Results and Performance of the World Bank Group 2013

1. Attached is a report entitled "Results and Performance of the World Bank Group 2013 - An Independent Evaluation", prepared by the Independent Evaluation Group (IEG), which will be discussed in a joint meeting of the Executive Directors of the Bank and IDA and the Boards of Directors of IFC and MIGA to be held on Tuesday, March 4, 2014.

2. A Management Action Record may be accessed online at: http://ieg.worldbankgroup.org/managementactionrecord

3. In accordance with IEG's Access to Information Policy (R2011-0100) that was approved by the Executive Directors on May 6, 2011, this report will be made publicly available after it has been discussed by Executive Directors, unless the Executive Directors decide not to disclose. Management's response to the report and summary of the Board discussion will also be disclosed if the underlying evaluation is disclosed.

4. Questions on the document should be addressed to Mr. Arslan (ext. 33982) or Mr. York (ext. 31679).
Results and Performance of the World Bank Group 2013

An Independent Evaluation

February 3, 2014

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MEMORANDUM TO THE EXECUTIVE DIRECTORS AND THE PRESIDENT
RESULTS AND PERFORMANCE OF THE WORLD BANK GROUP 2013

In October 2013, the World Bank Group adopted an ambitious new strategy aimed at eliminating absolute poverty and promoting shared prosperity in a sustainable manner. The new strategy and its twin goals have set in train a fundamental reorientation of strategic objectives and complex and important changes in how the WB works. But success will require systematic and sustained implementation of the new directions, along with improvements in many of the existing programs and processes on which the new strategy builds.

This year’s Results and Performance Report does not evaluate the new strategy or the reform process. Nonetheless, it presents important relevant messages that Managements and the Board should be mindful of as reforms are implemented to ensure the greatest possible success. This is even more important in light of declining performance trends: both self- and independent evaluations show outcome ratings are declining, at country and at project levels.

This downward trend is not due to current changes. Instead, the strategy and change agenda address issues that IEG has flagged for some time – and inputted into the WB-wide diagnostic of problems at the outside of the current reform process – and, if implemented successfully, would help overcome problems at the root of declining performance trends. Specifically:

- The Solutions Bank Group aims to increase the impact of the WB and achieve greater results on the ground. The clear and determined commitment to the results agenda is important. Following through and translating it into meaningful results frameworks and measurement systems will be instrumental to success.

- Lessons, discussed in this report, from the 2006 effort to make country strategies more results-focused should be taken into account to ensure success in the current effort. The new approach to country diagnostics and partnerships is directly relevant to and could help to address the problems IEG has observed with selectivity at country level that have contributed to poor outcome ratings.

- At the project level, the emphasis on use of evidence in decision-making should give momentum to overcome long-standing issues of poor quality monitoring and evaluation systems. Likewise, this report illustrates once more the importance of design quality and implementation support in the success of projects. Investing in ensuring projects receive the right level of attention and are kept on track in a timely manner will also contribute to turning around declining performance trends. This report also illustrates that these investments have paid off in optimizing the returns on risks: projects in high risk environments generated high returns – in the form of good outcome ratings – largely thanks to effective supervision and portfolio management.
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Management Action Record is available online at: https://ieg.worldbankgroup.org/managementactionrecord
Abbreviations

