.
- Research is central to the World Bank's "knowledge bank" mission, with its agenda evolving in response to operational and policy needs. Its main focus is strategic, and directed at informing the overall agenda for development policy and assistance, through flagship vehicles such as this year's *World Development Report* on the investment climate and analysis and data critical to international trade negotiations—as in Cancun, Mexico, last year—and the ongoing international dialogue on growth, poverty reduction, trade, and aid effectiveness, especially with respect to the mutual contributions of developing and developed countries, as discussed in earlier chapters.

Partnerships and Harmonization

Virtually everything discussed in this report involves partnerships—at the regional and global levels, at the country level, and at the institutional level—all touching the issue of harmonization in one way or another. Also relevant are the issues of transparency and disclosure, which bear on the inclusiveness or exclusiveness of the partnerships under consideration.

GLOBAL PARTNERSHIPS

The multilateral development banks actively participated in the recent Paris High Level Forum on Harmonization, Alignment, and Results, with the heads of the banks endorsing the Paris Declaration on Aid Effectiveness—setting out specific commitments for further alignment, harmonization, and results.²⁶ All engaged in the Working Party on Aid Effectiveness and Donor Practices, a broad partnership of bilateral and multilateral donors and agencies and representatives of more than 16 developing countries, supported by the OECD's Development Assistance Committee (DAC). The working party was put in place after the 2003 Rome High Level Forum on Harmonization to facilitate, support, and monitor progress on harmonization, alignment, and managing for development results. The ADB is represented on the working party's steering committee, and multilateral development bank staff chair or co-chair four of the five subgroups, and contribute substantively to the work of all. The World Bank chaired the steering committee for the Paris forum and has seconded a full-time staff member to the DAC Secretariat to assist the working party. In preparing for the forum, all the multilateral development banks were involved in regional workshops organized to ensure the inclusion of country and regional perspectives on the challenge of harmonization and managing for results.

Central to these efforts is the banks' work in fostering a Global Partnership on Managing for Development Results. To that end, they have established an active working

group, and along with bilateral donors and the United Nations Development Programme (UNDP) have formed the Joint Venture on Managing for Development Results, under the Working Party on Aid Effectiveness and Donor Practices. The aims are to harmonize donor requirements for country results reporting around national systems and better coordinate donor support for helping countries strengthen their capacity to manage for results. The main outcome of the global partnership to date is the convergence of the multilateral development banks around agreed core principles and results agendas that share common elements and approaches—as discussed below and as reflected in the recently issued (draft) *Results Sourcebook*.²⁷ Building on these efforts and the pre-forum regional workshops, in Paris the banks committed to support regional communities of practice in managing for development results, including through a focused learning process in selected developing countries.

COUNTRY-LEVEL PARTNERSHIPS

The true test of global partnerships is operational work at the local level: Without follow-through there, the various global meetings remain talk shops with little impact. At this level, the multilateral development banks have entered into a variety of arrangements with their developing member countries and other partners—ranging from preparation of joint analytic work and strategies to joint operations and common environmental impact assessment procedures. These processes have been facilitated by the common direction in which the banks have been moving on their strategies and lending, as summarized earlier in tables 6.1 and 6.2. Nevertheless, individual personalities and behavior continue to affect the speed and depth of progress on institutional commitments to partnership. Hence while there are many examples of good practice, there remain instances of bad practice, which are long remembered by those affected. Despite the sense among many that World Bank culture has changed, its staff continues to be

considered arrogant by some, including staff of other multilateral development banks, and as reflected more broadly in the World Bank Global Poll.²⁸

Country strategies and portfolio reviews. As examples of good practice, multilateral development banks are increasingly coordinating their country strategies and portfolio reviews with each other and with other partners. Coordinated strategies are planned, under preparation, or were recently completed for Bangladesh, Cambodia (box 6.5), Honduras, Nigeria, Tanzania, and Uganda; these exercises involve working with the authorities to ease administrative burdens and with other partners to coordinate schedules, share diagnostics, and ensure consistency and balance while avoiding

contradiction and duplication. In LICUS, such as Afghanistan, Guinea-Bissau, Haiti, Liberia, Sudan, and Timor Leste, multilateral development bank teams are collaborating closely with other donors to provide support on strategy development (including, in some cases, transitional results matrices and pooled funding mechanisms). Meanwhile, the AfDB, ADB, and World Bank have undertaken joint portfolio reviews in a number of countries, including Kenya, the Kyrgyz Republic, Mozambique, Rwanda, the Philippines, Uganda, and Vietnam.

Operational support. The innovations in multilateral development banks' lending instruments discussed earlier in this chapter have opened the door to much greater partnership at the country level, especially the

BOX 6.5 Cambodia's country strategies—coordinating efforts among multiple donors

The Cambodian country strategies for the ADB, U.K. Department for International Development (DFID), and World Bank were prepared together, all drawing on the country's poverty reduction strategy. By working together, the partners aimed to increase coordination and coherence in the policy dialogue and reduce government transaction costs in dealing with them. Meanwhile, the government has signaled a greater commitment to country ownership and leadership of the development and donor coordination process, giving greater attention to project implementation and to enhancement of the level of resource transfers from development partners.

In support of the above, the ADB, DFID, and World Bank have agreed on a "lead agency" approach to implementing their partnership. Under this approach the lead agency in a sector (or sectors) provides primary support for the government's strategy development and implementation, while providing backup support in other sectors. For example, the ADB has taken the lead in agriculture and water resources, education, finance, and transportation, while supporting the dialogue in sectors where the DFID or World Bank has the lead role.

The three donors have also developed a set of principles guiding their relationships with each other and with the government, other international development partners, the private sector, and civil society. Other partnership initiatives include restructuring government-donor technical working groups at the sector and thematic levels, greater reliance on SWAs, and better harmonization of donor procedures in project implementation.

The ADB, DFID, and World Bank have cooperated with the government (and with other donors) on the preparation of the Cambodia National Action Plan on Harmonization and Alignment, which adopts a LICUS approach by placing the burden on donors for initial efforts to reduce transaction costs and improve information and reporting, rather than waiting for government capacity to improve before improving donor behavior.

Source: ADB and World Bank staff.

introduction of SWApS by the AfDB, ADB, IDB, and World Bank.²⁹ (See box 6.6 for an example of a SWAp in support of HIV/AIDS prevention and treatment.) The World Bank's Poverty Reduction Strategy Credits (PRSCs) are also proving useful for coordinating donor support for low-income countries' poverty reduction strategies, with half of the PRSCs currently under implementation involving coordination of support and conditionality with other donors.

Joint analytic work. Carrying out joint analytic and diagnostic work is a win-win approach to reducing costs for donors and countries alike. The multilateral development banks have increasingly conducted analytic work with other partners, especially for the core diagnostic and fiduciary reviews that underpin lending. To facilitate sharing and

promote collaboration on analytic work, the World Bank hosts the Country Analytic Work Web site (www.countryanalyticwork.net), which offers major reports from more than 25 multilateral and bilateral donor agencies; more than 1,400 reports were added to the site in 2004.³⁰ It will be important to build on this initiative by using the database for joint programming of analytic and capacity building work, based on identification of gaps and needs in key areas.

PARTNERSHIPS AMONG INTERNATIONAL FINANCIAL INSTITUTIONS

As noted at the start of this chapter, the business models of international financial institutions differ between the multilateral development banks on the one hand and the IMF on the other. These differences translate into differently shaped partnerships across the

BOX 6.6 Malawi's sectorwide—and multisectoral—approach to HIV/AIDS

Partly because of work on its poverty reduction strategy (PRS), donor coordination in Malawi is improving. Major donors and sectoral donor working groups in economic management, poverty reduction, water, and agriculture meet regularly. In addition, donors have been collaborating on sectorwide approaches (SWApS) for development assistance—as evidenced by the Multisectoral HIV/AIDS Project, which supports Malawi's efforts to reduce HIV transmission, improve the quality of life of those infected and affected by HIV/AIDS, and mitigate the disease's impact, all central PRS objectives.

Key project components include a focus on advocacy aimed at changing behavior and preventing HIV transmission, especially among target populations, such as by promoting safer sex and incorporating life skills education and HIV/AIDS information into education curriculums. The project also focuses on impact mitigation, targeting those infected and affected by the epidemic. Other components are designed to support the work of the National AIDS Commission in preventing and treating the epidemic, monitoring and evaluating developments, coordinating support for policy-related issues, and managing procurement, financial accountability, and institutional development.

The project is structured as a SWAp and is supported or under consideration for support by a number of donors, including the African Development Fund, IDA, Canadian International Development Agency, U.K. Department for International Development, Global Fund to Fight AIDS, Tuberculosis, and Malaria, Norwegian Agency for International Development, United Nations Development Programme, and U.S. Agency for International Development. It involves coordinated joint implementation reviews, pooled funding arrangements, a single framework for financial reporting, monitoring, and evaluation (including one set of quarterly financial tables and progress reports for all eight donors), and harmonized procurement.

Source: AfDB and World Bank staff.

institutions. Among the banks, given their many parallel concerns and challenges, there is a premium on cross-fertilization and networking in the pursuit of good practices that can be adapted to different regional and country circumstances. Between the banks (especially the World Bank) and the IMF, given their more complementary roles and contributions, the focus is more on joint products and an appropriate division of labor in producing them.

Multilateral development bank networks.

