

Leveraging through the International Financial Institutions

The past year has seen a continuation of a trend of diminishing importance of the international financial institutions (IFIs) in terms of their net financial flows. The multilateral development banks (MDBs) now account for only 8 percent of net official development assistance (ODA). But this does not necessarily imply declining relevance. The true measure of the impact of IFIs in a rapidly changing global environment must consider the leverage—beyond financing—in achieving collective action on development and implementing an ever-more-important global and regional public goods agenda. The IFIs should be assessed on results, on policy change at the country level, on institutional learning, and on harmonization and improved effectiveness of the aid architecture. Through their country operations, as well as their regional and global-level work, the IFIs are supporting the MDGs, linking these with poverty reduction strategies, medium-term expenditure frameworks, annual budgets, specific investments, policies, and programs in each country.

The IFIs are operating in a world of rapid change. Developing countries generated 70 percent of global growth in 2007.¹ Three-fifths of the developing world's population is living in countries that are growing strongly and where poverty is being reduced rapidly.

Some large developing countries are now global exporters of capital, technology, and entrepreneurial know-how. Yet, there are some 40 countries, with one-fifth of the developing world's population, with low incomes, slow growth, and poor progress on poverty reduction. Some countries are seeing a boom based on natural resources or manufactured exports. Others are suffering from deteriorating terms of trade or are losing market share in traditional exports. In this multipolar world, the IFIs face an array of clients with vastly different needs and aspirations.

Nowhere is this change seen more clearly than in financial markets. Eighty-six developing countries have ratings on their international bonds and have access to global capital pools in rich and developing countries. Flows of capital, goods, and technology to most developing countries are now dominated by market forces rather than intermediated through official aid agencies. Many multinational firms are displaying greater social activism through their direct activities and through corporate philanthropy. With thousands of international nongovernmental organizations (NGOs), tens of thousands of developing-country NGOs, and hundreds of thousands of community-based organizations in developing countries, the number of actors in development has grown significantly.

Many of these new organizations are focused on specific issues of hunger, environment, education, health, or children—the so-called vertical funds that have become important. These agencies can promote efficiency by providing specialized expertise and focused results, but they can also reduce effectiveness by complicating efforts to achieve policy coherence and by distorting national priorities.

There is broad recognition that the development architecture must change in response to these global trends. The year 2008 represents the midpoint for achievement of the Millennium Development Goals (MDGs). Ministers and senior officials from over 150 countries will meet in September this year, in Accra, Ghana, at the Third High-Level Forum on Aid Effectiveness to recommend actions to ensure faster, broader, and deeper implementation of the Paris Declaration principles. They will also meet in Doha, Qatar, in December to follow up on the financing for development arrangements initiated at Monterrey, Mexico, in 2002. These two events are likely to highlight that greater urgency is needed to scale up financing for development and improve aid effectiveness.

In 2007 IFIs continued the process of shifting strategies in response to the changed global environment. They defined new priorities for differentiated clients, introduced new lending and nonlending instruments, and added more emphasis to regional and global public goods to complement their country-based approaches. At the same time, the IFIs continue to play their traditional roles in helping countries manage market turbulence and high and volatile commodity prices, as they are currently experiencing, and providing financing, knowledge, and technical assistance to countries.

MDB operations increased in volume in 2007, with a record \$49 billion in gross disbursements, reflecting higher concessional flows and nonconcessional, nonguaranteed flows to the private sector. Total net nonconcessional flows turned slightly positive in 2007 after four years of being large and

negative. Additional financing was provided by the leverage obtained through cofinancing and guarantee operations, which have been growing.

Replenishment of concessional windows in 2007 constitutes a significant achievement. Growth in MDB nonsovereign, non-guaranteed disbursements shows a shift toward greater support for the private sector. Africa, Asia, infrastructure, and higher education are areas seeing the most rapid increase in financial support. International Development Association (IDA) financing for primary education fell. Evaluations suggest that there has been a significant underinvestment in regional projects.

The IFIs are devoting large and growing amounts of their own and trust-fund resources to knowledge activities and are decentralizing operations to strengthen dissemination. But the practical experiences—both successes and failures—of middle-income developing countries are only just starting to be tapped. There appears to be strong demand for IFI knowledge services from all types of clients, but the business model for financing knowledge needs to evolve. IFI revenues traditionally are based on lending and may not easily be deployed in middle-income countries where lending has declined or for regional and global public knowledge goods.

IFI results improved in 2007, in terms of selectivity, harmonization, and managing for results. But much remains to be done in terms of strengthening relevance and enhancing support to meet the MDGs. Although there are multiple IFI assessments, including self-assessments, these are non-comparable and provide mixed results.

In 2007 there is evident progress toward strengthening developing-country platforms: 13 percent of low-income countries are deemed to have fully developed operational strategies, while another 67 percent have taken action to develop such strategies. In the former group of countries, a shift toward risk management approaches in delivery mechanisms rather than ex ante control mechanisms

would permit greater use of country systems and speed disbursements without necessarily sacrificing effectiveness. The issues are more challenging in roughly 20 percent of countries—including most fragile states—where only rudimentary elements of operational development strategies exist. Fiduciary and effectiveness problems limit country capacity to absorb larger IFI resources.

The increased focus on regional and global public goods is welcome but requires that IFIs adapt internal structures to complement country-based approaches. New organizational structures have been developed in 2007, such as departments for regional activities, dedicated climate change teams, and international partnerships for health and trade. Climate change and environmental management issues are being mainstreamed into country strategies. Effectively responding to the expanding global and regional public goods agenda will require continued adaptation and innovation.

New Strategic Frameworks

Each of the IFIs is adapting its strategy in light of global trends and recognition that more is needed to help many countries achieve the MDGs. Most countries face broader options in their financing, but low-income countries still receive little private capital (4 percent on average in 2000–05). Countries are also wrestling with issues of how to manage globalization in an inclusive and sustainable way, prompting them to demand more knowledge services from the IFIs. Globally, public goods in health, trade, financial stability, and the environment have taken on greater prominence, and the IFIs are being called upon to respond.

This year, the Asian Development Bank (ADB) discussed a report of an “eminent persons group” that laid out a long-term vision.² The World Bank Group issued a document describing its long-term strategic challenges, and its new president outlined a vision for the institution.³ In 2006 the International Monetary Fund (IMF) released a

medium-term strategy, aimed at modernizing surveillance, strengthening crisis prevention in emerging market countries, and clarifying its role in low-income countries. Building on this initiative, the Fund is currently refocusing its operations while maintaining its strong engagement with low-income countries. The African Development Bank (AfDB) commissioned a high-level panel to advise on a medium-term strategic plan.⁴ The European Bank for Reconstruction and Development (EBRD) implemented its Capital Resources Review 3 (approved in 2006). The Inter-American Development Bank (IDB) developed the Opportunities for the Majority and other new strategic initiatives.

Although each institution has tailored its new strategic direction to its own circumstances, there are some common themes. At the heart of the new strategies is a sense of rapid change in the world and of a shifting role of the IFIs to help countries manage change. The EBRD board has been explicit in “acknowledg[ing] the need for a change in the business model of the Bank in order to accomplish these objectives,”⁵ but all IFIs have introduced important shifts in strategy in the last year (table 5.1).

These shifts fall under three broad categories:

- A shift in client and business focus to promote inclusive and sustainable globalization
- An orientation toward knowledge and learning services
- A greater emphasis on global and regional public goods

Inclusive and Sustainable Globalization

While many countries have benefited from globalization, the gains are uneven. The IFIs are adapting their strategies to the reality that the benefits of globalization have been unevenly distributed both across countries and within countries. There is more that can be done to connect the “bottom billion” to the global economy.

TABLE 5.1 Strategic shifts by IFIs

IFI	Inclusive and sustainable globalization	Knowledge and learning	Regional and global public goods
International Monetary Fund	Macro management of scaled-up aid Economic recovery assistance program Emergency postconflict assistance	Modernizing surveillance Multilateral and regional consultations Assessing vulnerabilities to capital flows Policy support instrument	Financial stability Sovereign Wealth Funds
World Bank Group	Africa Fragile states Scaling-up aid delivery Middle-income countries Private sector development	Provide world-class knowledge Knowledge sharing and learning between clients Governance and anticorruption	Climate change Health Trade International financial architecture
African Development Bank	Infrastructure Private sector development Middle-income countries Postconflict and postcrisis countries	Governance Economic and financial reforms African experiences and perspectives	Regional integration Environment and climate change
Asian Development Bank	Infrastructure Financial development	Regional knowledge hubs Governance and anticorruption Capacity development	Regional integration Regional financial markets Climate change Regional health programs
European Bank for Reconstruction and Development	Early and intermediate transition countries, the Russian Federation	Life in transition survey	Sustainable Energy Initiative Energy efficiency and climate change team
Inter-American Development Bank	Opportunities for the Majority Initiative Infrastructure Investment Fund Disaster Prevention Fund Water and Sanitation Initiative	New evaluability instrument	Sustainable Energy and Climate Change Initiative

Each of the IFIs is emphasizing selectivity in choosing clients that are most in need of assistance. Both the IMF and the World Bank Group are adapting their assistance to low-income countries to take into account the new challenges faced by these countries; both IFIs also have developed new forms of assistance to fragile states. The IMF is using a new instrument—the Policy Support Instrument—for supporting countries that have become mature stabilizers; this new instrument provides assistance for the development of more advanced regimes and tools for macroeconomic policy

making. The IMF has also reviewed its engagement in postconflict and fragile states and has proposed a systematic medium-term approach under an economic recovery assistance program that would be more closely aligned with specific country conditions and that would give greater emphasis to coordinated support for rebuilding capacity. The World Bank has established a framework for sustained engagement in fragile states and an action plan for Africa. The AfDB is focusing on postconflict and postcrisis countries. The EBRD is shifting its focus away from the EU-8 accession coun-

tries to the east and south to early and intermediate transition economies and the Russian Federation. The ADB and the World Bank Group have also reaffirmed the importance of continued assistance to middle-income countries, which still have major concentrations of poor in their lagging regions. The IDB has introduced its Opportunities for the Majority Initiative as a means to create strategic partnerships among key actors to improve the lot of the poorest groups in its borrowing member countries.

A private sector supply response is necessary for countries to reap the full benefits of globalization, and most of the MDBs are strengthening their private sector development programs. The EBRD has traditionally been strong in private sector operations. The International Finance Corporation (IFC) has launched a pilot program with IDA to promote small and medium enterprises in Sub-Saharan Africa. But private sector support can also require specific sectoral approaches. Several MDBs, including the ADB, the World Bank Group, the AfDB, and the IDB, have underscored the priority that needs to be given to infrastructure. The IDB's Infrastructure Investment Fund and the World Bank's Infrastructure Action Plan are examples of how these priorities have been translated into concrete actions. The private sector has also benefited from the reduced macroeconomic uncertainties in poor countries resulting from the consistent application of coherent and sustainable macroeconomic policies and associated structural reforms, debt relief under the Heavily Indebted Poor Countries (HIPC) and the Multilateral Debt Relief Initiatives (MDRI), and the application of the debt sustainability framework by the IMF and the World Bank.

Societies that successfully integrate globally also develop social mechanisms for taking care of the most vulnerable groups. Recently, a rash of natural disasters has underscored the risks that are faced by many of the poorest. The MDBs have become more active in disaster response. In addition to humanitarian assistance, the IDB has established a Disaster Prevention Fund

to strengthen country capacity to identify natural disaster risks, design prevention and mitigation investments in high-risk areas, and improve early warning systems. The World Bank Group has established a new Caribbean disaster insurance fund.

Knowledge and Learning

All the IFIs have emphasized their knowledge and learning contributions to development and their desire to shift toward more knowledge-based institutions. But implementation of some of the changes has been controversial. The conventional wisdom about development effectiveness has been challenged both within and outside the IFIs. The IFIs are trying to diversify their instruments and approaches to reflect broader experiences with both success and failure in development, including lessons of experience from today's middle-income and poor countries and from the activities of other development actors like private foundations, international NGOs, and non-DAC (Development Assistance Committee) official donors. Marrying global and local knowledge remains a challenge for the IFIs.

Treatment of governance and corruption has been a more controversial area of the new knowledge and learning strategies. The World Bank, ADB, and the AfDB have elevated these issues to the top of the development discussion and are gaining experience with how to embed the lessons and research into operations, with country and sector selectivity and local capacity building. The World Bank has adopted an implementation plan on governance and anticorruption that has three objectives: promoting capable and accountable states and institutions; providing public services; and combating corruption.⁶ It has also launched the Stolen Assets Recovery Initiative (StAR). The ADB's second governance and anticorruption plan has completed its first year of implementation, focusing on the assessment of public financial management, procurement, and corruption risks at the project, sector, and country levels. But the bal-

ance between fiduciary soundness and scaling up financing remains hard to manage, and the burden of accountability on MDBs and developing countries for maximizing development results by striking the correct balance is high. The World Bank's recent Detailed Implementation Review of five health projects in India provided valuable insights into the risks of fraud and corruption in development operations, which would be important for all development partners. In their action plans that respond to the review, the Government of India and the World Bank have instituted new procedures and systems to mitigate these risks. In the coming months, similar measures will be agreed upon and rolled out as needed to operations across the World Bank.