A2F  Access to Finance
AAA  Analytical and advisory activities
AIDS acquired immune deficiency syndrome
AMS Agribusiness, Manufacturing, and Services (MIGA)
ARD Agriculture and Rural Development
AS  IFC Advisory Services
CAS country assistance strategy
CASCR Country Assistance Strategy Completion Report
CASPR Country Assistance Strategy Progress Report
CPE  country program evaluation
CPS country partnership strategy
CRR Credit Risk Rating
DEIS Development Effectiveness Indicator System
DOTS Development Outcome Tracking System
DPL development policy lending
DPO development policy operations
E&S environmental and social
EAP East Asia and Pacific
ECA Europe and Central Asia
ERRs economic rates of return
ESW economic and sector work
EvNote Evaluative Note
FCS fragile and conflict-affected states
FDI foreign direct investment
FPD Financial and Private Sector Development
FY fiscal year
GDP gross domestic product
GEF Global Environment Facility
GRPP Global and Regional Partnership Program
HIV human immunodeficiency virus
HNP Health, Nutrition, and Population
HS highly satisfactory
HU highly unsatisfactory
IBRD International Bank for Reconstruction and Development
IC Investment Climate
ICR Implementation Completion Report
ICRR Implementation Completion Report Review
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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<tr>
<td>ICT</td>
<td>Information and Communications Technology</td>
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<tr>
<td>IDA</td>
<td>International Development Association</td>
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<td>IDG</td>
<td>IFC Development Goal</td>
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<td>IEG</td>
<td>Independent Evaluation Group</td>
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<td>IFC</td>
<td>International Finance Corporation</td>
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<td>IICCR</td>
<td>Institutional Investor Country Credit Rating</td>
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<td>IL</td>
<td>Investment Lending</td>
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<tr>
<td>IRMF</td>
<td>Integrated Risk Management Framework</td>
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<tr>
<td>ISR</td>
<td>Implementation Status and Results Report</td>
</tr>
<tr>
<td>LCR</td>
<td>Latin America and the Caribbean Region</td>
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<tr>
<td>M&amp;E</td>
<td>Monitoring and Evaluation</td>
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<tr>
<td>MAR</td>
<td>Management Action Record</td>
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<tr>
<td>MAS</td>
<td>Manufacturing, Agribusiness, and Services (IFC)</td>
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<tr>
<td>MDTF</td>
<td>Multi-donor Trust Fund</td>
</tr>
<tr>
<td>MENA</td>
<td>Middle East and North Africa</td>
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<tr>
<td>MIGA</td>
<td>Multilateral Investment Guarantee Agency</td>
</tr>
<tr>
<td>MS</td>
<td>Moderately Satisfactory</td>
</tr>
<tr>
<td>MU</td>
<td>Moderately Unsatisfactory</td>
</tr>
<tr>
<td>NGO</td>
<td>Nongovernmental Organization</td>
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<tr>
<td>NHFO</td>
<td>Non-honoring of financial obligations</td>
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<tr>
<td>OPCS</td>
<td>Operations Policy and Country Services</td>
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<tr>
<td>PAD</td>
<td>Project Appraisal Document</td>
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<td>PCR</td>
<td>Project Completion Report</td>
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<tr>
<td>PER</td>
<td>Project Evaluation Report</td>
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<tr>
<td>PES</td>
<td>Project Evaluation Summary</td>
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<tr>
<td>PPAR</td>
<td>Project Performance Assessment Review</td>
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<td>PPP</td>
<td>Purchasing Power Parity</td>
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<td>PPPs</td>
<td>Public-Private Partnerships</td>
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<td>P-RAMS</td>
<td>Procurement Risk Assessment Management System</td>
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<td>PRI</td>
<td>Political Risk Insurance</td>
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<tr>
<td>PSG</td>
<td>Public Sector Governance</td>
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<tr>
<td>PSIA</td>
<td>Poverty and Social Impact Analysis</td>
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<td>RAEDO</td>
<td>Risk-Adjusted Expected Development Outcome</td>
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<td>RAP</td>
<td>Results and Performance of the World Bank Group</td>
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<td>RETF</td>
<td>Recipient Executed Trust Fund</td>
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<td>S</td>
<td>Satisfactory</td>
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<tr>
<td>SAR</td>
<td>South Asia Region</td>
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<tr>
<td>SBA</td>
<td>Sustainable Business Advisory</td>
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<tr>
<td>SCD</td>
<td>Systematic Country Diagnostic</td>
</tr>
<tr>
<td>SFDCC</td>
<td>Strategic Framework for Development and Climate Change</td>
</tr>
<tr>
<td>Acronym</td>
<td>Full Form</td>
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<tr>
<td>SIP</td>
<td>Small Investment Program</td>
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<tr>
<td>SOE</td>
<td>state-owned enterprise</td>
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<tr>
<td>SPF</td>
<td>Statebuilding and Peacebuilding Fund</td>
</tr>
<tr>
<td>SSN</td>
<td>social safety net</td>
</tr>
<tr>
<td>TA</td>
<td>technical assistance</td>
</tr>
<tr>
<td>TTL</td>
<td>Task Team Leader</td>
</tr>
<tr>
<td>XPSR</td>
<td>Expanded Project Supervision Report</td>
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_All dollar amounts are in U.S. dollars unless otherwise indicated._
Acknowledgments

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Overview

**Highlights**

- The global extreme poverty rate has fallen by half since 1990, but inequality has increased. Robust progress on both poverty reduction and shared prosperity will require sustained growth in developing countries in the face of major financial, economic, and environmental risks and uncertainties.

- Lending by the International Bank for Reconstruction and Development (IBRD) has fallen back to pre-crisis trend levels. In FY13, for the first time ever, International Development Association (IDA) commitments exceeded IBRD commitments. Investments by the International Finance Corporation (IFC) reached historically high levels in FY13, driven by rapid growth of short-term finance. Commitments by the Multilateral Investment Guarantee Agency (MIGA) rose on the heels of a new instrument covering risks of the non-honoring of sovereign financial obligations.

- Country program outcome ratings continued their downward slide of recent years. Contributing factors included overambitious strategies relative to country capacity and ownership, declining portfolio quality, and weak results frameworks. The World Bank Group has introduced a new country partnership framework to address these issues.

- Overall portfolio performance in the Bank continued its decline, driven by lower outcome ratings of investment projects. Performance of development policy operations recovered after a dip in FY07-09 due to sharply rising borrower performance ratings as middle-income countries returned to the Bank during the crisis to borrow in large volumes.

- Responding to enhanced administrative resources and staffing, project performance in fragile and conflict-affected states (FCS) improved.

- Development outcome ratings for IFC investments have declined from historically high levels. The decline was concentrated in IDA-eligible countries, infrastructure projects, and financial market operations. MIGA guarantees have performed relatively strongly.

- The Bank Group’s risk management architecture operates effectively across a range of financial and reputational risks. But operational risks at both the entity and project levels need to be better managed. On average FCS projects had the same success rates as IBRD projects despite having entry risks that were twice as high—demonstrating the significant role that Bank performance can play in squeezing high rewards out of very high risk situations.