Consistent with the above, the multilateral development banks are increasingly functioning as a federation of networks, operating at almost as many different levels as the banks themselves operate. The recent announcement that the banks will extend the EBRD–World Bank Business Environment and Enterprise Performance Surveys (BEEPS) to other regions is but the latest development in an ever expanding series of such efforts. Another recent example is the January 2005 meeting hosted by the ADB to discuss common challenges in managing the performance-based allocation systems of the banks' concessional windows—an exercise that is likely to segue into an ongoing working group, especially as the banks move toward disclosure of country policy and institutional assessments in early 2006.

Meanwhile, working groups on financial management, procurement, the environment, and capacity building have continued to progress, with new groups such as the Working Group on Managing for Development Results energizing bank partnerships across a broad front. These groups have been productive forums for sharing experiences, challenges, and best practices across the institutions. Going forward, they should be encouraged to think more boldly and strategically, moving beyond the harmonization agenda to seeing how they might function as full-fledged networks across the banks. They also should be encouraged to advise on future directions for strategic selectivity, which could constitute a major theme of the analysis of the multilateral development banks in

next year's *Global Monitoring Report*, including the division of labor in country, regional, and global programs, building on the banks' respective mandates and areas of comparative advantage.

World Bank–IMF collaboration. In line with the earlier discussion and as highlighted below in the section on IMF partnerships, three issues continue to be of central importance to the World Bank's partnership with the IMF (and of continuing interest to the other banks as well): debt sustainability, the PRS process, and streamlining of structural conditionality. In addition, two other themes warrant highlighting in line with the themes of this report: collaboration between the Bank's OED and the IMF's Independent Evaluation Office (IEO), and issues surrounding public investment in infrastructure. On the partnership between OED and IEO, the collaborative review of the PRS process referred to earlier set an important precedent and example for future reviews, including by other institutions.³¹ On infrastructure investment, the Bank and the IMF are working on steps to safeguard productive public investment and improve public investment planning and oversight, while maintaining a focus on fiscal and macroeconomic sustainability. Following up on work by the IMF's Fiscal Affairs Department—carried out in close cooperation with the Bank and the other multilateral development banks, particularly the IDB—eight case studies have been prepared, the preliminary findings of which point to little impact on growth of the public investment compression under investigation.³² (See also below, where this topic is discussed in the context of the IMF's role and work.)

PARTNERSHIPS WITH CIVIL SOCIETY

All the above partnerships are among “insiders”—those with institutional affiliations that give them access to information. But for many critics of international financial institutions, the more relevant issue is openness to “outsiders”—those without

official affiliations and credentials, for whom access to information and transparency of the institutions' activities are key. Over the past 15 years the multilateral development banks have adopted formal policies for partnering with civil society and for providing more open access to information and documents, with a number of further changes recently approved (by the World Bank) or pending or under consideration (by the AfDB and ADB). (See table 6.3 for the current disclosure status of key classes of documents as authorized by the banks' Boards of Directors.) Nevertheless, there remain concerns that the banks have not met a standard of transparency and accountability commensurate with their power and influence in a number of areas, but especially on project implementation and Board deliberations.

Managing for and Measuring Results

This section addresses two points. First, what are multilateral development banks doing to manage better for results? Second, what are they (and others) doing to measure results?

MANAGING FOR RESULTS

The conceptual framework for multilateral development banks defines results as sustained improvements in development outcomes at the country level. It posits that outcomes can be improved through critical actions along the results chain that leads from inputs to outputs and in turn to outcomes. For the banks this translates into a focus on country capacity and "demand" for results, and on bank strategies and quality. All the banks have approached the results agenda in a similar manner, providing similar kinds of support to client countries (table 6.4). The exception is the EBRD, which does not have a program supporting statistical capacity building.

Country pillar. All the banks stress that the most important element of the results agenda is the support provided for country-

based systems. The key elements of the country pillar are support for public sector management and statistical capacity building. This support has two objectives. First, it aims at increasing the efficiency of country resource allocation and use—whether at the national, state, provincial, or local level, or in a given sector (or both). Second, and more narrowly, it aims at improving implementation of bank-financed operations, through greater reliance on country systems for managing for results.

Helping countries manage for results is at the heart of the banks' public sector management agenda. More specifically, such efforts call for greater attention to certain aspects, such as building evaluation capacity and developing other vehicles to increase accountability in government agencies and departments (box 6.7). This process is occurring in all the banks, whether in the context of training staff from project executing agencies (as in the AfDB and IDB), using technical assistance grants to build evaluation capacity in borrowing countries (ADB), building evaluation capacity in project agencies on a project-by-project basis (EBRD), or strengthening country budget and evaluation systems in the context of policy-based lending (World Bank). The World Bank, with its partners in the Public Expenditure and Financial Accountability (PEFA) program,³³ has developed standardized performance indicators for use in monitoring country progress in public financial management, and is widely consulting with development partners (through the OECD's Development Assistance Committee) and client countries. The indicators are part of a strengthened approach to public finance reform that emphasizes country leadership in developing the reform strategy, donor coordination behind the government strategy, and performance indicators for monitoring progress over time.

Supporting and complementing these efforts is a major agenda to help countries build their statistical capacity. Without good statistics, governments cannot deliver efficient

TABLE 6.3 Transparency among multilateral development banks

| Type of information/stage of development | AfDB | ADB | EBRD | IDB | World Bank |
|--|---|---|--|-----|------------|
| Country strategy documents | | | | | |
| Early draft | Yes | Not routinely; proposed in new policy | Yes | No | Yes |
| Final draft (pre-Board) | Under consideration | No | No | No | No |
| Final (after Board) | Yes | Yes | Yes | Yes | Yes |
| Analytic and project work | | | | | |
| Economic and sector work | Yes | Not routinely; proposed in new policy | Partially | Yes | Yes |
| Country policy and institutional assessments (2005 scores) | Under consideration | Yes | Yes (Transition Scores in <i>Transition Report</i>) | No | Yes |
| Appraisal reports (excl. privileged information) | Yes | For public sector projects, yes; for private sector projects, no. Yes for both proposed in new policy | Partially (such as Environmental Impact Assessments) | Yes | Yes |
| Project supervision reports | No | No; updated Project Performance Reports disclosed in proposed new policy | No | No | No |
| Project completion reports (excl. privileged information) | Yes | For public sector projects, yes; for private sector projects, no. Yes for both proposed in new policy | No | Yes | Yes |
| Policy papers | | | | | |
| Final draft (pre-Board) | Under consideration | No | No | No | No |
| Evaluation documents | | | | | |
| Bankwide | Yes | Yes | Yes | Yes | Yes |
| Country strategies | Yes | Yes | No (country strategy evaluations still in pilot stage) | Yes | Yes |
| Sector reviews | Yes | Yes | Yes | Yes | Yes |
| Project audits | Yes | Yes | Partially (through summary documents) | Yes | Yes |
| Board procedures | | | | | |
| Agendas | Yes | No; proposed in new policy | No | Yes | Yes |
| Minutes | No; but summaries of Board discussions, yes | No; proposed in new policy | No | Yes | Yes |

Source: Staff of the Big 5 multilateral development banks.

TABLE 6.4 Managing for development results in multilateral development banks

| Type of support | AfDB | ADB | EBRD | IDB | World Bank |
|-------------------------------|------|-----|------|-----|------------|
| Country pillar | | | | | |
| Public sector management | √ | √ | √ | √ | √ |
| Statistical capacity building | √ | √ | No | √ | √ |
| Institutional pillar | | | | | |
| Strategies | √ | √ | √ | √ | √ |
| Projects | √ | √ | √ | √ | √ |

Source: Staff of the Big 5 multilateral development banks.

BOX 6.7 Multilateral development banks' support to build Colombia's culture of evaluation

In 2000, with support from the IDB and World Bank, Colombia implemented three emergency social programs to help poor people cope with the economic crisis—Familias en Accion, Empleo en Accion, and Jovenes en Accion, collectively known as the RAS (Red de Apoyo Social). Familias is a cash transfer program conditional on school and health center attendance by children; Empleo is an employment program for low-skilled adults. And Jovenes is a job training and subsidy program for young people from poor neighborhoods. Of the combined \$400 million in loans for the programs, \$5 million was programmed to be spent on external evaluations.

Highly credible because of their high quality, the evaluations found that the programs are effective tools for crisis management at the household level. For example, the evaluation of Familias en Accion showed that food consumption was 14–24 percent higher among recipients, with no effect on household tobacco and alcohol consumption; school attendance rates were 4–8 percentage points higher among program participants age 12–17; and program participants age 0–6 were taller (by an average of 0.75 centimeter) and heavier (by 0.25–0.50 kilograms) than nonparticipants—partly due to less illness among these children, particularly in rural areas.

The evaluations also played an important strategic role. Critics of the Familias program had argued that it was costly and that its grant money would be poorly spent by beneficiary families, making it a candidate for budget cuts. When the evaluation results were presented to the president, the government's strategy reversed: the program was not only maintained, but pilots and evaluations were conducted to explore the possibility of expansion.

The RAS evaluations also helped institutionalize a culture of evaluation and results-based management in Colombia's social sectors. While the government had established an evaluation department, the National System for Evaluation of Results and Public Management (SINERGIA, based on its Spanish name), in the early 1990s, the RAS evaluations gave it a concrete objective. The IDB and World Bank worked with SINERGIA to develop its capacity to be a good “consumer” of external evaluations and to undertake evaluation studies of its own. In recent years technical assistance, grants, policy-based loans, and investment operations have supported SINERGIA's evaluations of social programs, preparation of legislation requiring periodic impact evaluations of social programs, creation of a multim ministerial group on impact evaluation, regular production and dissemination of reports monitoring government progress in implementing policies, and a high-profile international conference on the importance of impact evaluations to government policy.