In the area of support for economic and financial reforms, the ADB and AfDB are building their capacities to advise countries. The IMF has started to modernize surveillance and hold multilateral and regional consultations. In June 2007 the Fund adopted a new Decision on Bilateral Surveillance over Members' Policies to upgrade the foundations of Fund bilateral surveillance. Under the new decision, the concept of external stability becomes an organizing principle for surveillance, bringing greater clarity and specificity to the principles guiding members' exchange rate policies. The Fund is also strengthening the analysis of linkages between macroeconomic developments and financial markets and multilateral perspectives in bilateral surveillance. The World Bank has done much to reform the use of development policy lending and to improve support for policy and institutional reforms. Both the World Bank and the IMF have streamlined structural conditionality to reflect experiences with reform. The review of IMF conditionality conducted in 2005 showed that structural conditionality in Fund-supported programs has become more focused on macrocritical issues, more clearly formulated, and more closely linked to the core mandate of the IMF. A recent report by the IMF's Independent Evaluation Office on structural conditionality in Fund-supported programs confirms these

findings but identifies scope for further progress, including a more rigorous justification for conditions and a better explanation in program documents of the link between a program's goals and the conditions.

The IFIs are also putting greater focus on evaluation as a tool for generating knowledge. The IDB is developing a new evaluation instrument for its knowledge work. The World Bank Group is implementing a development impact monitoring and evaluation program to learn more rigorously from its project experiences.

Several IFIs have strengthened their efforts to help countries generate transparent statistics on development results and address the perceived gap in the links among inputs, outputs, and outcomes. The EBRD's Life in Transition Survey is a recent example of new data collection. The IMF is leading the way with its Special Data Dissemination Standards and new tools, such as the DataMapper, to make data more accessible and usable. The ADB's Fund for Statistical Capacity Building in Asia Pacific (FASTCAP) is assisting countries with weak capacity by providing long-term technical assistance.

Regional and Global Public Goods

The IFIs are intensifying their work on regional and global public goods through direct interventions and by creating an enabling environment to leverage private sector efforts. Climate change and energy efficiency will receive greater priority from the World Bank Group, the IMF, ADB, and the AfDB. The EBRD has established a sustainable energy initiative and is the first MDB to establish a specialized team to address such issues with its Energy Efficiency and Climate Change Team. The IDB has also adopted a Sustainable Energy and Climate Change Initiative to promote alternative energy sources and clean fuels.

More broadly, the ADB and AfDB have underscored the importance of regional economic integration across a number of sectors and given support to emerging regional institutions. The ADB is paying special attention

to regional financial market development, while the AfDB has emphasized infrastructural linkages, especially to give landlocked countries better access to international transport routes. The ADB is also helping to strengthen regional collaboration to address common threats, such as HIV/AIDS and avian influenza. At the global level, the IMF continues to play its role in promoting financial stability with its Global Financial Stability Reports, bilateral and multilateral surveillance, and a strengthened analysis of macrofinancial linkages. The IMF has also stepped up its analysis of the macroeconomic effects of climate change and the contribution fiscal policy can make in mitigation and adaptation to climate change. The World Bank Group is active in global health and trade issues as well.

New Collaborative Approaches

Cutting across these changes in strategic direction are new collaborative approaches being developed by all the IFIs to enhance cooperation with other donors. Many of the new players do not fit easily into existing modalities of donor coordination, which are centered around country-executed plans and programs. New vertical funds have expanded rapidly, disbursing about \$7 billion over the last five years. These funds have a limited field presence, however, and set priorities at headquarters. Given the very different business models of the vertical funds, the challenges of coherence have grown. In response, the MDBs have boosted efforts to improve developing-country capacity to articulate national plans and poverty reduction strategies and to embed programs funded by vertical funds into these plans.

The complementarity of approaches can be seen in the World Bank's health sector strategy.⁷ That document points to the false dichotomy between a focus on priority diseases (the core objective of health-oriented vertical funds) and a focus on strengthening health systems. Both focuses are required to achieve real health results, defined broadly

as saving and improving people's lives and avoiding extreme financial hardship caused by ill health. The World Bank strategy asserts that "financing no longer drives the relationship with client countries . . . it is the quality of the policy and technical dialogue which will define the Bank's contribution. . . ." The strategy repositions the World Bank to focus on strengthening health systems, where development assistance funds are relatively scarce. It embodies an approach that will be long term, country driven, and focused on institutional change, rather than on specific investment projects and technical, medical support. There is a clear definition of comparative advantage of the World Bank that forms the basis for a more effective division of labor among donors.

There is also considerable room for strengthening collaboration among IFIs. For instance, the main recommendations of the External Review Committee on IMF–World Bank Collaboration are to promote cooperation in crisis management, to improve integration and harmonization of work on fiscal and financial sector development issues, and to better coordinate technical assistance (box 5.1).

Operational Trends and Harmonization

IFIs provide resources for development, nonlending activities, capacity building, and research and evaluation. This section reviews operational trends in these areas and IFI efforts to harmonize and align their operations across agencies.

Financial Resources for Development

Demand for IFI financial services is mixed. With a buoyant global environment, in which private flows to developing countries may have approached \$1 trillion in 2007, there has been significant net repayment of IFI loans in the last two years. In 2007 repayments to MDBs were almost the same size as nonconcessional gross flows. The

BOX 5.1 Bank-Fund Collaboration: Joint Management Action Plan

The Malan report, or more formally the report of the External Review Committee on World Bank–IMF Collaboration, released in February 2007, found strong foundations for Bank-Fund collaboration but no room for complacency. The report called for strengthening the culture of collaboration in the two institutions in several areas. Following informal board discussions in the Bank and the Fund, the Development Committee and the International Monetary and Financial Committee (IMFC) communiqués in Spring 2007 welcomed the report and said that ministers looked forward to seeing how the two institutions would take the recommendations forward.

In response, a Joint Management Action Plan (JMAP) has been developed, which draws on a staff survey, recommendations from six staff work streams, and a joint high-level staff retreat. The JMAP enumerated specific steps to strengthen collaboration, building on existing approaches rather than calling for dramatic changes or the addition of bureaucratic layers. The three steps were:

- Improve coordination on country issues through new procedures for country team coordination, including regular meetings on work programs, agreement on instruments and division of labor, and new systems for requesting and tracking inputs from the other institution
- Enhance communications through new electronic platforms for the sharing of focal point names, documents, mission schedules, and other information among staff in the two institutions working on country teams or on the financial sector, fiscal issues, and technical cooperation
- Reflect collaboration in staff and managerial performance reviews and replace the Joint Implementation Committee with an information and monitoring clearinghouse function anchored in central departments.

The JMAP aims to translate identified good-practice approaches to collaboration into standard practices. Of course, important differences will remain between the two institutions—from their distinctive cultures to more specific organizational and administrative differences—and successful implementation will depend on mutual understanding of and respect for these differences.

The JMAP was endorsed by the two boards in October 2007 and welcomed by the IMFC and Development Committee at the Annual Meetings. Implementation of the JMAP has begun. The goal is for most new systems to be operational in time for the preparation of FY09 budgets. The first progress report for the two boards will be prepared in time for the 2009 Annual Meetings.

Source: World Bank and IMF staffs.

share of MDB concessional flows in total ODA has fallen to a low point—just 8 percent in 2007.

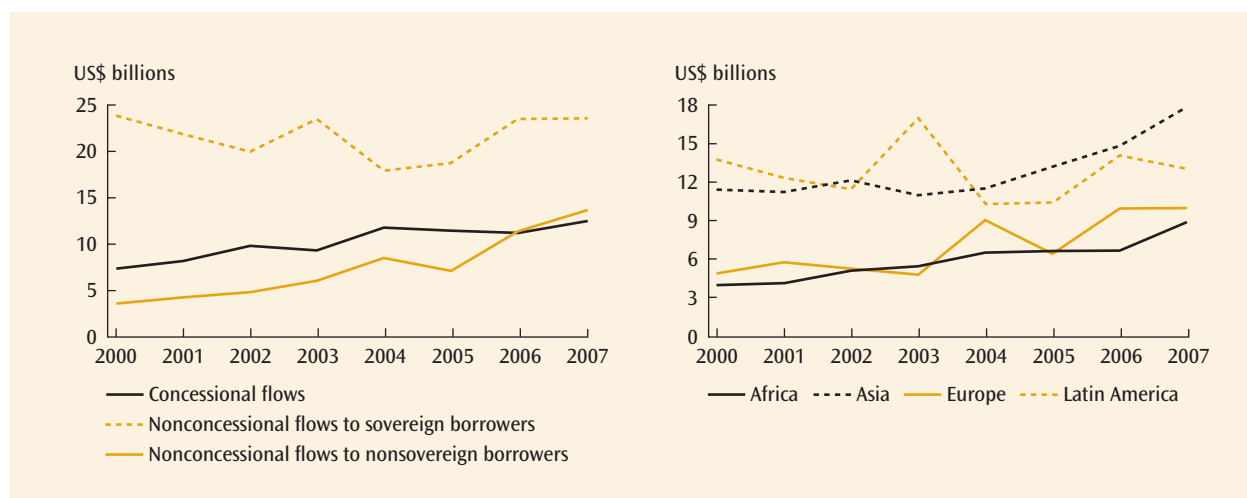
But net flows are not an adequate measure of demand for IFI financial services. Overall, MDB gross disbursements in 2007—a proxy for new demand—reached a record volume of almost \$49 billion (figure 5.1). Of this, \$37 billion was in nonconcessional resources, up from \$25 billion in 2005. This is the first sustained increase in demand for nonconcessional loans in the absence of a financial crisis in two decades.

Four stylized facts have emerged from the analysis of recent MDB flows:

- Demand for new nonconcessional sovereign loans remains generally flat, with

large fluctuations depending on individual country circumstances.

- Demand for nonconcessional loans and guarantees to nonsovereign entities, mainly to the private sector, by the EBRD, the IFC, and regional development banks' (RDBs) private sector arms, has increased substantially.
- Supply of concessional lending has regained momentum in 2007. Record donor pledges for IDA 15 and the African Development Fund (AfDF) XI and promising replenishment discussions for the Asian Development Fund (AsDF) X suggest this trend should continue over the next years.
- Resources are increasingly flowing to Africa and Asia.

FIGURE 5.1 MDBs' gross disbursements, by type of flow and region, 2000–07

Source: Staff of the big five multilateral development banks

Nonconcessional Sovereign Flows

The IMF, as a provider of balance of payments assistance for countries with external financing difficulties, is expected to be affected most significantly by financial and economic conditions, and a reduction in its lending is a sign of developing-country successes in macroeconomic management. Developing countries repaid the IMF over \$7 billion in 2007, for a total of about \$135 billion over the last five years. The IMF's outstanding financial support to developing countries declined to about \$15 billion at the end of 2007, its lowest level in 25 years and well below its all-time peak of \$101 billion in 2003 (box 5.2).

At the same time, even though about 15 countries have seen major terms-of-trade deterioration from oil and other commodity price shocks, there has been no activity in the IMF's Exogenous Shocks Facility. Reasons why countries have not used the facility include access to private capital, use of reserves, and lower demand for oil in some countries as governments often passed through world market price increases to domestic prices. The World Bank has provided financing for longer-term restructuring. Energy Development Policy Lending for Morocco and Senegal this year, for example,

aims to help these countries adapt to high oil prices and improve energy efficiency. Low-income countries have used resources from development policy operations to fill remaining gaps.

MDB gross nonconcessional disbursements to sovereign borrowers were roughly flat in 2007, at a total of \$23.4 billion, but this tells only part of the story. The other part is the shifting regional and organizational distribution of such loans. Lending by the International Bank for Reconstruction and Development (IBRD), especially its loans to Latin America, declined. But other regions and regional banks saw rising demand. Taken together, the regional development banks for the first time ever disbursed more than the IBRD in nonconcessional sovereign loans. In the past year, the IBRD took important steps to make the financial terms of its products more competitive, flexible, and transparent. Other enhancements have simplified and improved flexibility of products for delivering customized financial and risk management solutions to clients.

The MDBs also influence financial flows by leveraging other resources: guarantees bring in money from the private sector, and cofinancing and parallel financing bring in funds from other official lenders.

BOX 5.2 Lending by the IMF

The IMF's General Resources Account (GRA) provides nonconcessional financial support to member countries experiencing temporary balance of payments difficulties. The IMF also provides financial support through special GRA facilities, including emergency assistance for natural disasters and postconflict emergency assistance. The IMF provides concessional loans to low-income countries under the Poverty Reduction and Growth Facility (PRGF). At the end of 2007, 23 countries had a PRGF-supported arrangement under which they received subsidized balance of payments support from the IMF. In 2006 repayments of PRGF assistance were boosted by debt relief provided in the context of the MDRI.

Net flows from the IMF to developing countries US\$ millions

Type of flow	2001	2002	2003	2004	2005	2006	2007 est.
Net concessional flows (PRGF loans)	106	567	9	-179	-715	-3,587	29
Disbursements	1,111	1,741	1,187	1,204	597	744	485
Repayments	1,005	1,174	1,178	1,383	1,312	4,332	457
Net nonconcessional flows (GRA)	19,031	13,109	2,002	-14,314	-39,802	-27,382	-5,131
Disbursements	30,249	32,678	28,429	6,181	3,381	3,486	1,463
Repayments	11,219	19,569	26,427	20,495	43,183	30,868	6,593
Total, net flows	19,137	13,676	2,010	-14,493	-40,517	-30,970	-5,102
Of which:							
Total net flows, Sub-Saharan Africa	-181	161	-393	-318	-738	-3,051	117
Gross emergency assistance disbursements	n.a.	35	18	453	189	10	139

Source: IMF staff.
n.a. = Not applicable.