- The new Bank Group strategy emphasizes the need to work as One World Bank Group. But past experience with coordination between the Bank and IFC has been mixed. Despite encouraging examples of collaboration, synergies among and within the Bank Group have not been systematically exploited.

- As an input into the pursuit of the Bank Group’s new strategy, the review identifies four areas for continuing attention: client focus and country ownership, product excellence, informed risk management, and adequate financing.
The Global Development Context

The global extreme poverty rate has fallen by half since 1990, but progress within the developing world has been uneven. Extreme poverty remains widespread in most low-income countries, while many middle-income countries also continue to have substantial levels, with many people there who have escaped extreme poverty remaining poor and vulnerable. Nor has there been robust progress in sharing prosperity: in many developing countries rapid growth has been accompanied by rising inequality, often with a geographic and ethnic dimension as progress in isolated areas has lagged behind.

Regional- and country-level progress toward achieving the Millennium Development Goals (MDGs) is diverse, with Sub-Saharan Africa and East Asia and Pacific Regions occupying opposite ends of the spectrum. Despite significant absolute progress from a relatively weak starting position, the Africa Region remains off-target for most MDGs, whereas the East Africa and Pacific Region is mostly on-target for all MDGs. In the aggregate, three targets have been met—parity in the enrollment ratio of girls to boys at the primary level, access to safe drinking water, and improvement in the lives of slum dwellers. A fourth—progress toward improving the ratio of girls to boys at the secondary level—is about to be met. Other targets, such as those relating to infant, child, and maternal mortality, access to basic sanitation, and primary school completion rates, have proved more elusive.

These regional differences notwithstanding, the challenge of reducing extreme poverty and achieving shared prosperity—including for the bottom 40 percent in each country—remains relevant for every region, highlighting the importance of sustained economic growth and job creation.

The global economy is passing through a period of relative calm after the turbulence of recent years, but the situation remains fragile in many areas and uncertain. Developed economies are gradually strengthening. At the same time, growth in developing economies has slowed. Many lower-income countries are experiencing sustained growth and most have recovered from the crises. Yet medium- and long-term risks to sustainable development remain significant. They include the fallout from climate change and the growing frequency of hydrological and meteorological disasters as well as risks of political instability in countries in transition. Successful implementation of World Bank Group operations in this demanding environment will require more effectiveness and efficiency with limited resources.

World Bank Group Operations

In FY13, IDA commitments for the first time ever exceeded IBRD commitments, which have dropped sharply from their FY10 peak following the Bank’s scaled-up response to the global economic crisis. IBRD commitments were $15.2 billion in FY13, which was still higher than their pre-crisis average of $13.5 billion in FY05–08, but lower than FY12’s $20.6 billion and well below the peak of $44.2 billion reached in FY10. IDA commitments amounted to $16.3 billion in FY13. The largest share of IDA resources, $8.2 billion, went to Africa. South Asia, at $4.1 billion, and East Asia and Pacific, at $2.6 billion, also received large shares of funding, followed by the Europe and Central Asia, Latin America and the Caribbean, and Middle East and North Africa Regions.

Commitments for infrastructure and human development increased significantly.

IFC’s investments reached $18.3 billion in FY13, a new historical high, driven by short-term finance, while long-term finance has leveled off. Short-term finance instruments account for more than 40 percent of IFC’s
OVERVIEW

commitments, which are concentrated in lower-risk countries. IFC’s commitments in IDA-eligible countries have risen strongly at twice the rate of overall commitments. IFC’s exposure to IDA-eligible FCS remains small. The increasing concentration of IFC’s commitments in financial markets implies a shift to wholesaling of its support through intermediaries, with attendant complications for assessing IFC’s impact on ultimate beneficiaries and, in turn, IFC’s broader development impact.

MIGA’s new commitments reached $2.8 billion in FY13, in part driven by a new type of MIGA insurance coverage for the non-honoring of sovereign financial obligations. The new instrument shifted MIGA’s portfolio mix from the financial sector, especially in the Europe and Central Asia Region, toward infrastructure projects, especially in the Africa Region. About half of MIGA’s new guarantee issuance was in IDA-eligible countries.

Country Program Results

A Bank Group Country Program, as defined in a Country Assistance Strategy (CAS) or a Country Partnership Strategy (CPS), includes all the activities of the three Bank Group institutions in a country. In principle, it offers a platform and a process for the Bank Group to provide tailored—and coordinated—support in addressing country-specific challenges. However, in practice, it remains a largely Bank-driven process, with the depth of IFC and MIGA engagement in a particular CAS depending largely on the signals from the country authorities or management.

Country program outcomes have deteriorated significantly over the past seven years (FY07–13). The deterioration is evident in both Independent Evaluation Group (IEG) and staff outcome ratings, and reflects to varying degrees in different country contexts the impact of the 2008 global financial crisis, deficient results frameworks in CASs and CPSs, overambitious strategies given country capacity, and weak country ownership. It also reflects the deterioration in the Bank portfolio, discussed at length below. Notwithstanding the adoption of a new results-oriented CAS framework in 2006—and guidance to staff—subsequent CASs have suffered from weak links between instruments and intended outcomes, ineffective monitoring and evaluation (M&E) systems, and a continued focus on inputs rather than outcomes. On completion, these problems have dragged down CAS outcome ratings.