Source: Inter-American Bank and World Bank staff.

administration, good management, and evidence-based policymaking. Nor can citizens effectively monitor government performance and make informed decisions about their lives. Thus an effective and efficient national statistical system, providing the data needed to support better policies and monitor progress, is a crucial component of good governance and accountability. Support for capacity building in this area complements multilateral development bank support for public sector management in other areas, such as budget management and auditing, and is being provided by all the banks except the EBRD, as noted earlier. Programs include technical assistance grants for statistical capacity development such as those provided by the ADB. In addition, a number of joint initiatives, many working closely with the PARIS21 initiative, are under way.³⁴ These include the IDB, United Nations Economic Commission for Latin America (ECLAC), and World Bank Program for the Improvement of Surveys and the Measurement of Living Conditions (MECOVI), which provides technical and financial assistance to improve household surveys of social conditions; the AfDB's work with the International Comparison Programme in helping countries collect economic statistics; and the World Bank's Stat-cap program, which provides support for the long-term development of national statistical systems and may involve a series of grants or loans as appropriate.

Institutional pillar. Efforts to bolster multilateral development banks' performance and results focus on country strategies and lending operations—including support for measures to help countries develop their own capacity to manage for results, as described above—with independent and self-evaluations playing a key role.

As noted earlier, the AfDB, ADB, and World Bank are piloting results-based approaches (see table 6.1). The EBRD and IDB are incorporating many features of the results-based approach in their strategies—

including lessons from past strategies—with the EBRD focusing on transition impact as its key measure of results and the IDB increasing the evaluability of its country strategies by improving the indicators in its matrixes for monitoring the outcomes of its interventions. The critical feature is to use the process to move to a more strategic approach to country programming, focused on where the banks can have the biggest impact and overcoming supply-driven tendencies that may linger among sectoral staff. Based on its ongoing review of results-based country assistance strategies (CASs), the World Bank plans to introduce ratings into its CAS completion report process, thereby taking a step toward more systematic self-assessment of achievements of intended CAS outcomes.

Emerging best practice relies on self-assessments by teams, arm's-length assessments by quality assurance groups, and independent assessments upon completion. Table 6.5 shows where multilateral development banks are in implementing this best practice system. The AfDB has committed, in the context of African Development Fund X, to the full complement of reviews, to reinforce the positive trends emerging there.³⁵ For the ADB important developments in 2004 included the new independence of its Operations Evaluation Department and important steps taken on results-based country strategy papers and the broader results agenda. The IDB has also made progress in recent years—piloting quality-at-entry reviews for both project-based and policy-based lending, proposing in its new Medium-Term Action Plan for Improving Development Effectiveness the launch of a quality-of-supervision exercise as well, and revamping its project completion reporting, including validation of ratings by its independent evaluation department (OVE).³⁶ The World Bank has continued to deepen the pioneering work of its Quality Assurance Group (QAG) and management commitment to act on QAG (and OED) recommendations. In all cases the key will be effective follow-through.

TABLE 6.5 Project monitoring, evaluation, and reporting in multilateral development banks

| Stage | AfDB | ADB | EBRD | IDB | World Bank |
|--|---|--|---|--|--|
| Upstream: arm's length review of quality at entry | To be launched in 2005 under African Development Fund X Agreement | Under discussion | Ratings assigned by Chief Economist's Office and Risk Management Vice Presidency | Piloted for investment and policy-based lending | Quality Assurance Group reviews since 1998 |
| Midstream: arm's length review of quality of supervision | To be launched in 2005 under African Development Fund X agreement | Case by case reviews by Operations Evaluation Department | Project Evaluation Department reviews, as well as (since 2003) transition impact monitoring system managed by Chief Economist's Office and Risk Management Vice | Presidency Recommended under Medium-Term Action Plan; timing | not yet agreed Quality Assurance Group reviews since |
| 1999 Completion: share of project completion reports validated by evaluation | department | 50% 50% in-depth; | 50% normal | 40% 100% starting in 2004 | (0% before 2004) 100% since 1980 |

Source: Staff of the Big 5 multilateral development banks.

MEASURING RESULTS

Several approaches to measuring the results of multilateral development banks have emerged in recent years. The first is the practice being developed in the context of replenishing the banks' concessional windows. On a parallel track, albeit more focused on bank performance than results, some bank shareholders are developing comparative frameworks for assessing the performance of the banks and other multilateral agencies, generally with a view to fine-tuning the distribution of their financial support to multilateral entities. Third, civil society organizations are monitoring the performance of multilateral development banks in an increasingly systematic manner. Finally, reflecting lessons from these and other efforts, the banks' results teams are developing a comparative

performance assessment framework that can also be used to underpin future *Global Monitoring Reports*.

Concessional windows. Efforts to measure the results of concessional lending began with the adoption of the IDA13 Results Measurement System, which had its genesis in donor discussions in 2001. At that time the multilateral development banks' work on results was just beginning to heat up, with the first roundtable on results held in 2002. Much debate, technical analysis, and dialogue with donors and IDA-eligible countries went into the construction of the initial approach, which has since been refined for IDA14 and is being analyzed in the context of the African Development Fund and Asian Development Fund systems.

Box 6.8 shows the results of the IDA13 measurement system, which were validated by an independent external audit. The system focused on several country outcome indicators (chosen because of data availability and relevance) and on the delivery of agreed inputs of analytic work by the World Bank.

As the World Bank's results agenda took shape during 2002–4, the IDA Results Measurement System was aligned with it, focusing on a broader set of country indicators (more closely aligned with the MDGs but also reflecting broader objectives including growth, governance, and infrastructure), results-based country strategies, and the quality and outcomes of lending operations. The indicators for the new system for IDA14, agreed in December 2004, are shown in box 6.9.

In line with instructions from its Deputies, the African Development Fund's Results Measurement System is similar in methodology to that of a prototype of the IDA14 system.³⁷ Scheduled for revision in 2005, assessment of the African Development Fund's performance will occur at the project, institutional (country strategy), and country levels through the use of operations quality indexes, evaluation findings, and changes in country-level indicators, based mostly on internationally available statistics.

The ADB is developing a Monitoring and Results Reporting System that is also relevant to the Asian Development Fund. The Bank is reviewing the IDA14 approach, especially against the backdrop of its mandate as a regional development bank, and plans to introduce a systematic approach to results measurement in 2005.

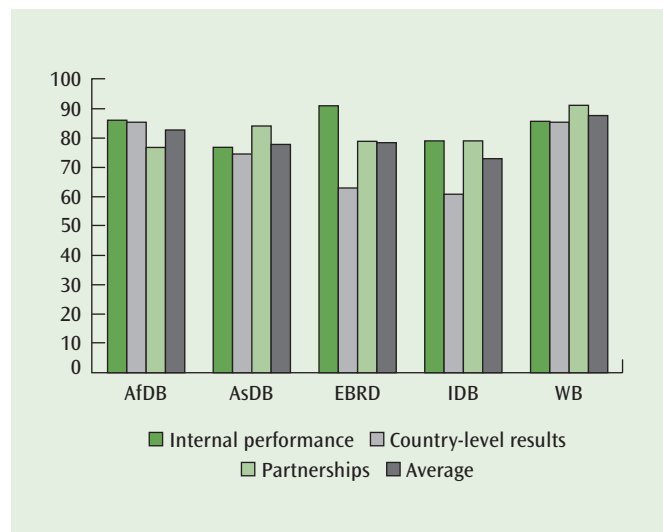
Donor and shareholder initiatives. In parallel with these efforts, bilateral donors and shareholders have initiated a number of programs to measure the performance of multilateral agencies. Several efforts are just getting under way, while others are quite advanced—including provisions allowing assessed agencies to review and comment on the factual

accuracy and other elements of their assessments. To date, none of these efforts include vehicles for borrowers or shareholders of borrowing countries to rate or compare the performance of multilateral development banks.

The Danish International Development Agency (DANIDA) relies on ratings structured around a set format to assess the performance of each multilateral organization it supports—including the AfDB, ADB, and World Bank—as well as its contribution to each organization.³⁸ The reporting forms part of the agency's results measurement system, set up to assess the effectiveness of Danish multilateral assistance. The results are reflected in DANIDA's annual high-level consultations with each organization.

The U.K. Department for International Development (DFID) rates multilateral development banks on three dimensions—internal performance, country-level results, and partnerships (figure 6.5). Ratings are based on DFID assessments of corporate governance, corporate strategy, resource management, operational management, quality assurance, staff quality, monitoring

FIGURE 6.5 DFID Scorecard for multilateral development banks



Source: Scott 2005.

BOX 6.8 IDA13's Results Measurement System—comparing targets and results

| Education outcomes | | ORIGINAL PROCEDURE, 2002 | TREND PROCEDURE, 2002 |
|--|--------|-----------------------------|--------------------------|
| Increase primary completion rate from baseline (percent) | Target | 69 | 69 |
| | Result | 70 | 73 |
| Increase number of countries with positive growth in primary completion rate (number of countries) | Target | 38 | 38 |
| | Result | 45 | 43 |

Note: The original procedure imputed primary completion rate values for years where no data were available for a specific year on the premise that the most recent observation from a previous period is the best approximation of the missing year. The trend procedure imputed values for a missing year on the premise that the trend of an indicator remains the same unless a new observation indicates otherwise.

| Health outcomes | TARGET Coverage rate | 2001 result | 2002 result |
|---|-------------------------|-------------|-------------|
| Increase in population-weighted coverage rate of measles immunization (percent) | 60 | 61 | 65 |
| Number of countries with 80 percent coverage | 29 | 27 | 29 |

| Private sector development outcomes | TARGET, 2001–3 | RESULT, 2001–3 |
|---|-------------------|----------------|
| Reduce time required for business startup (percent) | 7 | 12 |
| Reduce formal cost of business startup (percent) | 7 | 19 |

| Analytic inputs | COMPLETED between fiscal 2001 and spring 2004 | TARGET FOR SPRING 2004 |
|--|---|------------------------|
| Country Financial Accountability Assessment Africa | 51 | 40 |
| Country Procurement Assessment Review Africa | 21 | 20 |
| Country Procurement Assessment Review Africa | 42 | 38 |
| Country Procurement Assessment Review Africa | 19 | 19 |
| Public Expenditure Reviews Africa | 42 | 40 |
| Public Expenditure Reviews Africa | 20 | 20 |
| Investment Climate Assessment | 16 | 14 |

Source: World Bank data and Booz Allen 2004.