Guarantees. The World Bank Guarantee Program was mainstreamed in 1994 to help extend the reach of private financing to emerging countries, mitigate risks that are beyond the control of the private sector, open new markets, and improve project sustainability. The World Bank offers two basic types of guarantees: Partial Risk Guarantees cover debt service defaults on a loan, normally for a private sector project, when such defaults are caused by a government's failure to meet its contractual obligations related to the project. The IBRD (but not IDA) also offers Partial Credit Guarantees, which cover debt service defaults on a specified portion of a loan, normally for a public sector project, principally to extend maturities and improve market terms. Since 1994, 34 guarantee operations for 31 projects in 25 countries have been

approved, for a total amount of financing of about US\$27 billion, with an average leverage ratio of almost 10 to 1.⁸

Cofinancing. Cofinancing is a mechanism through which additional financing can be raised to fill unfunded gaps in project or programs and to better calibrate the degree of concessionality to achieve maximum impact. It covers joint and parallel financing. When it takes the form of joint financing, or collaboration on development policy lending and sector-wide approaches (SWAPs), it also establishes formal coordination between donors on country programs, policies, and priorities and provides a cost-effective means by which official agencies can tap into the lead agency's project management expertise. The World Bank has recently heightened attention on joint financing

TABLE 5.2 IBRD cofinancing by types of cofinancier, 1998–2007
US\$ millions

Cofinancier	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Bilateral	2,436	3,514	1,086	1,514	932	557	2,552	2,415	1,217	2,953
Multilateral	4,925	4,441	5,084	4,042	3,371	2,453	8,845	6,147	3,619	3,931
Total cofinancing	7,361	7,954	6,169	5,556	4,304	3,010	11,398	8,561	4,836	6,884
Selected donors										
JBIC	580	1,746	100	533	359	0	0	0	61	110
DfID	33	12	78	73	91	100	613	609	421	952
KfW	76	66	58	259	85	37	40	59	75	150
EC	69	174	32	98	86	57	641	180	49	449

Source: World Bank staff. Figures for 2007 are estimates.

Note: Total cofinancing includes all sources of cofinancing (concessional or nonconcessional) from bilateral and multilateral agencies.

as an important country-based aid harmonization and partnership instrument, especially with other multilateral agencies. On the bilateral side, the U.K. Department for International Development (DfID) and the Japanese Bank for International Cooperation (JBIC) have been very active in cofinancing with the IBRD. JBIC's activities have declined significantly since 2002, but Japanese cofinancing with the Asian Development Bank looks set to increase substantially under a partnership agreement of May 2007—the Enhanced Sustainable Development for Asia program. In fiscal 2007, World Bank projects were able to leverage an incremental \$6.8 billion in cofinancing (table 5.2). Almost half of this amount (\$3 billion) went for projects in Africa.

Nonconcessional Flows to Nonsovereign Borrowers

MDB nonsovereign flows (lending and equity investments) have grown sharply in recent years, from \$3.1 billion in 2000 to \$13.3 billion in 2007, of which half is accounted for by the IFC and the other half by the RDBs, mainly the EBRD. The Inter-American Investment Cooperation (IIC) disbursements in 2007 were almost 10 times their 2000 level while the EBRD quadrupled its disbursements in U.S. dollar terms. For the IIC disbursements, restrictions on private sector lending have been lifted to expand

the scope of clients beyond infrastructure, capital markets, and trade finance. Most nonsovereign business is in Europe (56 percent), but the highest growth rate has been in Asia, which has surpassed Latin America for the third straight year. Encouragingly, nonsovereign flows to Africa have more than doubled since 2000.

The MDBs' ability to expand their nonsovereign business with adequately diversified portfolios and acceptable rates of return is a reflection of the better business climate and improved growth prospects in many countries. But improving the business climate and growth prospects is also the development purpose of nonsovereign operations. That outcome, rather than the volume of lending, is a better measure of impact.

Nonsovereign flows provide flexibility in terms of eligible clientele and prices. The MDBs' private sector instruments can price products differentially to allow for varying degrees of country and project risk. In contrast, in the case of sovereign loans, pricing is uniform to reflect the cooperative nature of the institutions. As a consequence, almost half of all business in investment-grade countries of the World Bank Group now consists of IFC and Multilateral Investment Guarantee Agency (MIGA) activities. The IFC is now expanding aggressively into low-income and blend countries.

Subnational lending. Subnational lending is another nonsovereign area with promise. A number of countries have asked for support, extending beyond finance to include enhanced capital market access, especially in cases where administrative responsibilities for basic infrastructure services have been devolved to local governments. The World Bank Group has integrated its approach by offering financial and guarantee products using the IFC balance sheet, but this mechanism has not yet seen significant growth and volumes are still modest.⁹ Ten operations with a total exposure of \$350 million have mobilized over \$1 billion for subnational governments or public service providers in China, Guatemala, Hungary, Mexico, the Philippines, the Russian Federation, and South Africa. With a joint IBRD-IFC team now in place and with management addressing incentive

issues within the World Bank Group, project flow is accelerating.

Nonsovereign lending often requires local currency financing, and innovative financial instruments have been developed to meet this market demand. The MDBs already offer swaps and interest and exchange rate hedging instruments. In October 2007 the World Bank Board endorsed a new IBRD-IFC initiative aimed at stimulating domestic bond markets. The Global Emerging Markets Local Currency Bond Fund is an example of market-based innovations customized to fill specific market gaps (box 5.3).

Nonsovereign guarantees. MIGA offers risk insurance for up to 20 years against losses relating to currency transfer restrictions, expropriation, war and civil disturbance, and breach of contract. It covers a broad range of sectors in 147 developing member

BOX 5.3 Global Emerging Markets Local Currency Bond Initiative

A new Global Emerging Markets Local Currency Bond Fund (GEMLOC), to be co-branded by IFC, IBRD, and a private partner, is expected to raise \$5 billion by early 2008 for investment in up to 40 emerging bond markets. GEMLOC is a “systemic” solution to a market gap. While 70 percent of all emerging market debt is currently denominated in local currency, only 10 percent of the foreign money going into bonds issued by emerging markets is denominated in local currency. Only 2 percent of emerging market local currency debt is benchmarked against existing indexes. There is strong demand among investors for a dedicated fund in emerging markets local currency debt that is broadly diversified. And while about a dozen emerging economies have already developed liquid local currency bond markets, many others would seek to improve liquidity, build market infrastructure, develop efficient tax regimes, and cut red tape. The World Bank is looking for a private fund manager for GEMLOC to raise the funds and to manage a portfolio of investments in local currency bonds across as many as 40 emerging markets. Up to 30 percent of assets could also be invested in subsovereign and corporate bonds.

The fund is not a stand-alone, but a part of a three-part program that also includes an index—the Global Emerging Markets Bond Index (GEMX)—weighted not just by size of market, but by “investability” as well, the latter adjusting for such variables as regulatory and tax regimes and market access rules. The IFC is not new to the business, having launched the first emerging markets equity index two decades ago. The third part of the program is technical assistance, to be provided by the Bank, to help countries develop more investable local bond markets. This technical assistance will be funded by a “development fee” from the fund manager. There is no capital commitment from either the IBRD or the IFC in the project overall; after 10 years the sunset provision kicks in, meaning the *World Bank* name will be removed and the private sector will take over.

Source: World Bank staff.

countries. Since its inception in 1988, MIGA has issued 885 guarantees for projects in 96 developing countries, totaling \$17.4 billion in coverage. Two-fifths of MIGA's gross outstanding portfolio is in IDA-eligible countries. Through the first half of fiscal 2008, MIGA has issued \$1.2 billion in new coverage, bringing the total active portfolio to the highest level in the agency's history at \$5.9 billion. MIGA prices its guarantee premiums based on a calculation of both country and project risk. Equity investments can be covered up to 90 percent and debt up to 95 percent. MIGA may insure up to \$200 million, and more can be arranged through syndication.

Concessional Flows

In 2007 gross concessional flows from the MDBs reached a record high, totaling over \$12 billion, an increase of 11 percent after two years of stagnation. IDA, which traditionally accounts for 75–80 percent of total concessional flows, was responsible for all of the increase in 2007. Concessional flows from regional development banks were flat. While Asia continued to receive almost half of total concessional gross flows, the fastest rate of increase has been in Africa. MDB support for Sub-Saharan Africa more than doubled between 2000 and 2007. Africa receives 45 percent of total MDB concessional flows today, up from 37 percent in 2000.

Record levels of donor pledges and ongoing discussions for replenishment of MDB concessional windows should allow last year's increase in concessional flows to be sustained. Donor funding commitments to the replenishment cycles of IDA and other concessional arms of the MDBs provide evidence of donor intentions to support the horizontal approach provided by these institutions. IDA's 15th replenishment, concluded in December 2007, resulted in a 30 percent increase over IDA14 (table 5.3). In total, IDA15 will allow for \$41.6 billion of new commitments during fiscal 2009–11. New donor pledges will provide \$25.1 billion, an increase of \$7.4 billion compared with IDA14—the largest expansion in donor funding in IDA's history.¹⁰ Internal transfers from the World Bank Group (\$3.9 billion), donor pledges for MDRI debt forgiveness (\$6.3 billion) and credit reflows (\$6.3 billion) make up the remainder of the replenishment. The IDA15 agreement contained two other "firsts." China became a donor for the first time, along with five other countries, bringing the number of non-DAC contributors to 23 countries. And the United Kingdom became the largest single contributor for the first time.

Regional banks could also see their concessional resources expand significantly. At the AfDF-XI negotiations in December 2007, donors agreed to a record \$8.9 billion in support for 2008–10, an increase of 52

TABLE 5.3 Record expansion of IDA

Sources of funds	Special drawing rights			US\$		
	IDA 14 (billions)	IDA 15 (billions)	Percent change	IDA 14 (billions)	IDA 15 (billions)	Percent change
New donor pledges	12.1	16.5		17.7	25.1	
Compensation for MDRI debt forgiveness	2.6	4.1		3.8	6.3	
Credit reflows	6.1	4.1		9	6.3	
Agreed IBRD-IFC transfers	1.1	2.6		1.6	3.9	
IDA commitment authority	21.9	27.3	25	32.1	41.6	30
Additional IBRD-IFC transfers	0.3			0.4		
Total actual IDA 14	22.2			32.5		

Source: World Bank staff.

percent over AfDF-X. Negotiations are also under way for the replenishment of the Asian Development Fund for 2009–12 (AsDF X). The ADB is proposing a major increase as this will be the last chance to meaningfully contribute to the MDGs before 2015.

MDRI. The MDRI provides additional debt relief from IDA, the AfDF, the IDB Fund for Special Operations, and the IMF for countries that have reached their HIPC completion points. At the end of 2007, 25 countries (including two non-HIPC countries) had benefited from MDRI relief provided by the IMF. For the MDBs, donors have promised to replace the forgone credit reflows but cannot always provide legally binding commitments so far into the future. IDA has received commitments from 32 of the 34 countries that participate in MDRI funding. IDA expects to forgo credit reflows of special drawing rights (SDR) 24.7 billion (\$37.6 billion) between 2006 and 2044, as a result of the MDRI. By September 30, 2007, IDA had provided irrevocable debt reduction commitments to 22 HIPC countries amounting to SDR 19.2 billion, but donors had provided unqualified firm commitments of only SDR 2.9 billion (\$4.4 billion), and qualified commitments of a further SDR 14.6 billion (\$22.2 billion). This still leaves a gap.

The African Development Fund forgone credit reflows are estimated at Unit of Account (UA) 5.68 billion (\$8.5 billion). Only 4.3 percent of the cost of the MDRI will occur before 2011 and 15 percent of the cost before 2016. AfDF has already cancelled debt of UA 4.48 billion for 18 countries, and received UA 4.36 billion (\$6.5 billion) in commitments from donors, of which 15 percent are unqualified.

The IDB has four client countries that have already qualified for MDRI debt relief of \$4.4 billion. Unlike the other MDBs, IDB will rely only on the internal resources of its Fund for Special Operations (FSO), which has been redesigned to offer blends of highly concessional credits along with nonconcessional loans, with the composition of the blend depending on a debt sustainability

analysis for each country. Separately, the IDB has created a grants facility for Haiti to help it reach completion point and obtain debt relief. IDB governors also agreed to consider a replenishment for the FSO by 2013, given that the fund will be able to continue providing concessional credits to its clients only through 2015.

Trust funds. Trust funds are perhaps the most rapidly growing business segment for the MDBs. Donors have sought to use management and program services provided by the MDBs for an increased amount of bilateral funds. Trust funds tend to focus on two broad areas of donor interest. The first consists of programs at the country level to help achieve the MDGs in low-income countries, particularly in Sub-Saharan Africa. These programs also support health, natural disaster relief, and postconflict recovery. The second broad area is global public goods, especially for the environment. This area has seen exponential growth of funds beyond the Global Environment Facility, including the Ozone Phase-Out Fund and carbon funds.

Trust funds vary enormously in size and complexity from multibillion dollar arrangements to much smaller, simpler funds. In 2007 the World Bank trust fund directory listed 100 active arrangements. In 2006 trust fund disbursements by the World Bank had risen to \$4.4 billion. The IDB disbursed \$215 million, while the AfDB and the ADB committed \$85 million and \$264 million respectively. By the end of 2007 trust funds under MDB management reached over \$20 billion, with the World Bank having the lion's share. Through trust fund arrangements, the MDBs are able to ensure that global initiatives and funds mobilized for specific purposes are integrated with country-based development programs.