On average, IBRD country programs score higher than non-FCS IDA country programs, which in turn score higher than FCS country programs. Over the FY06–13 period, for example, 71 percent of IBRD country programs achieved IEG ratings of moderately satisfactory or better, versus 51 percent for non-FCS IDA country programs and 42 percent for FCS. This positive relation between performance ratings and income per capita points to administrative capacity and institutional development as important correlates of development results.

On a regional basis, the Africa Region (with a large share of IDA-eligible countries) and the Middle East and North Africa Region (with a large share of FCS) present the most significant country program challenges. Only about 50 percent of country programs in those regions reached IEG ratings of moderately satisfactory or better. The East Africa and Pacific, Europe and Central Asia, Latin America and the Caribbean (predominantly IBRD Regions), and South Asia (a predominantly blend Region) Regions were close to or above the corporate scorecard benchmark of 70 percent during FY06–13.

In looking at the deterioration in country program outcomes from an institutional effectiveness perspective, several factors warrant consideration. First, such outcome
ratings reflect the joint impact of the country, the Bank Group, its partners, and exogenous variables. Second, the results of Bank lending materially affect country program outcomes. Indeed, in the analyzed CAS cohort, there were no cases in which country performance declined and portfolio performance improved. Third, as noted earlier, country outcome ratings appear to be positively correlated with per capita income and to be affected by the country’s FCS status. This points to a more general need for special Bank Group attention to countries at the lower end of the income scale and to FCS. The World Bank Group has introduced a new country partnership framework to address these issues.

**Portfolio Performance**

**Investment Lending.** By almost every measure, portfolio performance of Bank investment lending has declined during the review period. Aggregate development outcomes measured as the proportion of projects with moderately satisfactory or better outcomes fell to 69 percent in FY10–12 from 75 percent in FY08–10 and from 79 percent in FY04–06. The picture is similar when measured in terms of commitment values.

IBRD funded investment projects have consistently performed better than IDA projects, but contrary to the general trend, IDA project performance in FCS improved. Higher-level outcomes for IBRD projects may reflect on average greater institutional capacity and supportive policy framework than in IDA countries. However, the overall declining trend as well as the improvement in FCS appear mostly related to factors within the Bank’s control.

IEG’s recent FCS evaluation found that increased management attention and Bank support in terms of administrative budgets and international staff deployed in fragile and conflict-affected states have contributed to improved project performance. Strong efforts were made to design implementation arrangements that compensate for the government’s capacity limitation, and by all accounts they paid off in better outcomes.

On the other hand, the overall declining trend in investment project development outcome ratings is clearly associated with declining quality at entry and quality of supervision—both factors clearly within the Bank’s control. Project design has been a major factor, especially in the form of overambitious projects in relation to limited and variable country capacity and deficient results frameworks. A lack of proactiveness in supervision to correct problems during implementation has been a common finding in IEG reviews.

Finally, declining borrower performance reflected the adverse impact of the global food, fuel, and financial crises on domestic economic conditions and the availability of counterpart funding for projects. In addition, some projects that had been designed for one economic reality some years earlier became outdated when conditions and effects changed.

**Development Policy Operations.** Trends in development policy operations (DPOs) have been very different—rising across the board instead of falling. By number of operations, 82 percent had moderately satisfactory or better outcomes in FY10–12, a recovery from a dip to 75 percent in FY07–09. By volumes, the trends are similar but even higher, with 92 percent of commitments rated moderately satisfactory or better in FY10–12 compared with a low of 82 percent in FY07–09.

The main driver of these DPO trends was borrower performance, which jumped from 77 percent to 87 percent between FY07–09 and FY10–12. In turn, much of the jump in borrower performance was due to the changing composition of IBRD borrowers during the global financial crisis, as strong-
performing middle-income countries returned to the Bank to borrow in record numbers. This borrowing typically took the shape of DPOs. Bank performance did not decline as it did with investment lending. The Bank received high marks for readiness in many cases (with solid analytic work) and support (through dialogues of trust).

**IFC.** Outcome ratings for IFC long-term investments have declined from historically high levels. Sixty-five percent of projects evaluated in 2010-2012 were rated mostly successful or better for development outcomes, rated against both market benchmarks and project objectives, compared with 74 percent in the three years prior. This was due to weak performance of projects in IDA countries, a decline in outcome ratings for infrastructure cluster projects, and a further slide in performance in financial market operations. IFC’s short-term instruments provided relevant trade finance risk mitigation, but their faster recent expansion in lower-risk markets requires close monitoring of IFC’s additionality in these areas.

The results in IDA countries and infrastructure projects reflect both shortcomings in IFC’s work quality and higher risks. Weaknesses in the quality of IFC’s front-end work combined with unmet expectations about sponsor capacity, market conditions, and cost led to difficulties in achieving positive results when exposed to unexpected challenges.