Note: Data are as of 1 April 2004.

BOX 6.9 Indicators introduced under IDA14's Results Measurement System**Outcome indicators**

- Share of population below \$1 a day poverty line
- Under-five child mortality rate
- HIV prevalence rate of pregnant women age 15–24
- Share of births attended by skilled health personnel
- Ratio of girls to boys in primary and secondary education
- Primary school completion rate
- Share of population with sustainable access to an improved water source
- Fixed and mobile telephone lines (per 1,000 people)
- Formal cost of business startup (percentage of per capita gross national income)
- Time required for business startup (days)
- Public financial management (number of benchmarks met)
- GDP per capita (annual growth rate)
- Share of rural population with access to an all-season road
- Share of households with electricity

Source: IDA 2004a.

Indicators of IDA performance, fiscal 2005–7*Project level*

- Share of projects with satisfactory outcome ratings
- Share of projects with satisfactory quality at entry ratings
- Share of first IDA Project Supervision Reports with satisfactory baseline data on expected outcomes for projects initiated after July 2003
- Share of IDA Implementation Completion Reports with satisfactory data on project outcomes

Country level

- Number of results-based country assistance strategies prepared during IDA14

Outputs

- Health
- Education
- Water supply
- Transportation

and evaluation, and reporting of results. Ratings of internal performance reflect DFID judgments of the banks' project performance, evaluation systems, implementation of strategic directions, and transparency. The EBRD received the top score in this category. Ratings for country-level results reflect, among other things, DFID assessments of the banks' poverty reduction strategy (PRS) and MDG orientation.³⁹ Here the AfDB and World Bank had the top scores. On partnerships, which reflect DFID assessments of performance on harmonization and related issues, the World Bank was rated highest. The World Bank also had the highest overall score among the multilateral development banks.

In a parallel effort organized by an informal network of like-minded donors—Austria, Canada, Denmark, Germany, the Netherlands,

Norway, Sweden, Switzerland, and the United Kingdom—the Multilateral Organizations Performance Assessment Network was launched in 2002, with an initial focus on the Big 5 multilateral development banks (with the exception of the EBRD), plus the Pan-American Health Organization (PAHO), World Health Organization (WHO), and United Nations Children's Fund (UNICEF). The network's methodology relied on questionnaires of agency staff and knowledgeable stakeholders. The findings of the initial pilot, which focused on the health sector, gave the highest ratings to PAHO, the next to the WHO, UNICEF, and World Bank, and the next to the regional development banks. But in providing these scores, the network stressed the limitations of its methodology—especially the fact that many raters lacked familiarity with the regional development banks.⁴⁰

The U.S. Government Accountability Office (GAO) periodically reviews how well international financial institutions perform on various topics. In recent years it has assessed the sustainability of the HIPC Initiative and the control frameworks of the five biggest multilateral development banks.⁴¹ The HIPC review concluded that the financial shortfalls facing the AfDB, IDA, and IDB will likely be far higher than projected because country export earnings will likely be less than those projected by the World Bank and IMF, which have assumed export growth rates higher than historical averages.⁴² On the control frameworks, the GAO found that all the banks had consistently received clean audits and had clear internal and external control frameworks. Nevertheless, in view of what it characterized as the difficult and challenging environment in which the banks operate, the GAO concluded that the banks and their members could benefit from additional examinations and reporting by external auditors (as part of the banks' annual financial statement audits) in the areas of internal control over lending operations and compliance with key policies.

Civil society monitoring. A number of civil society organizations and Web sites monitor programs conducted by multilateral development banks. These organizations and Web sites provide important feedback—typically quite critical—on bank activities. One such organization, the Bank Information Center, provides important monitoring and other watchdog services, especially on the banks' compliance with their operational policies. The center recently launched the Transparency Resource, an in-depth database cataloguing and comparing the banks' disclosure policies—and concluding that all the banks need to improve to the highest disclosure standards.⁴³

Self-assessments. The initiatives described above are important for assessing the performance and contributions of the multilateral

development banks. They reflect the rising demand for systematic, comparative assessments. They also provide useful lessons for assessing performance. The banks' Working Group on Managing for Results has been discussing options for a joint self-assessment framework, and now needs to take tangible steps, taking into account data from independent and self-evaluations, feedback from shareholders, borrowers, beneficiaries, researchers, and critics, and lessons from approaches developed by others. Such a framework could underpin future *Global Monitoring Reports*, building on the analysis set out in this chapter—especially with respect to the comparative tables 6.1–6.5, but also bringing in quantitative information on lending (quantity and quality, including progress in using country systems), grants, and analytic work (such as poverty and social impact assessments, investment climate assessments, fiduciary assessments, and support for statistical capacity building)—providing metrics, baselines, and indicators for tracking progress over time. It would take the analysis of the contributions of the multilateral development banks a further step beyond processes, toward a greater focus on results.

International Monetary Fund

This section describes IMF activities in support of the MDGs within the framework of the four-pillar approach set out in the *Global Monitoring Report 2004* and used above to analyze the multilateral development banks—country programs, global programs, partnerships, and results. As with the banks, the IMF's contribution to the development goals is largely indirect. The following discussion focuses on areas of the IMF's competence and comparative advantage.

Country Programs

IMF policy advice and financial support helps countries achieve and maintain macroeconomic stability and growth—prerequisites for

poverty reduction—and recover from crises and exogenous shocks. The IMF also provides technical assistance, either to resolve specific problems of policy implementation or to address larger capacity constraints. In many developing countries this includes trade-related technical assistance, primarily in customs administration and tariff policy, aimed at securing effective liberalization of trade while safeguarding public revenues, or in the context of the Integrated Framework for Trade-Related Technical Assistance, which helps countries prepare to benefit from trade liberalization and is expected to help mainstream trade issues identified in poverty reduction strategies (PRSs).

At the end of 2004 there were 49 IMF arrangements in place, 33 of which were under the Poverty Reduction and Growth Facility (PRGF). One country, Sri Lanka, is supported by blended resources from two IMF arrangements, a PRGF and an Extended Fund Facility (EFF). A further 17 arrangements were under consideration (of which 4 would be with members that already have arrangements in place). Thus a total of 61 members—one-third of the IMF's membership—had arrangements in place or under consideration. Thirteen of these arrangements had been approved in 2004, with total commitments of SDR 1.8 billion (roughly \$2.7 billion at period average exchange rates), compared with 21 new arrangements in 2003. Seven of these were new PRGF arrangements, for total new commitments of SDR 534 million (\$791 million).

LOW-INCOME COUNTRIES

IMF support for low-income countries' efforts to achieve the MDGs is provided within the framework of the country-driven PRS approach. The support is predicated on full country ownership of the priorities and programs set out in PRSs, reflecting the recognition that successful implementation of policies cannot be sustainably imposed from outside. Much of the IMF's work in low-income countries involves countries in Sub-Saharan Africa (box 6.10).

The suitability of the goals of IMF-supported programs in low-income countries in the context of the MDGs is perhaps best assessed in relation to the situation of each country. Low-income countries can be distinguished as mature stabilizers, early stabilizers, or fragile states, with corresponding differences in how IMF-supported programs should be designed.⁴⁴

Mature stabilizers typically have had several years of relative macroeconomic stability; face less binding fiscal and external financing constraints; and have more firmly established and internalized PRS processes and better-defined and -prioritized PRSs. Thus PRGF-supported programs in such countries should be expected to:

- Focus on consolidating past gains, and accelerating and sustaining growth.
- Set macroeconomic targets that allow greater scope for implementing pro-poor policies and improving the investment climate.
- Provide for less IMF financing to close balance of payments gaps, as financing constraints recede.
- Have streamlined conditionality more closely aligned with PRS priorities, given the greater degree of country ownership.

Early stabilizers, by contrast, usually cannot yet sustain macroeconomic stability, often due to slippages in policy implementation. They still need to consolidate public finances, implement key structural reforms, and bring domestic and external debt under control, and they face major balance of payments gaps. They are also often at early stages of the PRS process, possibly with less well-articulated strategies. In such cases PRGF-supported programs focus on achieving macroeconomic stabilization, implementing essential structural reforms, building basic administrative capacity, and, often, recovering from external shocks. The extent of the required adjustment effort and continuing imbalances limit the scope for direct poverty-reducing expenditures, and IMF financing

BOX 6.10 IMF activities in Sub-Saharan Africa

At the end of 2004 the IMF had financial programs in place in 18 Sub-Saharan African countries, with a total commitment of SDR 1.9 billion, of which roughly SDR 850 million remained to be drawn. This represented a small decline over 2003, when 21 programs were in place. All of these are Poverty Reduction and Growth Facility (PRGF) arrangements. In terms of the Heavily Indebted Poor Countries (HIPC) Initiative, 10 of 14 countries at the completion point and 12 of 13 at the decision point are in Sub-Saharan Africa. For the first group, nominal debt relief delivered has totaled \$20.3 billion, and for the second group, \$23.4 billion (with both figures measured in terms of the net present value in the year of the decision point). More than 80 percent of HIPC debt relief provided by the IMF has been to these countries.