Nonlending Activities in Support of the Development Agenda

Knowledge services. Knowledge services—such as country analytical work, technical assistance,

and global data and research—are a critical pillar for supporting developing countries in achieving the MDGs. Knowledge services have been growing more important over time as focus on aid effectiveness intensifies. Aid effectiveness is about better development results. It relies on knowledge services to change behavior of recipient countries and donors alike, to monitor and learn about what works, and to provide the support that countries need to enhance their own aid effectiveness. Attention increasingly should be paid to the lessons that low income-countries (and the developmental community) can learn from the middle-income countries' experience. Indeed, the knowledge that some of the IFIs have vis-à-vis other donors derives from their global experience.

Knowledge is the glue that binds different development partners together. Shared knowledge on the development vision, policies, and expenditure frameworks to link programs with budget resources has become indispensable to effective aid, especially in a more complex aid system and with more domestic stakeholders—parliamentarians, civil society, and the private sector. As one example, there are estimated to be 80–100 global health partnerships. Countries with limited capacity to manage and spend aid effectively, dealing with the multiplicity of aid instruments and mechanisms on offer, cannot absorb more money.¹¹ Knowledge from the IFIs provides countries with the analytic, diagnostic, and capacity-building support required to use aid better, so knowledge services have grown alongside the growth in the volume of aid. For fragile states, where aid volumes tend to be low, knowledge services help create the institutional foundations for effective use of aid.

Knowledge services have been steadily expanding and are increasingly done jointly with partner countries or in a coordinated fashion with other donors, or both. The World Bank, as the largest of the IFIs, tends to produce the greatest volume of knowledge services, with 440 pieces of economic and sector work in fiscal 2007. But all IFIs are committed to enhancing their knowledge

activities. The IFIs participate with 24 other contributors to the Country Analytical Work Web site (table 5.4), a shared portal where reports and best-practice examples are made available to the development community. There are now 3,722 posted reports, with the World Bank providing about one-third.

IFI reports cover a variety of themes. In addition to sectoral themes, there are country strategies and procedures for effective aid management, including public financial management, procurement, and governance and anticorruption. These reports are critical to the system strengthening that lies at the core of the IFI efforts to build and support country-based platforms for aid delivery (box 5.4). Almost all poor countries are now covered by a series of economic memoranda, public expenditure reviews, poverty assessments, and sector strategies, although a number of African countries still have not been able to conduct any household surveys. Between 2003 and 2007, IDA produced 150 poverty and social impact assessments, identifying the impact of policy recommendations and project interventions.

Measuring the relationship among inputs, outputs, and outcomes is central to the achievement of better development results, but the statistical capabilities in countries remain uneven. The IFIs have significant programs for strengthening statistical systems that can improve this situation. At the macroeconomic level, statistics are improving in depth and coverage (box 5.5), but at the sectoral and microeconomic levels much

TABLE 5.4 Reports posted by agency at Country Analytical Work Web site, 2007

Agency	Number of reports
World Bank	1,370
IMF	445
ADB	96
AfDB	48
EBRD	26
IDB	20

Source: www.countryanalyticwork.net.

BOX 5.4 Supporting the preparation of poverty reduction strategies: The case of Mozambique

The analytic products that IDA prepared with the government of Mozambique helped define the policy priorities and institutional systems that underpin the national poverty reduction strategy. The poverty assessment provided the analytic basis for the overall identification of priorities. The Country Economic Memorandum (prepared with the review of the donors of the G-17 coordination group) helped to focus the strategy on the links between key sectors and the overall growth strategy, analyzing how Mozambique's natural resources—land, forests, fisheries, mines, and water—could be better managed to contribute more to overall growth. Reviews of the financial sector, investment climate, and legal and judicial sector contributed to improving the country's institutional foundations for shared growth and helped to form the basis for the strategy's structural reforms. Finally, reviews of public expenditures, financial accountability, and procurement helped form the basis for improving public financial management and the links between the strategy and national systems.

Source: World Bank 2007d.

remains to be done. The IFIs are playing a major role in implementation of the Marakesh Action Plan for Statistical Capacity Building, a program to support the compilation of data and statistical capacity needed to underpin the MDGs. For instance, the World Bank is cofinancing the activities of PARIS21 (Partnership in Statistics for Development in the 21st Century), which is helping countries develop statistical improvement strategies that are aligned to the statistical needs and priorities of Poverty Reduction Strategy Papers and other development priorities.

As leading global institutions, the IMF and World Bank Group have a comparative advantage in global learning, built on deriving cross-country lessons from country operations. Increasingly they have shifted their approach from one of transferring knowledge from rich countries and development agencies to poor countries to one that emphasizes a process of sharing of experiences between developing countries (box 5.6).

Measuring knowledge generated by an IFI is difficult as knowledge is embedded in a number of different services. The World Bank has several explicit knowledge-related services, such as country analytical work and technical assistance, and budget expenditures on these activities show a steady rise

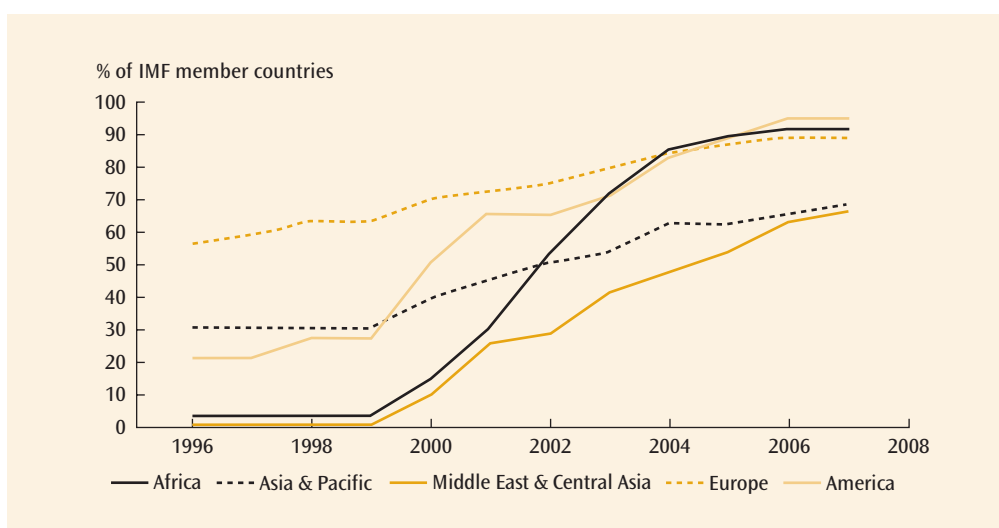
to almost \$450 million in 2007 (figure 5.2). These inputs, however, do not capture implicit knowledge work through convening, coordinating, and catalyzing activities in global programs, partnerships, and trust fund-related work. Nor do they capture knowledge embedded in loans and project supervision. A more detailed breakdown, imputing knowledge services to these other functions, suggests that knowledge inputs could be double the above amounts. Of course, measuring knowledge through its inputs is unsatisfactory in thinking about its impact. Knowledge is a global public good, so inputs on knowledge cannot be compared with inputs on other, excludable services like loans. A different measure looks at utilization of knowledge. Web-based dissemination has become more important for the IFIs; the World Bank Web site now counts over 2 million visitors each month. But internal reviews of World Bank economic and sector work suggest that inadequate attention is paid to dissemination, reducing the impact of the work.

The World Bank's Doing Business project is one of the best known free-standing knowledge services offered by the MDBs. A guide for evaluating regulations on business entry that directly affect economic growth, Doing Business provides a compendium of

BOX 5.5 The IMF's programs for improving statistical capacity

The Special Data Dissemination Standard (SDDS) provides a common standard for international dissemination of economic and financial data. SDDS subscribers provide a National Summary Data Page consisting of a prescribed set of macroeconomic data (including real, fiscal, financial, and external sector data), with given minimum levels of coverage, periodicity, and timeliness. They also provide information about their data dissemination practices and compilation methodologies (metadata) for posting on the IMF's Web site.

Regional representation in the GDDS and SDDS combined



The General Data Dissemination System (GDDS) is a framework to help participating countries improve their macroeconomic and sociodemographic statistics, including relevant MDG indicators. The GDDS facilitates the comparison of a country's current statistical practices with internationally recognized good practices. It guides countries in their efforts to improve statistical systems and to produce and disseminate data in accordance with good-quality standards. The GDDS also promotes the application of established methodological principles, the adoption of sound compilation practices, and the observance of procedures that ensure professionalism and objectivity.

There are currently 64 SDDS subscribers and 90 GDDS participants—a total of about 80 percent of Fund membership. Statistical capacity building, using the GDDS and the Data Quality Assessment Framework, covers both human and institutional elements through knowledge and skills transfers and through organizational and institutional advice. The GDDS, with its incorporation at the center of the PARIS21 program of National Statistical Development Strategies, serves as an important vehicle for donor coordination and leverage of donor funds to bring about improvements in national statistical systems through coordinated technical assistance.

Source: IMF staff.

laws in different countries and cross-country comparisons of these laws. It identifies and champions reformers in developing countries who are trying to improve the business climate. *Doing Business 2008* documented

200 reforms in 98 countries that were introduced between April 2006 and June 2007. Croatia, the Arab Republic of Egypt, Ghana, Georgia, and Macedonia were identified as the top five reformers. For policy purposes,

BOX 5.6 Malaysia-Africa Knowledge Exchange Seminar: An example of South-South knowledge sharing

The Malaysia-Africa Knowledge Exchange Seminar (MAKES) brought together 110 high-level officials from 24 African countries, including 17 ministers, in Kuala Lumpur and Putrajaya, on September 21–22, 2006. The seminar, jointly organized by the Malaysian Ministry of Finance and the World Bank, focused on four themes of relevance to African countries: managing natural resources for economic growth and poverty reduction; fostering export-led growth and a business-friendly investment climate; developing and implementing national plans; and defining the role of government-linked companies.

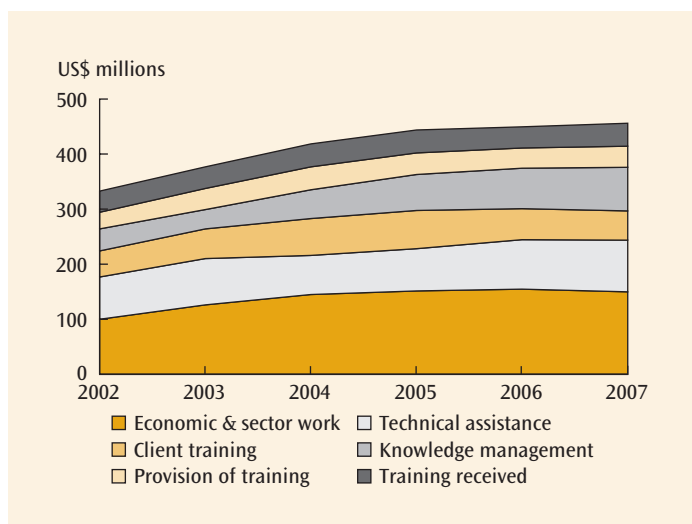
Honorable Goodall E. Gondwe, the Minister of Finance of Malawi, speaking on behalf of the African ministers, set the tone of the seminar: “We are here not to learn development theory, but to listen to Malaysian officials and understand better how they achieved what is an impressive performance.” Several Malaysian cabinet members and the deputy prime minister emphasized Malaysia’s inclusiveness, political stability, good economic management, and rapid human development as key factors behind 50 years of strong growth and poverty reduction.

African ministers were particularly impressed by Malaysia’s ability to avoid the “natural resource curse.” At the center of this success is Petronas, a Fortune 500 oil company created in 1974 with freedom to be managed as a private sector company despite being fully government owned. Transparency seems to have been the decisive factor. The company books are on its Web site, its accounts are audited by certified accountants, and its contributions to the budget are debated in Parliament. Many African ministers asked: Why not Africa? The discussion revolved around the issues of governance and the role of domestic and international actors.

MAKES has started a process of knowledge sharing on national planning, monitoring and evaluation, education (especially higher education), oil resources management, public-private partnerships in infrastructure, management of state-owned enterprises, agriculture, and the investment climate. The Malaysian government has offered free tuition for up to 100 qualified African students a year to pursue graduate studies at three Malaysian universities.

Source: World Bank staff.

FIGURE 5.2 World Bank knowledge service inputs, by type, 2002–07



Source: World Bank staff. Figures for 2007 are estimates.
 Note: Data include Bank budget, reimbursables, and Bank-executed trust funds.

Doing Business has been complemented by a series of detailed firm-level Enterprise Surveys, supported by many MDBs, and these have become mainstreamed instruments for measuring investment climate reform priorities.

Partnerships. Nonlending services are of particular importance in forming partnerships with others in the development community and in addressing global public goods. The number of active partnerships has mushroomed. The World Bank Group now participates in 125 partnerships, mostly in environment and human development areas. The World Bank itself is the host institution for fewer than half of these partnerships (figure 5.3). The majority are hosted either by the partner or by an independent organization. Over 90 percent of these programs describe themselves as contributing to the brokering of global knowledge.

The MDBs have an important role to play in bridging the gap between partner country priorities and global or regional collective action, especially through country analytical work. Many global public goods are narrowly focused, and the links with a coherent national development strategy need to be elaborated. Poverty reduction strategies, country assistance strategies, and sector strategies can play this role. Sometimes, a regional platform can be useful in intermediating between country and global platforms as well. The linkages provide a two-way communication channel. Global public goods goals are brought into the country dialogue, and, at the same time, the MDBs can be a powerful voice for advocacy of developing-country viewpoints on global public goods at international forums, especially in areas where country capacity for participating in global negotiations is limited. Recent examples of MDB advocacy in trade, aid, and climate change underscore this point.