**MIGA.** MIGA’s evaluated guarantees have performed relatively well. Seventy-six percent of 37 guarantees evaluated in FY08-13 had positive ratings. Guarantees in the financial sector performed strongly, whereas those in IDA-eligible countries and in the infrastructure sector on average had somewhat lower results. The Small Investment Program (SIP) has been effective in extending MIGA’s reach into smaller projects in higher-risk countries. But operational results have been challenging.

**Knowledge Services**

Bank Group country programs have been moving toward more intensive delivery of knowledge services relative to lending, and this trend is expected to continue. A recent IEG evaluation of knowledge-based country programs contains findings that validate previous thinking. First, knowledge services requested by the client and designed specifically to achieve client objectives are more likely to achieve outcomes than services of a more generic nature. Second, the Bank’s main strength is its ability to fulfill in a timely manner client requests for a state-of-the-art service. Third, knowledge services benefit from the use of local expertise. Specifically, this helps modify global best practices to fit local conditions. Fourth, lending accompanied by knowledge services remains a powerful driver of results.

The quality of the Bank Group’s knowledge services is widely acknowledged by clients and counterparts. Frequently cited strengths include the Bank Group’s engagement in every region of the world, which enhances its ability to provide lessons from the experience of comparator countries, and its broad sectoral and cross-sectoral expertise, which enhances its ability to customize diverse technical issues to local contexts and to deliver multisector development solutions. Of critical importance to clients, country and sectoral specificity is key. At their best, Bank Group knowledge services customize specific sectoral and thematic solutions to specific country contexts.

The success rate for IFC Advisory Services has remained slightly below the target, with 59 percent of projects closed in FY08-12 achieving mostly successful or better development effectiveness ratings. Projects in IDA and IBRD countries experienced broadly
similar levels of performance. Among IFC’s business lines, Access to Finance performed the best. But even so, their ratings for impact—the rationale for IFC’s involvement in such projects—were low. Only 37 percent of projects for which a rating could be assigned were rated satisfactory or higher in this dimension, reflecting the fact that many Advisory Services projects do not achieve their intended impact by the time of project closing.

IEG’s most recent evaluation of knowledge-based country programs has raised two concerns that bear watching. First, the Bank’s capacity to customize knowledge services to the local context may be diluted by a weakening of its stock of knowledge at the country level. Second, the Bank’s comparative advantage in the provision of knowledge services may be undermined by a growing tendency to deliver them through the “consultant firm model” with insufficient follow-up, integration into the broader country development agenda, and contribution to the building of the Bank’s institutional memory.

Sectoral and Thematic Lessons

IEG also completed major evaluations in recent years that shed light on Bank Group sectoral and thematic results, supporting and complementing the country and portfolio results discussed above. In summarizing the lessons from these evaluations, the review utilizes four operational categories: economic opportunities, infrastructure, human development, and environmentally and socially sustainable development.

With respect to economic opportunities, a major—and shared—finding of the fragile and conflict-affected states, procurement, and innovation and entrepreneurship evaluations was that the Bank Group had made extensive efforts to support capacity development in public institutions. However, these efforts—and their results—were uneven across countries and reform areas. Nor were the Bank Group’s investments and technical assistance governed by a strategic approach that would have (i) ensured a good understanding of country context; (ii) supported an integrated capacity-development approach to country strategies that fully reconciled (and aligned) the underlying political economy with respect to citizen expectations on the one hand with the requirements of donors on the other, including with respect to realistic pacing and sequencing of assistance—for instance, in the case of procurement, diagnostics were undertaken but not incorporated into formulating country strategies; and/or (iii) integrated public and private actors in mutually reinforcing systems, as was observed when supporting national capacity for innovation and entrepreneurship development.

In terms of poverty focus, recent IEG evaluations examined several relevant areas, including the Bank’s work on safety nets and food crisis response, and the poverty orientation of IFC projects. Findings on safety nets included that Bank support had productively evolved from a project-centered approach focused on the delivery of social assistance benefits toward an approach focused on helping countries build systems and institutions to better respond to poverty, risk, and vulnerabilities. They also included that the Bank’s prior substantive work on social safety nets had helped middle-income countries especially, while for low-income countries the Bank lacked an operational safety net model for helping them target their support, given large resource and capacity constraints. This was a major issue identified in the food crisis response evaluation, which showed that Bank support, while largely reaching the “most vulnerable” and “vulnerable” countries, often lacked an effective model for delivery on the ground. Bank-supported operations largely involved
the topping up of existing in-kind transfers, public-works programs, and school feeding programs.

In terms of IFC, IEG found that its strategic priorities are relevant, but the pro-poor orientation of its projects could be greatly enhanced. Where IFC projects reflected distributional aspects, targeted the poor, and monitored the results, they were more likely to achieve better poverty outcomes and perform as well as if not better than other projects on development and investment outcomes.

In infrastructure (water, sanitation, transport, energy, and information and communications technology), IEG found that Bank-supported physical infrastructure investments were generally completed on schedule, but efforts to strengthen sector capacity and promote institutional reform experienced much more difficulty, often because local realities had not been adequately factored into program design. As with operations promoting economic opportunities, implementation capacity, political support, and country ownership were found to be essential for successful outcomes and sustainability.