Policy advice

The IMF's policy advice to Sub-Saharan countries encompasses all its areas of competence and mandate—fiscal and monetary policy, exchange rate issues, trade, financial sector issues (including bank regulation and supervision), and macroeconomic and financial statistics—frequently supported by technical assistance. Given the number of PRGF arrangements in place, much of this policy advice aims to facilitate the policy and structural reforms needed to achieve and maintain macroeconomic stability and reduce imbalances.

Sub-Saharan Africa has seen an overall improvement in fiscal and external balances since the early 1990s, accompanied by a more prudent financing mix. Inflation has reached historical lows since 2000, current account deficits have stabilized at moderate levels, and fiscal deficits have shown further improvement—allowing countries to reduce their recourse domestic financing. There has been an upward trend in spending on health and education, and IMF fiscal policy advice to countries implementing PRGs has aimed at accommodating increases in poverty-reducing expenditures while maintaining a sustainable overall fiscal stance. Particular emphasis has been placed on strengthening domestic resource mobilization to augment the resources available to fund development and poverty reduction, and on analyzing fiscal and debt sustainability over the medium term.

Together with the World Bank, IMF staff have placed increasing emphasis on country policy dialogues on financial sector development and trade as sources of additional growth. Areas of particular importance include enhancing the access of small and medium-size enterprises to financial services, deepening financial intermediation, and strengthening bank supervision and regulation. In trade the focus has been on improving the effectiveness of the many regional trade arrangements and preparing countries to participate more actively in multilateral trade liberalization. The IMF has also stepped up its efforts to assess the impact of exogenous shocks on Sub-Saharan countries and to help them deal with them, particularly the impact of declining world cotton prices, and to prepare for the removal of textile quotas.

Technical assistance

Sub-Saharan Africa receives about one-quarter of all IMF technical assistance, consistently more than any other region. Areas of focus include bank supervision and monetary operations, public expenditure policy and budget management, customs and tax administration and policy, public debt management, and macroeconomic and financial statistics. One-third of the assistance supports countries' poverty reduction efforts and regional issues such as trade and monetary policy. But a large portion is dedicated to postconflict and isolation cases. Almost two-thirds of the assistance supports capacity building and policy reforms in IMF core areas. The IMF has opened two regional technical assistance centers, one in Tanzania covering 6 East African countries (in October 2002) and the other in Mali covering 10 West African countries (in May 2003). An increasingly important share of technical assistance and capacity building support to East and West African countries is delivered through regular short-term visits, seminars, and training provided by experts at the regional centers. A recent independent evaluation of the centers found that they had increased the efficiency of technical assistance, were responsive to country needs and requests, and were better able to provide customized assistance due to their proximity. If the centers' operations prove successful, three additional centers will be opened to cover all of Sub-Saharan Africa.

Source: IMF staff.

will typically play a greater role in closing external financing gaps. Finally, conditionality is unlikely to be clearly linked to the PRS, which often is not well defined.

Fragile states, often having recently emerged from conflict situations, generally lack the political and economic institutions to implement full-fledged macroeconomic programs or elaborate comprehensive PRSs. They also often face pressing needs for humanitarian and balance of payments financing. IMF assistance will thus typically focus on providing technical assistance to help rebuild critical institutions of macroeconomic management, with limited financial support provided through the emergency and postconflict assistance program.

In broad terms, IMF program design changes as countries become mature stabilizers. But even in these cases the link between the goals of IMF-supported programs and national strategies is often not clearly specified—a particular shortcoming when a PRGF-supported program is intended to support implementation of a PRS. Macroeconomic outcomes in low-income countries have improved markedly in recent years, reflecting improvements in policy implementation, higher official financial support, and a relatively conducive international environment. At the fore of this improvement is a small group of countries where (relatively) high growth rates have been sustained for some time and macroeconomic imbalances have receded furthest.

As part of an ongoing review, IMF staff examined aspects of program design in 15 mature stabilizers with PRGF-supported programs.⁴⁵ The analysis found that:

- In general, annual growth is projected to be some 5.5 percent, and outcomes have been marginally higher. Programs initially target a 4–6 percent range of inflation, but inflation targets have tended to be revised upward over the course of programs.
- On the fiscal front, programs have generally targeted modest increases in capital spending and (offsetting) increases in tax

revenues, thus aiming at broadly unchanged fiscal deficits of around 4.5 percent of GDP. Fiscal outturns have been less expansionary than envisaged, with capital spending increasing more modestly than programmed—but with a significant increase in poverty-reducing spending.

- Programs are largely centered around avoiding nonconcessional financing from both domestic and foreign sources. Thus, to a large extent, the level of the budget deficit seems to be determined by the level of external concessional financing, as increased domestic financing is usually not targeted.
- The growth of reserve and broad money has tended to exceed program targets, accommodating unforeseen declines in velocity. It is unclear whether limits on domestic financing of the budget in PRGF-supported programs have allowed higher credit growth to the private sector.

INDEPENDENT VIEWS OF THE IMF'S ROLE IN LOW-INCOME COUNTRIES

A 2004 evaluation of PRSs and the PRGF by the IMF's Independent Evaluation Office (IEO) found limited progress in embedding the PRGF into national strategies for growth and poverty reduction, despite evidence of a greater pro-poor and pro-growth orientation in PRGF-supported programs. These shortcomings are explained by the IEO as reflecting a lack of clarity about what the IMF should be delivering in some areas, and insufficient recognition of the qualitative changes implied by the PRS approach for the IMF's "way of doing business." The IMF's role in the PRS process, and by implication the PRGF, are thus seen as falling short of the ambitious expectations set out in the original policy documents (box 6.11).⁴⁶

Other critics echo these points—in particular, IMF-supported programs are seen as constraining budgets to the envelope of available external financing, rather than considering the policies needed to achieve the MDGs and then identifying and helping to mobilize the necessary resources. Critics have also

BOX 6.11 Recent evaluations by the IMF's Independent Evaluation Office

In recent years the IMF's Independent Evaluation Office (IEO) has conducted several major reviews. This box summarizes the key recommendations of evaluations conducted in 2004. A more complete picture of the IEO's activities can be found in its 2004 annual report.

Poverty reduction strategies and the Poverty Reduction and Growth Facility

The IEO found IMF participation in the formulation of PRSs to be broader than in previous years, though not necessarily drawing more on country institutions. Ownership results were mixed, with the least change in macroeconomic policy areas. PRSs had a greater focus on poverty and a somewhat stronger results orientation, but largely fell short in providing strategic roadmaps for policy formulation, addressing difficult tradeoffs, setting out clear priorities, and addressing capacity constraints, particularly in budget and expenditure management.

The IEO found some progress with respect to the key features of PRGF-supported programs set out in the original policy documents, particularly in mature stabilizers—with a marked increase in poverty-reducing expenditures, greater fiscal flexibility, some streamlining of program conditionality, and a greater willingness to consider alternative country-driven policies. But progress was found to be relatively limited in other areas, with little broad discussion of policy alternatives and of the need to strengthen country-specific growth analysis underpinning programs, and an absence of clear links in program documents between growth, poverty, and macroeconomic policies.

Recommendations included: increasing the flexibility of PRS implementation to better fit specific country needs; shifting emphasis from the production of documents to the development of sound domestic policy formulation and implementation processes; clarifying and redefining the purpose of the IMF–World Bank Joint Staff Assessment mechanism; clarifying the implications of the PRS approach for the IMF's operations and strengthening its implementation of that role; strengthening prioritization and accountability on what the IMF is supposed to deliver within the PRS framework; and strengthening the framework for establishing the external resource envelope as part of the PRS approach.

The IMF's role in Argentina, 1991–2001

The IEO found weaknesses in the IMF's pre-crisis surveillance of Argentina's economic policies. There was little in-depth discussion of exchange rate policy until early 1999, and fiscal policy discussions paid inadequate attention to provincial finances and overestimated the sustainable level of public debt. There was also little progress in fiscal structural reforms and a lack of strong structural conditionality in IMF programs. The critical shortcoming of the crisis management period (2000–1) was a failure to have in place an exit strategy, including a contingency plan, given the known risks.

Lessons drawn included that the IMF should have a contingency strategy from the outset of a crisis, with “stop-loss rules” to determine when a change in approach is needed and a clearly defined role when confronting a solvency problem. In addition, assessments of debt and exchange rate sustainability should be intensified and expanded to cover vulnerabilities that could surface over the medium term. Moreover, the IMF should not enter into a program relationship with a country if there is no immediate balance of payments need or if there are serious political obstacles to needed adjustments and reforms. Finally, the IMF Board should exercise effective oversight of management decisions, based on full access to necessary information and open exchange with management on all topics.

IMF technical assistance

The IEO evaluation of IMF technical assistance emphasized the need for a medium-term framework to define technical assistance priorities, better filters for translating those priorities into resource allocations, greater involvement by country authorities in defining priorities and deeper commitment to implementing technical assistance recommendations, and greater efforts to measure the impact of such assistance. The evaluation also advocated drawing a clearer distinction between technical assistance provided in support of policy advice or program implementation and that aimed at longer-term capacity building, and shifting the emphasis from delivering technical assistance through missions and short-term assignments back to greater use of long-term resident experts.