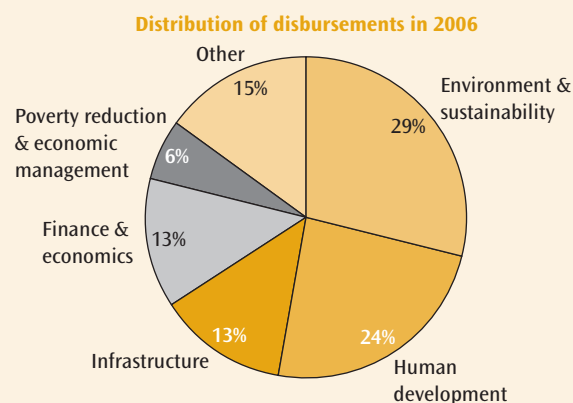
Harmonization

The commitment of IFIs and the donor community to harmonization of activities was formalized through their participation in the Paris Declaration, setting targets to improve aid effectiveness by 2010. A baseline survey of MDB performance against the Paris targets was undertaken in 2006, with a follow-up survey scheduled for the spring of 2008. The baseline survey showed the MDBs to be ahead of many bilateral agencies, but with some weaknesses. IDA, the ADB, and the AfDB relied too heavily on parallel implementation units. Unpredictability of disbursements was also an issue. The MDBs found the greater use of program approaches and joint missions hard to implement. On the positive side, use of country public financial management and procurement systems, and joint analytical work—more than half for IDA, for example—were progressing well. MDB aid flows were generally aligned with national priorities.¹²

The 2006 monitoring of the Paris targets showed that alignment and harmonization

FIGURE 5.3 World Bank portfolio of global partnership funds by theme and host institution

Thematic network	World Bank	Partner org.	Indp. org.	Total no. of funds
Environment & sustainability	27	4	5	36
Human development	8	8	14	30
Infrastructure	12	3	1	16
Finance & economics	6	5	5	16
Poverty reduction & economic management	1	4	3	8
Other	4	5	10	19
TOTAL	58	29	38	125
	46%	23%	30%	



Source: World Bank staff.

actions were being undertaken in a growing number of countries. However, in half of the surveyed countries, progress was limited, and countries and development partners still had many opportunities to improve country-level effectiveness. Country-based platforms were the core of the MDB harmonization efforts on strategies and programs, division of labor between agencies, and managing for results. This partnership implies that MDB harmonization efforts are only as good as country efforts, and vice versa (box 5.7).

Experience to date suggests that harmonization has real costs in time and resources. With harmonization efforts being made at the

BOX 5.7 Coordination among donors in Bolivia

The *Grupo de Socios para el Desarrollo de Bolivia* (referred to as GruS) was established to improve the communication between the government of Bolivia and aid donors. GruS's main objective is to help the government better coordinate the tasks of harmonization, development effectiveness, and alignment among aid donors under the framework of the Paris Declaration, the Millennium Development Goals, and Bolivia's National Plan of Development. A coordination mechanism established five thematic areas for coordination (production, social services, democracy, macroeconomics, and harmonization) and calls for monthly meetings between government representatives and donors.

To participate in the GruS, donors must adhere to a few principles: the Bolivian government leads the tasks of harmonization and coordination under the principles of the Paris Declaration; donors will align to the implementation of the objectives of the National Development Plan; donors are represented through their official heads; and the participants in the GruS should support the existing coordination mechanisms at the sector level in order to strengthen them.

GruS terms of reference established that a coordination group consisting of three donors (two bilateral and one multilateral) will lead its activities for three semesters. The IDB will lead the coordination group during the first semester of 2008.

Source: IDB staff.

country level, MDBs have found it necessary to pursue the decentralization of their operations to the field with concomitant expenses. This process has advanced quite far. IDA has placed 55 percent of its high-level staff in the field, along with 30 of 40 country directors. Local recruits have risen to 23 percent of the staff complement. Significant progress has also been achieved on decentralization of procurement and financial management staff. The effect of these changes has been to increase the ability of donors to make progress with harmonization on a country-by-country basis, where results are most clearly visible (box 5.8).

The Paris Declaration survey was important in opening a productive dialogue within countries on aid effectiveness. That conversation clearly showed the need to tailor development strategies to each country's priorities and circumstances. But it also pointed to a level of concern in developing countries with the high transaction costs of managing aid and the slow pace of donor reforms.¹³ The new survey results will be a guide as to whether these concerns are being adequately met.

While it is early to provide new results from the 2008 survey, there are already indi-

cations that progress toward the Paris targets is likely to be mixed. The AfDB reports that its disbursement level might have reached only 60 percent of that scheduled in 2007, and that it still has an average of 6.4 parallel implementation structures per country. IDA has found it difficult to commit jointly to outcomes with other development partners and still maintain clearly defined accountabilities for each partner. It has also found that significant costs are entailed with donor coordination around budget support and sectorwide approaches, with crafting and monitoring memoranda of understanding (MOUs) with other agencies, and with synchronizing staff drafts and management reviews among agencies. A new legal harmonization initiative among the MDBs, plus many bilateral donors, is developing specific understandings about interagency MOUs. Incentives and resources within agencies do not yet reflect these real aspects of harmonization.

Country-based harmonization is nevertheless making progress. As figure 5.4 shows, 13 percent of countries have fully developed operational frameworks and another 67 percent have taken action to develop such frameworks. These figures are higher in countries

BOX 5.8 Recent examples of country-level harmonization with regional development banks

In February 2006 the heads of the seven MDBs set up a joint task force to develop a consistent and harmonized approach to anticorruption work. On the basis of the task force's recommendations, the MDBs agreed to a common framework for fighting fraud and corruption. The joint actions include standardizing the definitions used in sanctioning firms involved in corrupt activities, improving the consistency of investigative rules and procedures, and strengthening information sharing. MDBs will continue to work together to assist countries in strengthening governance and combating corruption in cooperation with civil society, the private sector, the media, and the judiciary. MDBs have also focused attention on the special challenges posed by fragile states and are working on identifying opportunities for increased harmonization in approaches to fragile situations. One of the key recommendations is a proposal to adopt a common approach for identifying fragility, recognizing that it exists at both national and subnational levels, and to partner with the United Nations and other development partners in shared postconflict and postdisaster recovery planning.

Most MDB harmonization activities take place at the country level, with joint country assistance strategies and joint activities. For example, IDA and the ADB have agreed to join efforts in Tajikistan through:

- Joint technical assistance to set up a monitoring system for the Paris Declaration
- Joint country economic, poverty reduction, and health analytical work
- Joint support to the health sector's management information system
- Upgrading the multifunctional role of the joint Development Information Center
- Adding a common public information window to a joint education portfolio review
- Joint databases.

In The Gambia, where harmonization and alignment are relatively less advanced, IDA and the AfDB agreed to cooperate closely. Under this joint strategy, the institutions have developed shared objectives and a common platform including joint budget support, joint investments in growth and competitiveness, and joint analytic work in public finance, civil service reform, and governance.

Source: World Bank 2007d.

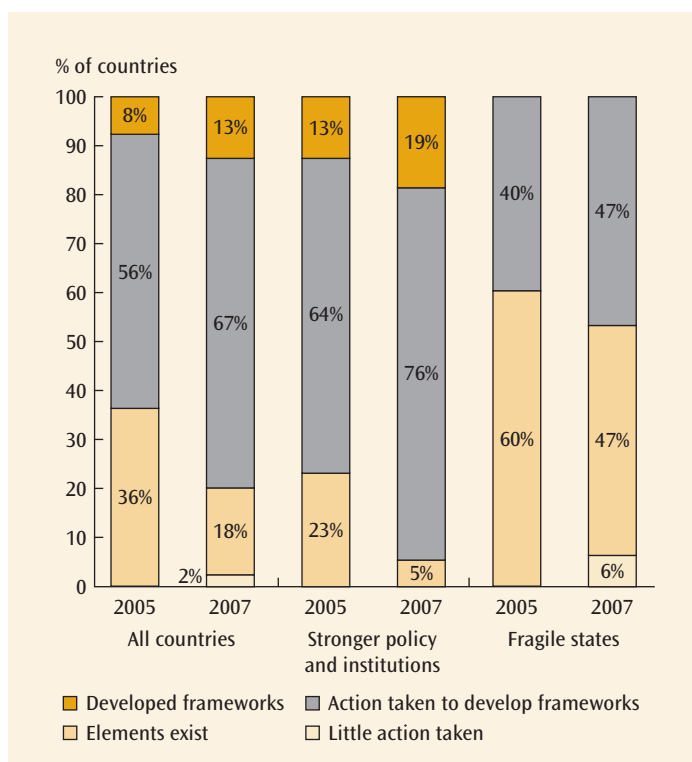
with stronger policies and institutions. The challenge of harmonization and alignment remains high in fragile states, where over half of all countries do not yet have sound operational frameworks. This is not simply a reflection of a legacy of poor policy in fragile states. Analysis suggests that the link between the degree of implementation of Paris Declaration targets and a country's overall policy and institutional score is weak, especially for countries with middle to poor country policy and institutional assessment (CPIA) ratings.¹⁴ The same analysis shows a strong link between resource flows and harmonization and alignment. Those countries with advanced harmonization processes were able to support higher volumes

of aid and received higher IDA allocations. The causality could move in either direction. Countries with more aid flows might invest more in harmonization procedures to increase aid effectiveness, or alternatively donors might allocate more aid to countries that have better procedures. The implication is the same. Harmonization does appear to be a critical element in scaling up and enhancing aid effectiveness. IFI efforts to build country capacity can therefore have significant payoffs.

Tracking Results

The IFIs have committed to the Managing for Development Results Initiative (MfDR), an

FIGURE 5.4 Progress toward operational development strategies in low-income countries



Source: World Bank 2007d.
 Note: Selected categories are defined in terms of CPIA ratings.

effort to use practical tools for strategic planning, risk management, progress monitoring, and outcome evaluation to direct resources to where the best results are attainable. A *Sourcebook on Emerging Good Practice*, with several country case studies, was finalized by the MfDR secretariat in May 2007. This, along with the Hanoi Roundtable discussion in February 2007, conveys a sense of urgency to improve development results. But that requires a significant upgrading in capacity in many countries. The results agenda is far behind the reforms that have taken place in procurement and financial management systems.

Managing for development results is one of the themes of the Third High-Level Forum on Aid Effectiveness, to be held in Accra on September 2–4, 2008. In addition to ownership, alignment, and harmonization issues, the event will give prominence to the theme

of results orientation. In preparation for the event, the AfDB has been active in planning consultative regional meetings and in the selection of case studies to inform progress.

The heart of the MDB systems lies at the country level. The IDB has launched a new project performance monitoring report for all sovereign guaranteed operations that provides better information on output and outcome indicators against specified targets and baselines and on risks that may affect their achievement. The ADB has been implementing an MfDR Action Plan, 2006–08. It has initiated development effectiveness country briefs. The AfDB has introduced a new results-oriented supervision report format. The World Bank Group and ADB have mainstreamed Results-Based Country Assistance Strategies. The World Bank’s Africa Action Plan is based on an outcome-oriented framework to guide the work of the Bank’s Africa region to promote country-led efforts in partnership with other donors (box 5.9).

A focus on results is translating into management frameworks that are risk based rather than absolute. Operational manuals can provide guidance to staff, but if recipient countries are responsible for program and project execution and the attainment of development results, then the responsibility of partner agencies is to manage risks inherent in individual transactions and not to prescribe procedures. Better country procurement and financial management systems are already apparent, and the MDBs are active in building capacity to improve these. That will permit more rapid adoption of risk-based procedures.

Selectivity of Financial Resources

As part of the MfDR, the MDBs committed themselves to using more transparent and incentive-improving resource allocation systems aimed at maximizing aid effectiveness and encouraging stronger policies and institutions in recipient countries. At present, the foundation of each of these systems is a formula that calculates the share of the resources that will be allocated to individual countries

BOX 5.9 The Africa Action Plan: progress in implementation

The World Bank launched an Africa Action Plan in 2005, and modified it in 2007, to sharpen the focus on results. The Bank believes that good progress is being made in the implementation of the plan. There has been a very encouraging pickup in growth in the region. Africa's growth is continuing to strengthen and could reach 6.3 percent in 2008, according to the *World Economic Outlook* of the IMF. About two-thirds of the region's population now lives in countries that in recent years have achieved average GDP growth of more than 5 percent. Gross primary school enrollment has risen to 96 percent, and gender imbalances in education have been substantially reduced. Thirty-three of 44 countries show a decline in maternal mortality rates.

This broadly positive outlook is clouded by the enormous challenges still facing the region. Despite stronger growth, much of Africa will not meet the MDGs.^a About 20 countries, many affected by conflict and accounting for about a third of the region's population, remain trapped in low growth. The 2015 target poverty headcount rate of 23 percent will be missed by a sizable degree, with current projections suggesting poverty is on track to decline to only 32 percent in 2015. Primary completion rates are low and child and maternal mortality rates are not coming down fast enough. And aid to Africa, outside debt relief and humanitarian assistance, has not increased at a pace commensurate with the Gleneagles promise.