In human development—education, health, and social protection—evaluation findings suggest that system-based obstacles often lead to less than satisfactory outcomes. The lesson here is that as the Bank moves from a project-centered approach to country-level support and reforms of systems, results could improve, though much investment in country systems and capacity will be needed to ensure positive results.

Finally, prime requirements for successful outcomes in the environment and social sustainability area—environment, social development, and gender—include political buy-in, community involvement, adequate implementation capacity, and improved coordination among Bank Group institutions.

Risks and Results

Empirical analysis carried out for this report looked at entry risks and final outcomes in Bank projects. It produced three findings. First, and somewhat surprising, was the high overall level of entry risk in Bank projects, with 46 percent of 200 sampled investment projects having substantial or high entry risks—driven by IDA-eligible countries, especially FCS where entry risks averaged 69 percent. For IBRD-only countries, entry risks averaged only 34 percent. Second, as expected, less risky projects tended to have better outcomes—driven by IBRD-only and blend countries, as having both the least entry risks and the highest outcome ratings. Third, projects in FCS had the highest frequency of high-risk projects but—very surprising—outcome ratings as high as those for the sampled IBRD borrowers. These findings point to the importance of Bank performance in helping countries in difficult environments to convert high risks into high rewards. They also point to the need for enhanced quality management in IDA-eligible countries, with the goal of bringing project outcome ratings up to at least the levels achieved in IBRD and FCS countries.

Analysis carried out on IFC and MIGA focused on project-level risk factors. Here, the association between external risks, IFC’s work quality, and development outcomes were found to be statistically significant and through a model demonstrated the extent to which IFC’s development outcomes can be improved through greater attention to internal work quality. The analysis found that real sector projects were more sensitive than financial sector projects to improvements in IFC’s work quality. The effect was stronger in higher-risk countries and regions, suggesting a higher potential payoff from improved internal work quality there.

Two recent IEG evaluations also had important implications for Bank Group risk
management, whose overall architecture is broadly integrated across the three agencies in an effective way. The first concerns reputational and operational risks deriving from the Group’s work with partners on global programs that sometimes involves engaging in joint actions that would not necessarily be carried out if the Group were acting on its own. Corporate oversight of Bank Group engagements in global programs could be strengthened. The second concerns Bank project-level fiduciary requirements (including for addressing fraud and corruption risks in Bank projects), whose zero-tolerance approach may be limiting the Bank’s development effectiveness as an unintended consequence through reduced focus on the building of country procurement capacity and systems.

Institutional Effectiveness

In assessing institutional effectiveness, the review looked at internal coordination, the effectiveness of partnership programs and trust funds, and follow-up on previous IEG recommendations.

Internal Coordination

The new Bank Group strategy emphasizes the need to work as One World Bank Group. To date country- and project-level collaboration between the Bank, IFC, and MIGA has remained low, covering only about 1 percent of Bank Group lending. Despite occasional encouraging examples, synergies among and within Bank Group institutions do not seem to be systematically exploited. Of particular relevance for implementing the new strategy, the Bank Group lacks a coherent strategic and effective framework for inclusive growth and job creation in fragile and conflict-affected states that draws on the strengths of the three agencies.

In addition, the CAS process does not ensure coordination at the country level. Instead, a lack of coordination and fragmented interventions have too often missed out on making critical linkages such as those between infrastructure, education, skills development, and private sector development, thereby undermining the Bank Group’s effectiveness in promoting growth and employment.

Meanwhile, Bank Group knowledge services have proven helpful in promoting coordinated and complementary interventions. Core diagnostics, such as investment climate and financial sector assessments, are paving the way for better Bank and IFC staff coordination on the needed public policy and private sector investment dimensions.

Partnership Programs and Trust Funds

Trust funds are important resources for the Bank Group and its clients. Bank-executed trust funds amount to 22 percent of net administrative spending and reimbursables; recipient-executed trust funds amount to 10 percent of Bank loan and grant disbursements; and the most recent census identifies 225 active partnership programs and single-recipient-country trust funds. Drawing on IEG evaluations, Bank management has recently prepared a “Management Framework for World Bank Partnership Programs and Financial Intermediary Funds” that builds on the three-pillar approach of country-specific trust funds, global and regional programs, and umbrella facilities recommended in IEG’s 2011 evaluation of trust funds.

IEG generally agrees with many aspects of the new framework, which outlines a longer-term work program to support stronger Bank engagement in such programs. But a number of chronic partnership management issues remain to be addressed. These include: (i) design weaknesses with poorly-articulated results frameworks, weak resource mobilization strategies, and difficulties in demonstrating results at the outcome level; (ii) the lack of clear and coherent objectives and strategies, measurable indicators that meet the monitoring and reporting needs of program
governance and management, and systematic and regular processes for collecting and managing data; (iii) weak linkages to country programs; and (iv) the need to put policies in place for periodic evaluations.