Source: IEO 2004.

seized on the perceived lack of willingness to open up the debate on macroeconomic policy issues. The perceived lack of consistency between PRSs and PRGFs makes it difficult to discern the links between the two and has cast doubts on the extent to which the PRS approach has generated a greater poverty focus in IMF-supported programs.⁴⁷

Some of these problems may reflect shortcomings of the PRSs, which seldom contain a detailed discussion of the macroeconomic framework and necessary structural reforms, sources of growth, or the role of the private sector in generating that growth.⁴⁸ It is also unclear in many cases how the priorities of the PRS are reflected in budget allocation decisions.

But the IEO report also points to persisting ambiguities about the IMF's contribution to advancing the PRS process and achieving the MDGs, as well as overly ambitious expectations of the PRS process itself. Many of these questions can be answered through a clear definition of the IMF's role in the PRS approach, and in low-income countries more generally. Such efforts have already begun. Recent staff papers have set out key elements of a conceptual framework for the IMF's role in low-income countries articulated around a set of guiding principles, and work is under way to define specific aspects of this role (box 6.12).

Global Programs

As noted in the *Global Monitoring Report 2004*, the IMF plays a key role in promoting and helping to maintain a stable, open global economic and financial environment, and in preventing and resolving crises. It meets this responsibility through its program work; bilateral, regional, and multilateral surveillance; ongoing assessments of members' economic and financial vulnerabilities; and work on standards and codes.

Of note in the area of surveillance in 2004 was the further extension of the IMF's regional work, reflecting the increasing importance of regional organizations in economic and monetary policy. This work

encompasses a broad range of activities—including regular production of notes on regional outlooks and other issues, maintenance of dialogues with various regional forums, and research on regional issues—that feed into bilateral and multilateral surveillance. Better integration of these activities and better assessment of potential global and regional spillovers have been explicitly recognized as priority areas of work over the next two years.

In addition to its regular Article IV consultations with individual member countries and regional organizations, in 2004 the IMF completed the *Biennial Review of IMF Surveillance*. The review found IMF surveillance to be generally well focused, but suggested some improvements, including better integration of bilateral, regional, and multilateral surveillance; fuller treatment in Article IV consultations with the largest IMF members of the global impact of their economic conditions and policies; clearer and more candid treatment of exchange rate issues; wider coverage of financial sector issues; and refinements of the vulnerability and sustainability assessments. The review also noted the scope for Article IV reports to draw more on analysis of relevant issues conducted by third parties, including other donors. Looking ahead, specific monitorable objectives have been proposed for assessing the effectiveness of surveillance in the next review. It has also been decided to extend formal procedures for IMF surveillance of the euro area to the other three currency unions; a policy paper on surveillance in currency unions is planned for 2005.

In the context of joint work with the World Bank on standards and codes, by the end of 2004 the IMF had completed Reviews on the Observance of Standards and Codes (ROSCs) in 119 countries and Financial Sector Assessment Programs (FSAPs) in 18 countries. In addition, 82 countries had participated in the IMF's General Data Dissemination Standards, and 58 countries had subscribed to the Special Data Dissemination Standards.

In the area of crisis prevention and resolution, the IMF continued its monthly vul-

BOX 6.12 Key elements of the IMF's role in low-income countries

A conceptual framework for the IMF's role in low-income countries was presented to its Board in August 2004. Although a final decision has not been made on this framework, its key elements include:

- *Strengthening PRGF program design* through better analysis of growth and greater use of alternative scenarios and stress tests in dealing with exogenous shocks, systematic integration of fiscal and debt sustainability analyses, analysis of the macroeconomic impact of higher aid flows, and support for country authorities in defining the linkages between realistic baseline macroeconomic frameworks and more ambitious frameworks for scaling up efforts to reach the MDGs.
- *Improving coordination* of IMF support for PRS implementation with efforts by other partners, including by providing timely assessments of the macroeconomic situation.
- *Demonstrating the linkages between PRGF arrangements and PRSs*, through clear descriptions of the alignment of PRGF objectives and conditionality with PRS priorities in PRGF documentation.

In September 2004, partly in response to evaluations of the PRS process by the IMF's Independent Evaluation Office and the World Bank's Operations Evaluation Department, the IMF and Bank Boards made several changes in the PRS architecture. These amendments—particularly the elimination of the requirement of Board endorsement of the PRS as the basis for IMF–Bank concessional lending—aim at strengthening country ownership of the PRS process and its underpinning in domestic processes, and reducing the perception of the need for “Washington signoff” on PRSs.

In 2005 the IMF's Board will consider policy papers that pertain to several aspects of IMF activities in low-income countries:

- Signaling and donor coordination in low-income countries.
- The role of IMF staff in the PRS process.
- The triennial in-depth review of the PRS process, jointly with the World Bank.
- Options and instruments for helping countries deal with exogenous shocks (for example, in January 2005 the Board approved subsidization of the IMF's emergency assistance for natural disasters).

IMF staff are also elaborating issues related to fiscal policy and public investment, based on an analytic framework recently tested through eight pilot country case studies. Many of the pilot countries were found to have sizable infrastructure needs. But they also face important tradeoffs and complementarities between infrastructure and other investment spending needs (including for human capital) and current spending items (such as in health and education). On its own, infrastructure spending may have limited effect in enhancing growth, and the various tradeoffs will have to be addressed on a case-by-case basis.

In general, countries with a high public debt burden have limited scope for increasing public investment. Moreover, additional room for infrastructure spending cannot result from changes in fiscal accounting. Thus desired increases in public infrastructure investment would need to be achieved first and foremost through increases in public savings. The pilot country studies also confirm that, in general, there is significant scope for improving the quality of government infrastructure spending through better project evaluation, prioritization, and management. In many countries this will need to go hand in hand with improving the coverage of fiscal accounts. The IMF and World Bank are working together on ways to safeguard productive public investment and improve its planning and oversight within a stable fiscal and macroeconomic framework. The full findings from the pilot country case studies are expected to be available in April 2005.

Finally, as part of its ongoing research on low-income countries, in February 2005 the IMF co-hosted with the World Bank an international conference on macroeconomic issues in low-income countries.

Source: IMF 2004b, c.

nerability assessments as part of an early warning system that allows emerging problems to be identified and addressed before they develop into crises. The IMF has also actively supported the introduction of collective action clauses and codes of conduct in sovereign bond issues. Another area of recent work concerns the development and refinement of financial soundness indicators and policies on contingency financing arrangements. In addition, increased publication of policy papers and country reports has facilitated better risk assessment by the private sector and helped mobilize support for policy actions.

The IMF has also been increasingly active in promoting the coherence of developed country policies, as called for in the Monterrey Consensus. In addition to calls for donors to increase their official development assistance (ODA) consistent with their commitments at Monterrey, the primary focus of this effort has been on trade-related issues.

Accordingly, the IMF has stepped up its surveillance of trade-related issues. Since the start of the Doha Round there has been a significant focus—in Article IV consultations, management’s public communications, and other forums—on trade policies in large developed countries, especially with regard to policy spillovers, trade-related macroeconomic vulnerabilities, and regional trade initiatives.⁴⁹ In addition, IMF staff have undertaken a significant amount of trade-related research.⁵⁰

The trade focus in IMF-supported programs has shifted from trade policy measures to trade administration. In 2004 the IMF further increased its focus on trade vulnerabilities in its program work with the introduction of the Trade Integration Mechanism, through which it will support members in designing appropriate adjustment policies to trade-related shocks and provide financial assistance to help address any related balance of payments problems.⁵¹

In 2005 the IMF will complete a review of its trade policy advice. It is also stepping up its work on remittances, which represent a

potentially major source of development finance (the spring issue of the IMF’s *World Economic Outlook* will contain a section on remittances) and its participation in various initiatives related to efficient management of natural resources, including the Extractive Industries Transparency Initiative. The IMF is also intensifying its analysis of the impact of HIV/AIDS on country economic performance and addressing the operational issues confronting HIV/AIDS donors in working with IMF staff.

In other areas, the IMF continues to play a major role in implementing the HIPC Initiative and other debt relief proposals. It also recently participated in two of the task forces that contributed to the final report of the Millennium Project, and continues to collaborate closely with the UN system in implementing the PRS approach at the country level and in following up on the commitments made at the Monterrey conference.

Partnerships

As noted in the *Global Monitoring Report 2004*, in supporting the PRS approach and in all its activities related to the MDGs, the IMF’s principal partner is the World Bank. It has also deepened its partnerships with other agencies and institutions, including the UN system, and intensified the dialogue with parliaments, trade unions, and nongovernmental and civil society organizations.

Three areas of cooperation with the World Bank received increased attention in 2004. First, the framework for debt sustainability analysis, initially developed for middle-income countries, has been jointly adapted and extended to low-income countries to strengthen their debt management. This is particularly important in the context of pledges of substantial increases in aid flows, as well as concerns over rising debt levels in post-HIPC completion point countries. Second, the IMF and the Bank continue their close collaboration in further streamlining their structural conditionality.⁵² Third, IMF

and World Bank country teams collaborate closely to identify needs for analysis of the poverty and social impacts of planned reforms in PRSs. While the Bank naturally has the lead in many areas, the IMF has created a special Poverty and Social Impact Analysis (PSIA) Unit to conduct some of this analysis in the IMF's areas of competence, identify relevant PSIA work done elsewhere, and support country teams in integrating the results of PSIA into Poverty Reduction Strategy Papers (PRSPs) and IMF program designs. The IMF and the Bank also continue their close collaboration on policies governing the enhanced HIPC initiative (on topping up and sunset clause arrangements); and the IMF worked closely with the Bank in preparing the 2004 report to the Development Committee on aid effectiveness and financing modalities.⁵³

The importance of IMF collaboration with other donors in its country work has risen with the emphasis in the Monterrey Consensus on building effective partnerships for achieving the MDGs. Donor coordination in supporting PRS implementation and in aligning their programs with country priorities is a critical element of the PRS approach, and enhances aid effectiveness by simplifying and harmonizing donor procedures. The IMF has been an active participant in work in the OECD's Development Assistance Committee (DAC), the Strategic Partnership with Africa (SPA), and other forums to advance the donor harmonization and alignment agenda, leading up to the Second High Level Forum on Aid Effectiveness, held in Paris in March 2005.⁵⁴ For the IMF a key aspect of this collaboration is its role in providing signals to donors.