The Bank Group's contributions are broadly on track with what was expected. Private sector development, infrastructure, HIV/AIDS, and malaria programs are ahead of plan. MIGA and the IFC have made important contributions to private sector development, with the IFC opening a Private Enterprise Partnership for Africa, and raising \$31 million in donor contributions. A partnership with Germany and the AfDB to make finance work for Africa was launched in October 2007. Progress is on track in regional integration, with the opening of a new World Bank department to focus on this and export development. But agricultural productivity and gender empowerment programs are behind schedule. African countries have done well in building state capacity, although they could have made faster progress if the World Bank's Capacity Development Management Action Plan had come onstream earlier. Harmonization activities are also well under way at the country level, with money from the Africa Catalytic Growth Fund, designed to crowd in donor resources, fully committed through fiscal 2008.

The World Bank Group has drawn four key lessons from the initial experience with the Africa Action Plan: the country-based model works and should be strengthened; the plan needs to become more selective to be used as an effective management tool; demand from countries should guide selectivity; and accountability for monitoring and results should be strengthened.

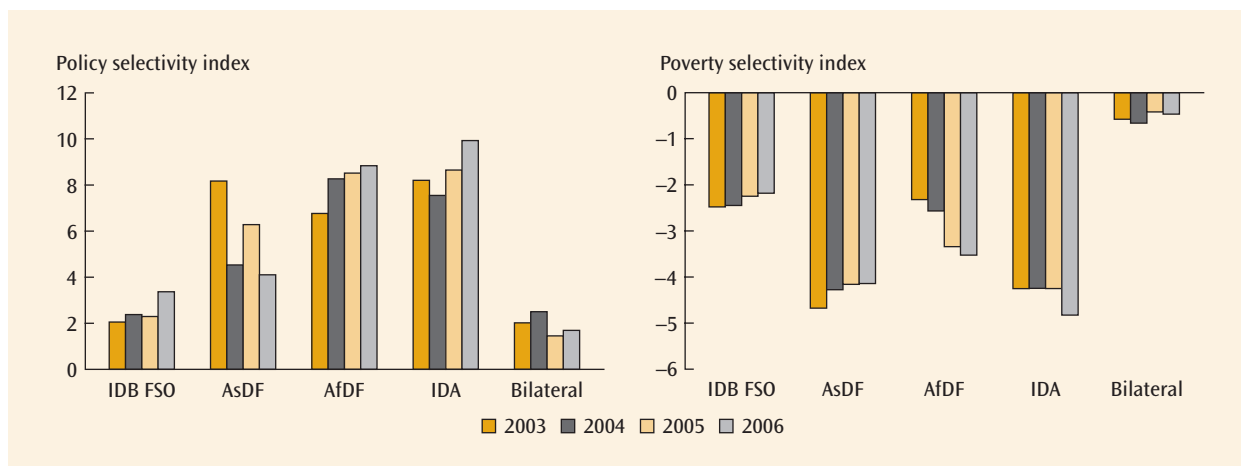
Source: World Bank 2007a.

a. On current trends, 13 countries will meet only one MDG, and 23 will not meet any.

on the basis of their financial need (proxied by population and income per capita) and policy performance. Each MDB combines these factors somewhat differently in its performance allocation formula and uses different methods to accommodate exceptional circumstances, such as fragile or small states. In the past, the MDBs have taken significant steps to harmonize the CPIA questionnaires that lie behind their policy performance measures. This has led to more harmonization of performance-based allocation systems along the two dimensions of need and policy performance.

The weight ascribed by each MDB to need and policy can be implicitly derived by looking at the coefficients on per capita income

and on CPIA scores in a regression model.¹⁵ These coefficients can be interpreted as the sensitivity of resource allocations to "need" and "policy." Put another way, the coefficients show the selectivity of each agency to these variables. Figure 5.5 shows that most MDBs are quite selective in terms of both policy and need and far more selective than bilateral aid agencies. Poorer countries and countries with better policy scores receive more aid funds. The figure also shows a trend toward greater selectivity in IDA and AfDF. A recent study prepared for the discussion of IDA15 replenishment finds that countries receiving more funds from IDA are those experiencing better results.¹⁶

FIGURE 5.5 Policy and poverty selectivity of concessional assistance by the MDBs

Source: World Bank staff calculations, based on Dollar and Levin (2004).
 Note: FSO = Fund for Special Operations.

The contrast between MDB and bilateral donor allocations in terms of their selectivity along the two dimensions of need and policy is partly attributable to the importance placed by bilaterals on historical and cultural ties. But it also reflects differing views on the combination of discretion and rules-based approaches, with bilaterals favoring greater discretion. For example, the U.S. Millennium Challenge Corporation has moved furthest in trying to implement a transparent, performance-oriented system but retains management discretion to deviate from a strict application of its formula. The European Commission has an alternative approach of allocating base funding according to need and performance but with flexibility to deviate if country circumstances so warrant. Discretion in allocation can be used in a number of different ways. It can be used to include political framework conditions, which the MDBs cannot do. But it can also permit greater flexibility in responding to turnaround situations and other special circumstances such as disease burden, landlockedness, or state fragility that are hard to capture in a simple formula. Greater flexibility to respond to some of these conditions may be desirable but comes at a cost in the transparency of allocations.

Concessional flows to fragile states pose a special challenge for MDBs. On the one

hand, the likelihood of successful development outcomes from any specific project declines in a fragile state. On the other hand, fragile states have the highest incidence of poverty and are furthest away from reaching the MDGs. The allocation formula provides some flexibility to accommodate exceptional circumstances of fragile states,¹⁷ but recently the share of fragile states in total ODA flows from the MDBs has been relatively stable, despite a sizable increase in the absolute level of MDB lending (table 5.5). As fragile states move from peace building to state building, the MDB role is expected to become larger. IDA has recently spelled out its new parameters for engagement and has systematically worked to reduce the performance gap between fragile and nonfragile states in project outcomes.¹⁸

Sectoral issues. In line with their changing strategies, MDBs have adjusted the sectoral composition of new commitments. The most striking recent trend is the reemergence of infrastructure as a major sector. The World Bank Group adopted an Infrastructure Action Plan in 2003. Since then it has scaled up financial support considerably, almost doubling its commitments from around \$7 billion in fiscal 2003 to around \$12.5 billion in fiscal 2007. Figure 5.6 shows how disbursements in infra-

TABLE 5.5 MDB gross disbursements to fragile states, 2002–07
US\$ millions

Gross disbursement	2002	2003	2004	2005	2006	2007
World Bank	1,107.8	985.3	1,403.2	1,693.4	1,373.7	1,802.7
IDB	2.6	48.0	28.0	70.0	65.7	90.1
AfDB	123.1	216.0	231.5	162.7	165.6	216.9
ADB	318.4	267.8	299.8	330.7	325.6	275.3
Total	1,552.0	1,517.1	1,962.5	2,256.8	1,930.60	2,385.0
Memo items						
Number of countries	36	35	36	36	35	35
Disbursements per capita	2.92	3.05	3.81	4.49	3.94	4.90
Percent of total MDB disbursements	7.9	6.5	11.1	12.3	8.3	10.6

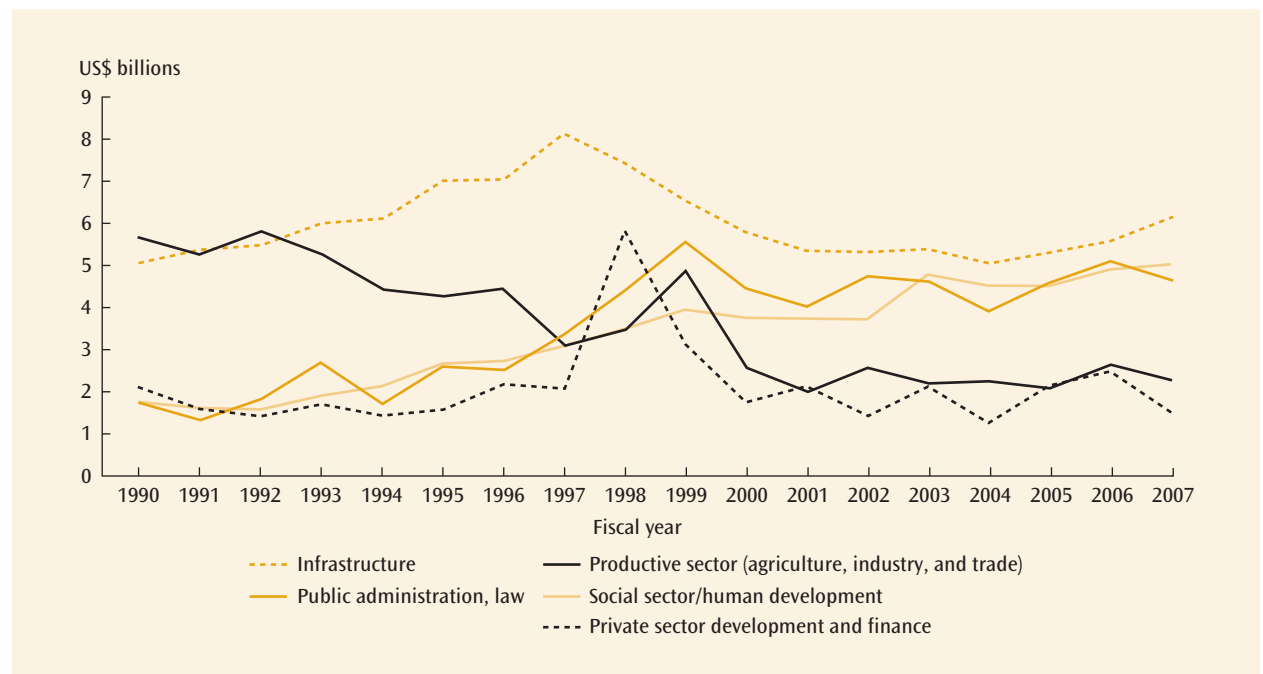
Source: MDB staff. Figures for 2007 are estimates.

Note: Data include debt relief. Fragile states are defined as IDA-eligible countries with either a CPIA rating of 3.2 or below or without a CPIA rating.

structure are already picking up volumes over the last three years. Along with more financing, and leveraging private funds through guarantees and innovative financing mechanisms, the Bank has also made progress in integrating social and environmental concerns

into infrastructure operations and strengthening governance and accountability.¹⁹

A second compositional trend seems less positive. IDA reported an increase in its commitments for education, and an increase in education spending as a whole in recipient

FIGURE 5.6 IBRD and IDA disbursements by sector and themes

Source: World Bank staff. Figures for 2007 are estimates.

countries, but a continued significant gap in resources for primary education, despite the Fast Track initiative. In fact, IDA's new commitments for basic education have actually fallen by 13 percent in nominal terms in fiscal 2005–07 compared with fiscal 2002–04, while lending for other levels of education rose by 25 percent. These trends hold even for the poorest countries and for Sub-Saharan Africa.²⁰

Review of Approaches to Assessing IFI Performance

Several approaches to measuring IFI results have emerged in recent years. The first is internal, developed by each IFI in responding to shareholder concerns. On a parallel track, albeit more focused on performance than results, some MDB shareholders are independently developing their own comparative frameworks for assessing multilateral agencies, generally with a view to fine-tuning their financial support. Third, civil society organizations are monitoring IFI performance in an increasingly systematic manner.

MDB Internal Measurement Systems

IFIs are taking action to improve the result orientation of their own management practices and programs. At the Third Roundtable on Managing for Development, held in Hanoi in February 2007, donors recognized that managing for results should not be seen mainly as a set of measuring and monitoring tools, although statistics and monitoring and evaluation are essential components, but as a management strategy to improve decision making. Internal systems developed by the MDBs to measure results and effectiveness should be seen with this perspective in mind.

Results measurement systems. Efforts to measure the results of concessional lending began with the adoption of the IDA13 Results Measurement System. 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. It uses a two-tiered system to link IDA's contribution to the MDG framework. The first tier looks at key development outcomes, while the second tier looks at intermediate outputs contributed by IDA. The first tier monitors 14 indicators in IDA-recipient countries, grouped into four key areas: growth and poverty reduction; public financial management and investment climate; human development; and infrastructure. The second tier has indicators monitoring IDA performance at project, sector, and country levels.

The AfDF's Results Measurement System is similar in methodology to that of IDA. The assessment of AfDF performance under AfDF-XI will occur at the institutional and country levels through the use of operations quality indexes, changes in country-level indicators based mostly on internationally available statistics, and evaluation findings. The AfDB has examined the outputs and short-term outcomes of more than 140 projects that exited the portfolio over the 2004–07 period. The ADB has also set up a new internal results measurement system.

The IDB is moving toward a culture of results and accountability by designing and implementing various new tools. It is introducing a corporatwide performance framework, supported by steps to implement a results-based budgeting system, a new version of the project performance monitoring report for all sovereign guaranteed operations, and a new project evaluation instrument.

The IMF also has various internal mechanisms for tracking results, starting with regular review by staff and the Independent Evaluation Office of the effectiveness of IMF-supported programs, program conditionality, and surveillance. The Fund also regularly assesses the effectiveness of its advice in the context of surveillance and technical assistance missions.

COMPAS. The common performance assessment system, or COMPAS, was designed as a self-assessment to provide a common source of information on the results orientation of

the MDBs' internal practices and operational relations with country and development partners. The focus is on identifying common issues, rather than on individual comparisons among institutions, in order to provide a basis for information exchange and learning about performance and accountability.

Although it is still too early to assess trends, the 2007 COMPAS report attempts to identify the direction of movement since 2006.²¹ Overall, the MDBs have improved on four of seven indicators, with the other three remaining stable. The improvement resulted from better performance in assessing and strengthening the capacity of their borrowing member countries to manage for development results; strengthening the results orientation of their respective country strategies; strengthening their various processes related to project and program design and implementation; and better harmonizing their policies and procedures among themselves. Areas where no improvements occurred, but where MDB approaches nevertheless are considered to be in line with current best practices, include allocation of concessional resources, institutional learning from operational experience, and results focus in human resources management.