Of these, the most important is the weak and variable linkages that IEG consistently finds between Bank Group global programs and country programs. A recurring theme in the World Bank's strategy documents since 2001 has been the desirability of effective linkages between partnership programs and the Bank's own country programs. But the Bank has not yet specified what kinds of linkages it expects for different kinds of partnership programs. Nor has it made much progress in establishing them. Therefore, IEG's last four Global Program Reviews have focused on this issue, and IEG has developed a framework for assessing the effectiveness of different types of linkages — strategic, operational, financial, and institutional — between partnership programs and the Bank's country programs.

Meanwhile, at the country level, multi-donor trust funds (MDTFs) have grown in importance as a modality of support for FCS and are essential in the funding of critical recovery activities. IEG's recent evaluation of Bank assistance to FCS found that MDTFs work best when they (i) are central to the Bank's country strategy and are linked to the Bank's portfolio; (ii) have clear governance protocols and demarcated responsibilities; and (iii) avoid multiple reporting lines and unrealistic expectations about what can be delivered and on what timeframe. MDTFs have played a complementary role in the Bank's portfolio, and successfully established links between IDA allocations and trust funds in several FCS.

**Follow-Up on IEG Recommendations—the Management Action Record**

The Management Action Record (MAR) has been tracking Bank Group follow-up to IEG recommendations for many years. Between 2009 and 2013, IEG completed 23 evaluations with 97 recommendations tracked in the MAR. IEG judges that 62 percent of those recommendations have been substantially adopted, with the adoption rate increasing over time and reaching 90 percent for recommendations in their fourth year of being tracked. IEG and Bank Group management have worked together to strengthen the MAR process by clarifying expectations on what constitutes “adoption” and including actions and timelines for the implementation of each recommendation. Together they developed a user-friendly system for consistently tracking MAR follow-up across the Bank, IFC, and MIGA. The new tool was launched in April 2013 and used in this year's MAR review.

Recent follow-up evaluations by IEG in important sector and thematic areas support and complement these findings, suggesting that IEG evaluations are being reflected in operational work. For example, in the Health, Nutrition, and Population sector, an IEG follow-up review completed in October 2013 found progress in several areas that had been raised in the 2009 evaluation, including M&E, project quality control at the regional and sector levels, multisector collaboration, and focus on health systems development. But more attention is needed on the balance between investment and technical assistance, and on administrative simplification and gaps in staffing. IEG's 2010 gender evaluation also appears to have made a difference in conjunction with the 2012 World Development Report and the Sixteenth Replenishment of IDA agreement. The 2012 CASs and Interim Strategy Notes, for example, have exceeded the Bank's benchmarks for being gender informed. Nevertheless, much more needs to be done, and there is no room for complacency, with a key priority being the extension of the monitoring framework beyond the design stage to outcomes.
Conclusions and Areas for Attention

As an input into the pursuit of the Bank Group’s new strategy, the review identifies four areas for attention where Bank Group performance warrants a close watch: client focus and country ownership, product excellence, informed risk management, and adequate financing.

**Client Focus and Country Ownership.**
Management is now moving to a new country partnership framework to replace the CAS. This includes a new systematic country diagnostic that will identify critical constraints and opportunities. The new framework would provide much needed country background and may encourage stronger emphasis on program monitoring and more useful midterm reviews.

In this revamping, the lessons from evaluation point to the importance of ensuring country ownership, strategic selectivity and realism, and the quality of results frameworks. They also point to the importance of drawing on good-practice examples such as in Brazil and Turkey among IBRD borrowers, where the Bank Group managed to build country ownership which paid off in better performance both of the borrower and the Bank, and in Afghanistan among IDA-eligible countries. In implementing the planned refinements, there is also a clear need to deepen and broaden cooperation across and within World Bank Group institutions, including with respect to country strategies for which coordination has improved but remains low in part because of CASs’ perceived limited relevance to IFC and MIGA and their clients.

**Renewed Excellence in Product and Service Delivery.** Client focus is indeed essential. But at the end of the day clients want excellence in products and services. With a view to reversing declines in investment lending quality and performance, Bank management has launched a program for strengthened portfolio oversight, with measures to address this problem in three areas: (i) clarified and harmonized management attention and accountability to strengthen regional decision making on investment lending; (ii) improved technical support to teams through both improved peer review systems and better access to relevant and up-to-date sector knowledge; and (iii) better reporting to senior management.

Meanwhile, IFC and MIGA’s M&E systems have substantial room for improvement, with a view to generating more relevant and credible information for decision making and learning.

The acid test of the above measures will be their sustained implementation, an area where the Bank Group has declined in the past—both historically and more recently. In turn this will require appropriate incentives for managers and staff to ensure the underlying quality of Bank Group products and services— incentives that will also recognize and reward practical and hands-on solutions to real-world problems. For example in the Democratic Republic of Congo, the Bank’s response to weak country capacity combined accurate risk identification during design with flexibility during supervision, while preserving continuity and institutional memory, despite changes, and finding timely responses to repeated client requests for changes.

**Attention to Informed Risk Management.**
The Bank, IFC, and MIGA all need to upgrade their attention to risks, strengthening existing risk management tools and importantly— incentives for using them. The Bank Group’s risk management architecture suggests that failure risks are relatively minor and contained in theory. However, the weaknesses in operational outcomes point to larger failings in practice. The existence of many problems of quality at entry—in spite of numerous approval processing steps—suggests the need for a deep review of all of
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the Bank’s processes for project identification and approval.