The IMF's partnership with the WTO is of growing importance in the context of their mutual interests in advancing the Doha Round and further developing the multilateral trading system. Management and staff of both institutions enjoy excellent working relationships and collaborate closely on a wide range of issues.⁵⁵

Another major area of IMF collaboration with donors is technical assistance. A recent

IEO review of the IMF's technical assistance and a forthcoming independent midterm assessment of its African technical assistance centers underscore the rising importance of this collaboration.⁵⁶ But both reviews also noted the absence of an effective medium-term framework for prioritizing and coordinating the technical assistance provided by different partners, and argued that a country's PRS should provide such a framework. About one-third of IMF technical assistance is funded by other donors.

Finally, the IMF will strengthen its collaboration with the UN system, particularly the United Nations Development Programme (UNDP), in helping countries adapt the MDGs to their specific circumstances, and reflect them in their PRSs. Increasing emphasis will be placed on enhancing countries' systems for monitoring and evaluating performance, consistent with the managing for development results agenda set out at Marrakech in 2004.

Quality and Results

The IMF has several means of ensuring quality control. First, there are regular reviews of IMF policies and facilities, as well as progress reports on, and periodic updates and revisions of, the operational guidance notes provided to staff for their implementation. This process ensures that policies and facilities are appropriately adapted to the requirements of IMF members and the changing economic environment, and that their implementation by staff takes into account changing circumstances and emerging best practices. In 2004 reviews and progress reports of policies and facilities were conducted in virtually all areas of IMF activities, including surveillance, lending facilities, program design, crisis prevention and resolution, collaboration with the World Bank, the HIPC Initiative, the PRS approach, and standards, codes, and transparency. In early 2005, the Executive Board discussed the review of the implementation of the 2002 conditionality guidelines. Other major assessments planned for 2005 include the review of PRGF program

design and of access policy; and the triennial in-depth review of the PRS approach. Policy work is also informed by the IMF's ongoing research activities, by in-depth analytic studies of specific country experiences in working papers and occasional papers, and by the selected issues papers that accompany Article IV consultation reports.

Targeted reviews by the IMF's Independent Evaluation Office (IEO) are another major element of efforts to enhance the quality and effectiveness of IMF activities. In 2004 the IEO conducted major evaluations of PRSs and the PRGF, IMF involvement in Argentina, and IMF technical assistance (see box 6.11). Ongoing projects include evaluations of the IMF's approach to capital account liberalization; the financial sector assessment program; and IMF assistance to Jordan. The IEO's work program for 2005 may include assessments of experiences with structural conditionality, bilateral surveillance in large developed countries, policy advice on exchange rates in the context of surveillance, data dissemination standards, and IMF experience in a low-income economy.

It is difficult to measure the impact of the IMF's activities because the intended "outcomes"—improved economic stability and performance among its members, increased stability of the international economic and financial system, and more favorable conditions for global growth and prosperity—depend on more than just IMF inputs. In most cases results are affected by a variety of factors, including policy implementation and exogenous influences. Moreover, the causality between a specific policy action and a given result is often difficult to establish or to measure in the short term. Comparing the targets and outcomes of IMF-supported programs is thus complex and difficult, and may not generate conclusive results to guide future action.

In measuring the effectiveness of the IMF's contributions to the MDGs, it would be useful to rely on parameters measuring the extent to which its PRGF is linked to a country's PRS and has the features set out in the

original policy documents. First and most important is the linkage between the macroeconomic framework of an IMF-supported program, the country's budget, and the poverty reduction effort. A key issue here would be how the program contributes to overcoming constraints to growth. An assessment of the quality and scope of the policy dialogue can give a sense of the extent of country ownership. This includes the nature and extent of IMF staff participation in the PRS process and the method used to set program targets and objectives—and how they are adjusted to accommodate higher aid inflows or to reflect the PSIA of critical reforms. The links between program conditionality and PRS priorities, and the timing of PRGF missions and reviews, would give a sense of the alignment of the content and process of the PRGF with the PRS.

Performance could be assessed by monitoring the extent to which IMF program documents frame the PRGF-supported program in terms of the country's objectives and plans for reaching the MDGs, and address these specific aspects. Combined with regular internal reviews, progress reports, and updates of guidance notes, evaluations by the IEO, and follow-up to the conclusions of these and other external reviews, it should be possible to measure progress over time in adapting IMF policies and operations to help countries meet the challenges of the MDGs.

Conclusion

Earlier chapters of this report have analyzed progress on, and prospects for, meeting the MDGs, identifying priority actions for developing and developed countries alike. Against that background, this chapter has considered how international financial institutions are contributing to the international effort to achieve the MDGs and related development outcomes and how they can strengthen and sharpen their support. This section summarizes the chapter's conclusions for the international financial institutions and ends with some implications going beyond them.

Low-Income Countries

For low-income countries the priorities for international financial institutions are to support the deepening of the PRS framework and to align their assistance with that framework. For low-income countries under stress (LICUS), support for building institutional capacity is especially important. The good news is that recent replenishment agreements for the African Development Fund, Asian Development Fund, and IDA have endorsed a common approach to reliance on PRSs and national strategies, including for operationalization of the MDGs, grants, debt sustainability, disclosure of country policy and institutional assessments, results-based country strategies, results measurement systems, and special programs for LICUS. As these replenishments cover some 95 percent of multilateral development banks' programs in low-income countries, they provide a solid base for accelerating implementation of these initiatives and harmonizing them across the banks. Reflecting independent assessments by their evaluation departments, the World Bank and IMF need to support stronger country leadership of the PRS process, while deepening their dialogue with clients on the policy agenda. Clearer country ownership of PRSs, with the Bank and IMF providing their views through Joint Staff Advisory Notes, will also help clarify the accountabilities of Bank and IMF staff relative to country authorities.

Middle-Income Countries

For middle-income countries the priority for international financial institutions is to continue to adapt approaches and instruments to respond to these countries' evolving and varying needs, including by streamlining conditionality and simplifying processing requirements for investment lending (also important for low-income countries). For middle-income countries there has been a trend toward harmonization across the multilateral development banks, albeit at a slower pace than for low-income countries—reflecting the differentiated needs of middle-income countries. These

countries have been vocal in calling for reductions in the costs of doing business with the banks, especially when those costs arise in the context of replenishment exercises for concessional funds that they cannot access. Healthy competition among the banks has led to the transmission of innovations across them, such as liberalization of expenditure eligibility categories for investment lending and reliance on country systems. Going forward, the banks' increasing collaboration, including their participation in joint workshops with bilateral agencies on concerns of middle-income countries, should provide a vehicle for more regular cross-fertilization on these issues and help hasten the speed and transmission of innovation.

Knowledge and Capacity Building

To ensure that the opportunities emerging from the recommendations for dismantling trade barriers and increasing the scale and effectiveness of aid set out in earlier chapters can be taken advantage of, international financial institutions need to upgrade their support for and monitoring of country capacity building for trade, private sector-led growth, and public financial management and accountability. Research by these institutions has helped articulate the global development agenda, making notable contributions on trade, aid, and the enabling climate for private sector-led growth, as reflected in earlier chapters. International financial institutions have also contributed much on building trade capacity—particularly through support for trade facilitation, financial services, and transport infrastructure—and on enhancing countries' fiduciary and fiscal systems for the absorption of aid. But they need to do more—including systematically tracking key capacity gaps and investing more in country-level knowledge as a basis for informing the composition and design of their own and partners' programs. In this context, the recent announcement that the multilateral development banks will extend Business Environment and Enterprise Performance Surveys (BEEPS) to all developing countries is especially welcome.

Partnerships

The multilateral development banks are partnering more effectively with their clients, with each other, and with other donors. This progress is partly due to the developments cited above with respect to replenishments of the banks' concessional windows and greater reliance on country systems for processing the banks' funding. In terms of civil society, disclosure remains a divisive issue; despite improvements, many critics feel that international financial institutions do not meet a standard of accountability commensurate with their power and influence in key areas. But recent and pending changes in AfDB, ADB, and World Bank disclosure policies signal further progress. Meanwhile, World Bank-IMF relations have continued to mature, based on comparative advantage and a mandate-driven division of labor highlighted by ongoing collaboration on PRSs, debt sustainability analysis and its application to concessional and grant financing, and further streamlining of structural conditionality. Going forward, in line with the Paris Declaration on Aid Effectiveness, multilateral development banks need to continue to strengthen partnerships and harmonization by enhancing the flexibility of their assistance (through continued simplification and use of sector-wide approaches, or SWAs) and promoting the development and use of country systems—for procurement, financial management, and environmental assessment.