COMPAS 2007 shows that MDB efforts toward strengthening their results orientation are also reaching their private sector operations in three stages: strategy design and project implementation; ex post evaluation; and learning from operational experience. A major limitation in private sector operations is that not all country strategies include an explicit strategy to promote private sector development.

Among the highlights of the COMPAS 2007 report are the findings of a 12 percent increase in the number of country strategies of the AfDB, independently evaluated ex post, that show satisfactory or better results; an increase of 15 percent in the share of ADB projects that explicitly show baseline data, monitoring indicators, and target outcomes; a 12 percent increase in the proportion of ADB projects with satisfactory or better rat-

ings for development outcomes, based on independent evaluation; an increase in the EBRD disbursement ratio from 55 percent to 60 percent; a 13 percent increase in the number of countries where IDB helped strengthen results management capacity; a 27 percent increase in the share of World Bank projects with baseline data, monitoring indicators, and target outcomes; and a 41 percent increase in the share of World Bank projects receiving a satisfactory or better rating in independent ex post evaluations. The MDBs have formed an Evaluation Cooperation Group (ECG), with the goal of promoting good practices and a focus on project implementation.

MDB Shareholder Comparative Assessments

Several MDB shareholders have set up independent approaches to assess the results and effectiveness of the MDBs. There are now five such systems:

- Multilateral Organizations Performance Assessment Network (MOPAN) promoted by nine donor countries (Austria, Canada, Denmark, Finland, the Netherlands, Norway, Sweden, Switzerland, and the United Kingdom)
- Performance Management Framework of the Danish International Development Agency (DANIDA)
- Multilateral Effectiveness and Relevance Assessment of the Canadian International Development Agency (CIDA)
- Multilateral Effectiveness Framework established by the U.K. Department for International Development
- Multilateral Monitoring Survey System developed by the Netherlands.

These systems differ in objectives, level of assessment focus, sources of data, and tools and methodology (table 5.6). Some focus on strengthening organizational accountability, others on helping guide bilateral financial support. They are based on (nonrepresentative) surveys, checklists, scorecards, or interviews, along with organizational performance measures.

TABLE 5.6 A comparison of MDB assessment systems

Assessment approach	The Common Performance Assessment System	Multilateral Organizations Performance Assessment Network	Danish Performance Management Framework	Canadian Multilateral Effectiveness and Relevance Assessment	British Multilateral Effectiveness Framework	Dutch Multilateral Monitoring Survey System
Area of focus	Self-assessment, harmonization of practices	Perception analysis	Quality assessment of MDBs	Results and management assessment	Organizational effectiveness of MDBs	Perception analysis
Objectives	Gather information on how MDBs are contributing to development results Monitor and synthesize MBDs progress; Contribute to lessons learning, accountability, and transparency.	Better information about and understanding of MDBs, their roles and performance by stakeholders in MOPAN member countries Better dialogue with the MDBs Engagement of MOPAN country offices in performance assessment Improvement of overall performance of MDBs at country level	Enhance the quality of Danish development cooperation through stronger focus on results Improve management and continuous learning through better information and reporting Strengthen accountability through performance assessments and measurement in the context of an increasingly decentralized management structure	Better information for policy and financial allocation decisions Improvement of CIDA's accountability Better identification of areas requiring advancement Multilateral effectiveness review as part of the Agency Aid Effectiveness agenda	Provide information to strengthen DFID's accountability Provide inputs to DFID's institutional strategies for engagement with multilaterals Provide inputs to future financing decisions	Giving an insight into the general perception of a given MDB
Level of assessment focus	Country, organization, and global partnership levels	Country level	Corporate (DANIDA), organization, and country levels	Country level. Focused on three themes: relevance, effectiveness, and improvement measures in management	Organization, country and partnership levels	Country level

The experimentation with assessment frameworks reflects the difficulties of attributing results to individual agencies, more so as harmonization efforts gain strength. Nevertheless, there is demand for a system to help the MDBs improve their comparative strengths and weaknesses through learning. A few common threads appear. The MDBs could increase the attention

paid to the quality of monitoring and evaluation practices. Reporting should reflect on progress toward development results, notably the MDGs—that is, real results on the ground—not just process measures. Meanwhile, donors need to harmonize the current ad hoc MDB assessment to provide transparent incentives for institutional change to management.

TABLE 5.6 A comparison of MDB assessment systems (*continued*)

Assessment approach	The Common Performance Assessment System	Multilateral Organizations Performance Assessment Network	Danish Performance Management Framework	Canadian Multilateral Effectiveness and Relevance Assessment	British Multilateral Effectiveness Framework	Dutch Multilateral Monitoring Survey System
Tools, methods	COMPAS is a self-assessment exercise based on process and results indicators. It uses eight categories of data: Country-level capacity development Performance-based concessional financing Country strategies Projects and programs Human resources management Learning and incentives Interagency harmonization Private sector operations	Annual survey: A questionnaire completed by participating MOPAN embassies and country offices for each of the MDBs assessed Country team discussions Country reports summarizing the findings of country teams A synthesis report	A combination of qualitative and quantitative methods, drawing on: Organization strategies Annual results contracts Consultations with each multilateral organization Performance information Perception analyses Evaluation of multilateral organizations Performance reporting systems	A common set of indicators, drawing from multiple sources of information: Evaluations from the institutions themselves Multidonor evaluations Surveys of field staff undertaken by CIDA, MOPAN	Focuses on eight corporate management systems and is based on three main assessment instruments: Checklist with nearly 72 questions or indicators Scorecard rating data in the checklists Summary report presenting the organizations' main strengths and weaknesses	Questionnaires answered by embassy, permanent representation of mission, and constituency offices staff. Performance assessment for the most important UN institutions and IFIs at country level of the 36 Dutch partner countries.

Source: World Bank staff.

Civil Society Monitoring

The third pillar of assessment is through civil society. A number of civil society organizations and Web sites monitor programs conducted by IFIs. These organizations and Web sites provide important feedback—typically quite critical—on IFI activities. They have been strong advocates for more rapid reform of IFIs, stemming from a sense of urgency that many countries are not on track to attain the MDGs. Currently, civil society is organizing to participate in the Accra and Doha conferences, with a focus on five aspects of IFI operations: trade and economic management, conditionality, debt and finance for development, aid, and voice.

Trade and economic management. While civil society groups recognize that there can be differences in views on economic management with IFIs, they have organized strong advocacy efforts to push for change. One issue that is important to these groups is to understand better the poverty and social impact assessment of policy change, especially with respect to trade and employment, the role of safety nets, and trade in agriculture. IFIs have initiated some poverty and social impact assessments, but not to the satisfaction of many critics. These assessments have helped communicate development policies to stakeholders in recipient countries but are not mainstreamed into MDB activity. Nor have they been shown so far to provide

benefits in terms of policy choices that outweigh the costs of additional studies and time delays.

Conditionality. Conditionality is a major channel through which IFIs have encouraged recipient countries to pursue specific economic policies, and one where civil society groups have long been critical of the IFIs. This issue is becoming more sensitive as the shift toward program aid, with its attendant conditions, and harmonized approaches gathers momentum. Eurodad, a consortium of European NGOs, issued a report on World Bank conditionality in November 2007.²² That report concluded that although the number of legal conditions in World Bank operations had declined, many conditions involved multiple actions. Eurodad claims that when conditions are unbundled into their separate components, there has been no decline (and perhaps an increase in number). Eurodad further claims that sensitive conditions—defined as those involving privatization and liberalization—have gone up. At their extreme, civil society groups like Eurodad are advocates for dropping conditionality on economic policies completely, on the grounds that it promotes externally induced policies and undermines debate and accountability for policy choice in recipient country political organizations. But in their less extreme form, the critics question the development impact of IFI conditions.

Debt. The process of debt cancellation under the HIPC and MDRI initiatives is one example of the power of civil society activism and awareness raising. But debt issues have not disappeared. In some instances, countries find themselves again at some risk of debt distress, even after receiving debt relief, because of adverse terms-of-trade shocks, or because of still-outstanding debts held by creditors who have not participated in debt cancellation schemes. A few countries may be in the process of re-indebting themselves, sometimes outside the framework of the IFIs' debt sustainability analysis. New

lenders have been willing to enter this space. Debt issues, therefore, remain central to the agenda of financing for development.

Aid. Civil society groups are actively monitoring aid quantity and quality, along with aid effectiveness and new sources of finance. These groups have been strong advocates for more rapid scaling up of aid, as well as encouraging new thinking for making aid more effective.

Voice and accountability. A growing number of voices are being raised about the accountability of IFIs. While focused on the issues of quotas, shares, and chairs in organizations such as the IMF, there is a broader critique of IFI accountability and an effort to have greater civil society oversight and influence on IFI activities. Civil society voices call for stronger focus of the IFIs on the impact of rich-country policies on development.

Learning from Evaluations

Evaluations are a major element in the IFI results approach. Evaluation is the source of evidence-based learning to improve aid effectiveness. Each of the IFIs has an active evaluation office, conducting annual reviews of key programs. The COMPAS report indicates no major changes in learning procedures but suggests that the MDB evaluation offices play a greater role in the COMPAS process next year.

The evaluation offices of the IFIs have produced a number of reports in the past year relevant to the themes of strategic repositioning faced by the IFIs.

The Independent Evaluation Group of the World Bank issued a report on middle-income countries. This report found a generally positive view of World Bank engagement in middle-income countries but also found unmet demand from client countries to help them tackle the harder issues of inequality, corruption, and environment. Much work in middle-income countries is oriented toward support of the private sector. The IDB's Office of Evaluation and Oversight

found that while most private sector projects achieved their development outcomes, they constituted a weaker performing sector in the IDB. The EBRD evaluation office reported that EBRD operations in providing finance for property development in transition economies had been “partly successful,” with poor performance in those economies where market-supporting institutions such as frameworks for property rights were not at an advanced stage.

Other studies looked more broadly at the relevance and impact of the IFIs. The IMF’s Independent Evaluation Office found that spillovers and the potential for concerted multilateral action were not given sufficient emphasis in the Fund’s reviews of member countries exchange rate policies. The World Bank’s evaluators found that regional aid programs offered considerable promise but accounted for only 3 percent of total aid and were weakly linked to country assistance strategies; the evaluators called for a strengthening of the broader aid architecture. The ADB found that its resident missions had “successfully” delivered on their promise to improve the efficiency and effectiveness of operations in client countries but called for a systematic corporate decentralization strategy to respond to future challenges. In another review, the ADB advocated a change in its technical assistance strategy and management to clarify strategic direction at the country level. The AfDB is also conducting a review of its development effectiveness.

These studies suggest that the IFIs have the structures for institutional learning in place. They also suggest, however, that the new strategic directions that the IFIs have outlined are moving the institutions into unfamiliar territory where existing good practices are still evolving.

Promoting Environmental Sustainability

Over the years, the IFIs have vastly expanded the level and scope of their environmental activities. This includes design and imple-

mentation of a variety of environmental products, including projects, policy guidance, research, and training. The IFIs have played a pivotal role in engaging developing countries and international and local organizations on various environmental matters, such as energy development and efficiency, the threat to the ozone layer, greenhouse gas (GHG) emissions, loss of biodiversity, and ocean pollution. Individually and collectively, IFIs are responding to the challenge of climate change by supporting the integration of climate concerns into development policy making and poverty reduction strategies. They have taken major new initiatives to help clients address climate change mitigation and adaptation.

Strategic Framework

In promoting environmental sustainability, the IFIs focus attention on the nexus between environmental conditions, quality of life, and the sustainability of growth and therefore closely align environmental sustainability with the other MDGs. The World Bank’s overarching vision for environmental sustainability is laid out in the 2001 Environment Strategy, which outlines policies and actions to promote environmental improvements as fundamental elements of development and poverty reduction strategies.²³ Recognizing the challenge of climate change that confronts all countries and particularly the poorest, the World Bank is currently developing a strategic framework to scale up its work on climate change mitigation and adaptation.

Other IFIs are also paying increased attention to environmental sustainability and the threat of climate change. Environmental sustainability is expected to receive increased emphasis in the ADB’s Long-Term Strategic Framework, currently being developed. The ADB’s Clean Energy and Environment Program, including the energy efficiency initiative and carbon market initiatives, are focused on environmental sustainability in the energy sector. Similarly, the IDB’s strategy for sustainable economic growth outlines actions to promote growth while preserving

the natural resource base as well as social and cultural features. The AfDB board approved a new policy on the environment in 2004, which emphasizes environmentally sustainable development. The EBRD plans to expand investments in energy efficiency, renewable energy, and reduction of GHG emissions within its mandate of promoting environmentally sound and sustainable development in all its activities.

The IMF also is paying increased attention to environmental and climate change issues. The Fund stands ready to assist its members in analyzing macroeconomic effects and making the right fiscal policy choices when dealing with environmental issues. The Spring 2008 *World Economic Outlook* examines the macroeconomic implications for the global economy of the potential flows from payments for carbon credits, how countries may best use those revenues, and mitigation and adaptation policy responses to climate change. The IMF will also analyze the fiscal implications of climate change and alternative adaptation mechanisms to deal with its effects.