Results

In 2004 several milestones were reached in building results-based systems in the multilateral development banks. These included completion of the first cycle of the IDA13 Results Measurement System; adoption of the IDA14 and African Development Fund X Results Measurement Systems; completion of results-based country strategy pilots by the ADB and World Bank and their commitment (along with the AfDB) to conduct further pilots in 2005; the IDB's adoption of

the Medium-Term Action Plan for Development Effectiveness; the new independence of the ADB's evaluation department; the recent launch of the (draft) *Results Sourcebook* prepared jointly by these institutions and bilateral donors; and the PRS evaluations carried out jointly by OED and IEO—in addition to continuing progress on statistical capacity building, results-based public sector management, the quality agenda, and the Global Partnership on Managing for Development Results. Meanwhile, the IMF is considering how to conceptualize and operationalize the results agenda within its institutional framework, drawing on recommendations from its IEO. Going forward, the international financial institutions must continue to focus on results and accountability, by supporting country efforts to manage for development results (strengthening public sector management and development statistics) and advancing internal efforts to enhance the results orientation of their country strategies and programs and quality assurance processes. Immediate priorities include adoption of a common framework for self-evaluation of multilateral development bank performance and results measurement, with adaptations that allow for consideration of IMF operations as much as possible, and follow-through on the Paris High Level Forum commitment to support regional communities of practice in managing for development results, including through a focused learning process in selected developing countries.

Beyond International Financial Institutions

The following priorities relate contributions by international financial institutions to the broader international institutional context.

HARMONIZATION, ALIGNMENT, AND RESULTS

The Paris High Level Forum on Harmonization, Alignment, and Results brought together developing countries, bilateral donors, global

funds, UN agencies, civil society, and international financial institutions to assess progress and chart the way forward, including through monitoring of agreed indicators of progress. Key components of the agreement involve aligning international support around national development strategies and using strengthened country systems—for public financial management, accounting, auditing, procurement, results frameworks, and monitoring—to provide assurances that aid will be used for agreed purposes. This agreement places a premium on credible analysis of the adequacy of country systems for amounts and modalities of donor support. It also places a premium on integrating the economic and sector work prepared by international financial institutions and others, especially in terms of assessments of underlying country financial accountability systems and priorities needed to improve them, within the country-led framework for capacity development.

MONITORING AND EVALUATION

Credible monitoring and evaluation are at the core of an effective multilateral system. International financial institutions have made progress on this front, and it will be important to bring the PRS approach to bear on the evaluation end of the country programming cycle, bringing together the multilateral development banks' country assistance evaluations, the OECD Development Assistance Committee's joint donor peer reviews, and the United Nations Development Programme's country program evaluations in a way that focuses on agency contributions to the achievement of country outcomes. But the lessons of a well-functioning monitoring and evaluation system go beyond work on countries, and are also relevant for managing global public goods. Ongoing work by the Secretariat of the International Task Force on Global Public Goods has focused on the monitoring and evaluation efforts of the lead international institutions for global public goods—such as the IMF for international financial stability, the World Trade Organiza-

tion for trade, the World Health Organization for disease control, and the UN Security Council for peace and security—calling for more systematic attention to them and citing the IMF's work with its Article IV consultations, Reviews on the Observance of Standards and Codes (ROSCs), and *World Economic Outlook* and other reports as a good-practice example.⁵⁷ It has also called for a periodic apex monitoring report on global public goods, along the lines of the *Global Monitoring Report*. If such a report is launched, close coordination with the *Global Monitoring Report* process will be needed to ensure coherence and avoid duplication.

VOICE AND PARTICIPATION

Early on, when profiling the multilateral development banks, this chapter highlighted the differences in developing country ownership shares across them. But the analysis suggests that key drivers of bank differences are also their varying client bases and mandates, with the banks moving in similar directions in the way they deal with similar clients. The IMF is also moving in similar directions on transparency and conditionality, though its unique mandate continues to set it apart from the multilateral development banks despite the ownership structure it largely shares with the World Bank. International financial institutions have acted progressively on transparency, and the reform process is still under way. But the voice issue (voting shares and quotas, distribution of Board seats) continues to affect the perceived legitimacy and effectiveness of the World Bank and IMF, and constrains their effectiveness as partners in the international development system. The 2002 Monterrey Consensus encouraged the Bank and IMF to enhance the participation of developing and transition economies in their decisionmaking, and “thereby to strengthen the international dialogue and the work of those institutions as they address the development needs and concerns of those countries.”⁵⁸ This issue is in urgent need of resolution.

Notes

1. See African Development Fund replenishment documents on www.afdb.org and Asian Development Fund replenishment documents on www.adb.org.
2. See OED (2004e) and IEO (2004b).
3. See OECD DAC (2005a).
4. See OECD DAC (2005b).
5. See worldbank.org/INTLICUS/Resources/taskforceonlicus.pdf.
6. The seven countries benefiting from the facility are Burundi, Central African Republic, Republic of Congo, Côte d'Ivoire, Liberia, Somalia, and Sudan. Two other postconflict countries that are not yet beneficiaries are Comoros and Togo. The facility is designed to help clear the arrears of eligible countries so that they can qualify for debt relief at decision points under the enhanced HIPC Initiative and otherwise reengage with the African Bank Group and other international financial institutions.
7. Nine middle-income countries are eligible for concessional IDA resources under the small island economy exception: Cape Verde, Dominica, Grenada, Maldives, Samoa, St. Lucia, St. Vincent and Grenadines, Tonga, and Vanuatu.
8. See OED (2004g).
9. See, for example, IDB (2004f). See also IDB (2002b, 2003a).
10. Strictly speaking, this covers only the majority of instruments. Guarantees and deferred draw-down operations, among others, are *sui generis*.
11. See ADB (2001).
12. See OED (2003c).
13. Costs of doing business associated with long processing and approval times, high front-end costs, and delays to satisfy social and environmental requirements have been identified as a factor affecting borrowing from the IDB. See IDB (2004g).
14. See OED (2004g).
15. See AfDB (2004a).
16. See, for example, IDB (2004d, e).
17. See OED (2004a).
18. See <http://rru.worldbank.org/InvestmentClimate>.
19. The EBRD's Project Evaluation Department reviewed this program in 2003 and confirmed its positive transition impact, while recommending improvements. See EBRD (2003).
20. See IDB (2004h).
21. See ADB (2004h).
22. See <http://www.adb.org/Documents/Events/2005/Rehabilitation-Reconstruction/default.asp>.
23. See OED (2002).
24. See OED (2004f).
25. See OED, OEG, and OEU (2004).
26. <http://www1.worldbank.org/harmonization/Paris/FINALPARISDECLARATION.pdf>.
27. See www.mfdr.org/sourcebook.html.
28. See World Bank (2003).
29. Since 2002, when new fiduciary processes were introduced to allow the World Bank to participate in pooled financing arrangements, its lending using SWAPs has risen. In fiscal 2004, 13 projects used such approaches, up from 4 in fiscal 2003.
30. Statistics include delivered, ongoing, and planned documents.
31. See IEO (2004b) and OED (2004e).
32. See IMF (2004g).
33. The Public Expenditure and Financial Accountability (PEFA) program, supported by the U.K. Department for International Development, European Commission, IMF, and World Bank, among others, was developed to coordinate and integrate participating agency support for capacity building in areas related to financial accountability.
34. The Partnership in Statistics for Development in the 21st Century (PARIS21)—created in 1999 by the United Nations, OECD, World Bank, IMF, and European Union—helps countries develop well-managed and appropriately resourced statistical systems as the foundation for effective development policies. With its worldwide membership, PARIS21 promotes evidence-based policymaking and monitoring in all countries, especially poor countries. See www.paris21.org.
35. See AfDB (2004a).
36. See IDB (2004b, c).
37. See African Development Fund (2003).
38. See Danida (2005).
39. These categories were not applied to the EBRD, given its transition mandate.
40. See MOPAN (2003, 2005).
41. See GAO (2001, 2004a, b).
42. The U.S. Treasury, IMF, and World Bank all provided critical comments on the methodology used, but the GAO did not take them into account.
43. See <http://www.ifitransparencyresource.org/en/Index.aspx>.
44. See IMF (2003b).

45. The countries are Albania, Azerbaijan, Bangladesh, Benin, Ethiopia, Guyana, Honduras, Kyrgyz Republic, Madagascar, Mongolia, Mozambique, Rwanda, Senegal, Tanzania, and Uganda.

46. See IMF (2000).

47. For example, see Bird (2004), Trócaire (2004), and Eurodad (2004).

48. See, for example, Fox (2004).

49. Trade policies formed an important part of the recently published Sub-Saharan Africa Regional Economic Outlook; see IMF (2004h).

50. Regional integration was the most prominent topic in trade-related research. Other recent studies include an analysis of the impact of exchange rate volatility on trade (<http://www.imf.org/external/np/res/exrate/2004/eng/051904.htm>) and a study of the impact of preference erosion on middle-income countries (<http://www.imf.org/external/pubs/ft/wp/2004/wp04169.pdf>).

51. See IMF (2004a). In July Bangladesh became the first country to obtain funding under this mechanism.

52. A recent staff study and an evaluation by the Independent Evaluation Office both confirmed a clear reduction in structural conditionality in

recent PRGF arrangements, and the IMF and World Bank are both currently assessing whether conditionality has in fact decreased, consistent with rising country ownership of programs (particularly under the PRS approach) and continuing improvements in policy formulation and implementation in developing countries. See IMF and World Bank (2004b).

53. See Development Committee (2004).

54. Because IMF-supported programs are often aligned with members' budget cycles, at least initially, the alignment of the PRGF with PRSs would be greatly facilitated by the internal alignment of the PRS cycle with the budget cycle. The principle of aligning the PRGF with the PRS cycle was discussed by the Executive Board in April 2003; see IMF (2003a).

55. For example, the August 2004 framework agreements call for consultation with the IMF and other agencies to direct resources toward developing economies where cotton is vitally important.

56. See IMF (2005).

57. See www.GPGTaskForce.org.

58. See World Bank (2004e).