Environmental Mainstreaming

All IFIs have aimed at mainstreaming environmental issues in their country assistance strategies, sectoral- and policy-lending operations, and analytic activities. The recent review of the World Bank environment strategy documents that mainstreaming of environment issues into the Bank's programs and activities has increased, particularly over the last five years.²⁴ Similarly, environmental dimensions have been mainstreamed into ADB operations (representing about 12 percent of ADB's annual investments). The ADB has adopted sector-specific policies or strategies on forestry (1995), fisheries (1997), energy (2000), and water (2001). Environmental considerations also figure prominently in key sector policies of the EBRD and the IDB. In addition to increasing investment in traditional environmental sectors, they are placing heightened emphasis

on environmental components in economic and social sector operations.

Both the ADB and the EBRD require that a country environmental analysis (CEA) be undertaken every time a country assistance strategy is prepared or revised. This has become a principal mechanism for upstreaming environmental considerations in the context of the Banks' country programming. The CEAs are designed to give an overview of current environmental challenges and the governing legal and institutional framework and to set out the priority investment needs for the country. While not a mandatory requirement, the World Bank and the IDB also have prepared a number of CEAs to inform country operations. These assessments identify sectors and issues that are of highest priority. However, not all CEAs prepared by IFIs so far have achieved tangible outcomes. This could be attributed to a variety of reasons including process of preparation and lack of follow up after completion.

Compliance with Safeguard Policies

The IFIs have over the years developed policies and instruments for mitigation and management of potentially negative environmental impacts of their projects. This has been done through more effective upstream analytical work and dialogue, focused project design and implementation, and strengthened application of environmental safeguards. The environment assessment process has been designed and refined over the years to better assess the economic, social, and environmental aspects of any proposed project. Also, in a number of cases an environmental management plan or mitigation measures have been required to avoid, mitigate, or compensate for a project's harmful effects. Most IFIs have been updating their environmental and social safeguard policies to ensure relevance to changing needs.

There has also been a growing emphasis on harmonization and alignment of safeguard policies and country systems. In 2005, as a part of the Paris Declaration on

Aid Effectiveness, donors and partner countries agreed to foster the better integration of social and environmental considerations into country strategies and programs. The application of safeguard policies to new lending instruments and approaches to development assistance have resulted in several recent safeguards initiatives. These include, for example, the adoption by the World Bank of a new operational policy in 2005 on piloting the use of borrower country systems to address environmental and social issues in Bank-supported projects (box 5.10).

Climate Change Mitigation and Adaptation

IFIs are developing climate change strategies and policies to help client countries mitigate

GHG emissions. In regions where the impact of global warming is already apparent, the IFIs are also increasingly helping countries to adapt to the new environment.

The World Bank's Clean Energy for Development Investment Framework is designed to accelerate investments to mitigate GHG emissions by moving to a low-carbon economy. As a follow-up to this framework, the Bank is preparing a new strategy to better integrate climate change in the broader sustainable development objectives.²⁵ The Bank intends to focus on providing innovative and concessional financing to facilitate both public and private sector investments in low-carbon and adaptation projects; pioneering and advancing new market and trading mechanisms (box 5.11); facilitating technology deployment and transfer to developing

BOX 5.10 World Bank country systems pilot

On March 18, 2005, World Bank Executive Directors approved the launch of a pilot program to explore using a country's own environmental and social safeguard systems as an alternative to Bank safeguard policies for selected investment projects. This approach aimed to address what many borrowers viewed as excessive and unnecessary transaction costs of doing business with the Bank, while increasing borrower ownership and facilitating donor harmonization of safeguard policies. The pilot program was adopted in support of the Paris Declaration on Aid Effectiveness, in which donors and borrowers agreed to promote greater use of country systems for financial management, procurement, and environmental and social safeguards. Key to this approach is an increased emphasis by the Bank on capacity building and human resource development. To govern the pilot program the Board approved a new operational policy—Piloting the Use of Borrower Systems to Address Environmental and Social Safeguard Issues in Bank-Supported Projects. The rules define the approach and the criteria for assessing country systems and specify the respective roles of the borrower and the Bank.

Following two years of implementation, the results of the pilot program were evaluated. The evaluation was based on pilots undertaken in Bhutan, the Arab Republic of Egypt, Ghana, Jamaica, Romania, and Tunisia (additional pilots are under way or have been identified in Bhutan, Ghana, India, Morocco, South Africa, Tunisia, and Uganda). Results indicate a substantial potential for use of borrower systems for environmental assessment given strong borrower ownership and capacity to undertake such assessments. For social safeguards, such as involuntary resettlement, there are significant challenges to reconciling differences between Bank and borrower systems. Diligent application of a new analytical tool—the Safeguards Diagnostic Review—will help ensure that Bank safeguards are not diluted in the process of using country systems. Coordination among donors is necessary to mobilize the resources needed to attain and sustain the capacity of borrowers to implement their own systems. The evaluation also identified obstacles, at country level and internally, to more extensive application of the pilot program. As a result, the board in January 2008 approved a proposal to provide more incentives and support for use of country systems for environmental and social safeguards.

BOX 5.11 Carbon Partnership Facility and Forest Carbon Partnership Facility

Since the entry into force of the Kyoto Protocol in 2005, the World Bank has taken a lead role in ensuring that poor countries can benefit from international responses to climate change, including the emerging carbon market for greenhouse gas emission reductions. Significant progress has been made in the development of the carbon markets. The Umbrella Carbon Facility was fully funded in August 2006 with total capital of \$1 billion. Two new carbon facilities—the Carbon Partnership Facility (CPF) and the Forest Carbon Partnership Facility (FCPF)—were launched in December 2007 to scale up carbon finance.

The CPF is designed to scale up carbon finance through programmatic and sector-based approaches and support long-term, low-carbon investments by purchasing emission reductions beyond 2012. It is intended to use carbon markets to promote GHG mitigation, enhancing the value of carbon finance to leverage investment for clean energy and the use of lower-carbon technology. The FCPF has been developed in response to requests from developing and industrial countries to explore a framework for piloting activities that would improve livelihoods in forested areas while reducing emissions from deforestation and degradation.

countries; creating an enabling environment to tap the private sector; and expanding research on mitigation and adaptation. The Bank, in partnership with the governments of the United Kingdom and the Netherlands, is leading a global program of research on the economics of adaptation in developing countries, which was launched at the UN Framework Convention on Climate Change meeting in Bali in December 2007.

The regional banks' approaches reflect their regional perspectives. The ADB is focusing on both mitigation and adaptation, including infrastructure development and finance, especially in the energy, transport, agriculture, and water sectors. The EBRD has placed its main emphasis on mitigation and is also developing an approach to adaptation. The EBRD's climate change initiatives include supporting efforts to improve energy efficiency and develop renewable energy sources to reduce the region's dependence on fossil fuels. In May 2006 the EBRD launched a specific initiative, the Sustainable Energy Initiative, to scale up climate change mitigation investment. The objective is to more than double EBRD investment in this area, to €1.5 billion over the period 2006–2008, with a total project value estimated at €5 billion. By the end of 2007, investment by the EBRD under the initiative had exceeded the three-year target of €1.5 billion.

The IDB's Sustainable Energy and Climate Change Initiative, approved in March 2007, is designed to expand the development and use of renewable energy sources, energy efficiency technologies and practices, and carbon finance, as well as to promote climate change adaptation to reduce the region's vulnerability. The IDB has established a team to implement and coordinate activities under this initiative. The AfDB is currently working on a strategy for climate risk management and adaptation as well as developing renewable energy and energy efficiency programs. Work in this area will include partnering with other bilateral and multilateral agencies on climate change for Africa within the "Nairobi Framework." Related initiatives include ongoing discussions on setting up a carbon financing facility and a biofuel support facility.

Financing of Environmental Activities

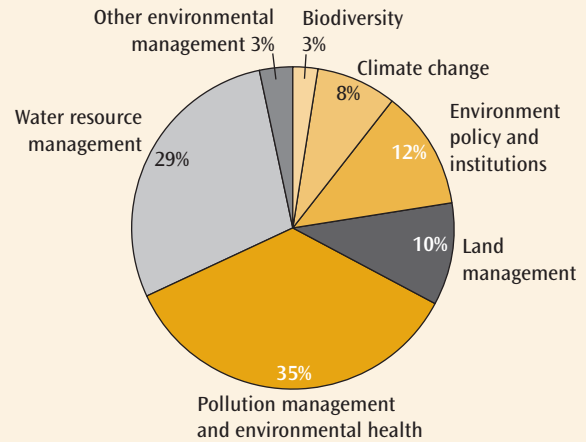
Environment-related lending has been an increasingly important component of World Bank operations. World Bank investment lending for environment and natural resources management between 2002 and 2007 amounted to \$10.2 billion. This constituted about 10.4 percent of total Bank lending. In terms of thematic distribution,

pollution management and environmental health activities make up the largest share of the lending (35 percent), followed by water resource management activities (29 percent) (figure 5.7). Besides investment projects, Development Policy Lending is another instrument through which the Bank is supporting environmental policy and institutional reforms. This lending rose sharply, from \$59 million in 2004 to \$264 million in 2006.

In addition to lending, the Bank administers grant facilities to support the implementation of global environmental agreements and the mainstreaming of their objectives into operations of the Global Environment Facility (GEF). The active portfolio of World Bank–implemented GEF projects at the end of fiscal 2007 included 219 projects, with total net GEF grant commitments of \$1.6 billion. In terms of cumulative approvals since 1991, the climate change focal area has received the largest funding (\$1.5 billion) followed by biodiversity (\$1.3 billion) and international waters (\$0.5 billion).

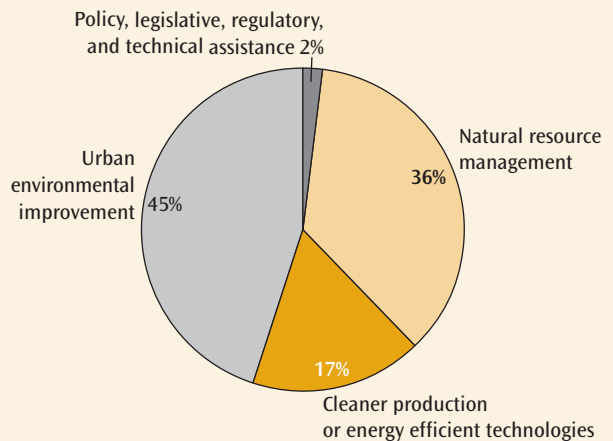
Investments in environment-related projects have also been rising at the regional IFIs. In the past 10 years, the ADB supported 113 investment projects with environmental objectives or elements for a cumulative value of \$8.4 billion; these investments averaged \$720 million a year and represented about 12 percent of the ADB’s overall annual investments. These investments reached a high of 21 percent of the total in 2006. Urban environmental management and natural resources management accounted for more than 80 percent of these investments (figure 5.8). The EBRD’s cumulative environmental investments were \$3.8 billion between 2002 and 2006 and included projects dealing with municipal environmental infrastructure, energy efficiency, and cleanup operations. Over the same period, the IDB approved 79 environmental loans, investing \$2 billion. The focus was primarily on water and sanitation (88 percent). Environmental lending

FIGURE 5.7 Active World Bank environment and natural resource portfolio, by thematic distribution, as of June 30, 2007



Source: World Bank.

FIGURE 5.8 ADB projects with environmental elements by theme, 2006



Source: Asian Development Bank.

amounted to about 10 percent of total IDB lending. In addition to these investments in environmental sectors, the IDB, and other regional development banks have been financing environmental components in economic and social sector loans.

Notes

1. IMF 2007 (revised with new purchasing power parity data, January 2008).

2. ADB 2007.

3. World Bank 2007; Zoellick 2007.

4. AfDB 2008.

5. EBRD 2006, p. 4.

6. World Bank 2007e.

7. World Bank 2007c.

8. Financial closure and guarantee effectiveness for four operations are still pending.

9. A municipal fund, which provides loans, guarantees, and equity investments in support of the infrastructure investments of municipalities and other subnational entities without requiring a sovereign guarantee, has been set up at the IFC. The Municipal Fund team also has developed a pipeline of more than 20 projects in all emerging regions.

10. A total of 45 countries made pledges to IDA15, the highest number of donors in IDA's history. Six countries—China, Cyprus, Arab Republic of Egypt, Estonia, Latvia, and Lithuania, are becoming new IDA donors. China and Egypt were once IDA borrowers and have joined the Republic of Korea and Turkey as current donors and prior recipients of IDA's assistance.

7. IDA reports a correlation between country capacity to coordinate aid and total aid received.

8. See detailed analysis in *Global Monitoring Report 2007*.

9. OECD 2007b.

10. World Bank, 2007d, annex 1.

11. Dollar and Levin 2004.

12. World Bank 2007h.

13. Both the AfDB and the World Bank, for instance, have developed an exceptional allocation framework for postconflict countries to allow countries to benefit from additional resources over and above their performance-based allocation for a limited period

14. IDA 2007b.

15. World Bank 2007f.

16. IDA 2007a.

17. The COMPAS report was initiated in 2005, with an initial set of indicators that are intended to constitute the basis for tracking future trends in their performance. The 2006 and 2007 COMPAS reports incorporate some revisions. These changes include slight modifications to a few indicators, the inclusion of performance indicators for the private sector operations of MDBs, the participation of the Islamic Development Bank for the first time, contributions from a group more representative of the bilateral donor community, and greater involvement of MDBs' independent evaluation offices to enhance the objectivity and the credibility of data.

18. Eurodad 2007.

19. World Bank 2001.

20. World Bank 2007b.

21. *Towards a Strategic Framework on Climate Change and Development for the World Bank Group*. World Bank 2008.