In addition, IFC needs to examine both the causes and implications of the stagnation in its long-term finance commitments and the shift in its product mix toward wholesaling through financial intermediaries. With respect to its growing short-term finance products, IFC should carefully monitor its additionality in lower-risk markets where it has been growing very quickly. MIGA’s recent portfolio growth also warrants careful monitoring, focused on the shift toward more complex projects and higher-risk markets.

**Adequate Financial Resources.** Effective donor coordination around IDA and a strengthened IBRD financial structure are essential. To be sure, the new ranking—with IDA commitments exceeding IBRD’s and IFC commitments exceeding each of them—can be interpreted as heralding the shift in focus of the Bank Group’s new strategy. But lower revenues from IBRD lending will have adverse consequences for the Bank’s business model since the Bank’s strength is based on IBRD’s robust capital position and shareholder support as well as on prudent financial policies and practices. IBRD headroom—though now stabilizing with the decline in lending commitments since FY10—warrants urgent attention to ensure preparedness for future crisis responses and other requirements.
1. The Global Development Context

**Highlights**

- The global extreme poverty rate has fallen by half since 1990, but progress within the developing world has been highly uneven. In many developing countries, growth has been accompanied by rising inequality and disparities, often with a geographic dimension in the form of lagging areas.
- Four of the Millennium Development Goal targets have already been met, but this aggregate achievement masks disparate performance across the regions, which is even more acute in relation to other, yet to be attained targets such as reducing infant, child, and maternal mortality.
- In the wake of the food, fuel, and financial crises, many lower-income countries are experiencing sustained growth. But ongoing challenges and risks remain associated with a complex of factors that include unevenness in development results, physical risks associated with climate change and natural disasters, and significant levels of political unrest in some countries and regions.
- The Bank Group has committed to an ambitious effort to end extreme poverty within a generation and to boost shared prosperity. A major change is underway to improve development effectiveness and to systematically feed learning back into practice.
- To be most helpful in meeting the challenges ahead, Results and Performance (RAP) 2013 focuses on key areas where Bank Group performance might be improved as an input into the implementation of the new strategy. These include core activities such as developing good country assistance strategy results frameworks, knowledge services customized to client circumstances, effective project appraisal and supervision, and enhanced internal coordination across the Bank, International Finance Corporation, and Multilateral Investment Guarantee Agency.

**Recent Development Trends**

1.1 The global extreme poverty rate has fallen by half since 1990, but progress within the developing world has been uneven. The proportion of people living on less than $1.25 a day fell from 43.1 percent in 1990 to 20.6 percent in 2010, leaving 1.2 billion in extreme poverty (World Bank and IMF 2013). Although the recent food and global economic crises have worsened the predicament of vulnerable populations and slowed poverty reduction in some countries, global poverty rates have continued to fall. Progress toward reducing absolute poverty has been stellar in the East Africa and Pacific Region. Absolute poverty has declined from 56.2 percent in 1990 to 12.5 percent in 2010, and is forecast to fall further to 5.5 percent in 2015. In Sub-Saharan Africa, a slower, downward trend continues—from 56.5 percent in 1990 to 48.5 percent in 2010, with a forecast to reach 42.3 percent in 2015.
1.2 But in many developing countries, growth has been accompanied by rising inequality, often with urban areas growing rapidly and rural areas falling behind. Strong overall growth in developing countries has narrowed the income gap between rich and poor countries, but growing inequality within many countries has offset the impact of this convergence on global inequality among all people in the world (Figure 1.1). The Latin America and the Caribbean Region has persistently had the highest average inequality within countries, though falling noticeably since around 2000. Sub-Saharan Africa has the second-highest inequality average among the regions. South Asia has generally been a region of low inequality, though rising since the early 1990s. East Asia started out as the lowest inequality within countries, but has seen a steady rise even as growth and poverty reduction have increased.

1.3 Within-country inequality is a factor contributing to the geographic distribution of extreme poverty across developing countries, which remains widespread in most low-income countries. Extreme poverty is also prevalent in some middle-income countries, which account for three quarters of the world’s 1.2 billion extremely poor people. Looking across regions, South Asia, with its relatively large population, low per capita income, and low inequality, accounts for 42 percent of the world’s extremely poor people; Sub-Saharan Africa accounts for 34 percent; and East Asia and Pacific accounts for 21 percent (World Bank and IMF 2013). Extreme poverty is also scattered in other parts of the world (often in fragile
and conflict-affected states), posing serious humanitarian and social challenges for the people and places involved.

1.4 Progress in sharing prosperity has been mixed among developing countries. In all countries and regions—even where extreme poverty is low—within-country inequality drives perceptions about prosperity and fairness, and is a key ingredient in social and political stability and sustainability. Available data for 79 countries for the period 2005-2010 suggest a varied picture and the need for further progress. The bottom 40 percent in most countries experienced higher than average per capita income growth, but in about one-quarter of the sample countries, the per capita income growth of the bottom 40 percent fell short of the national average, suggesting a further rise in inequality (Narayan et al. 2013). The World Bank Group has set the progress of the bottom 40 percent of the population in each country as a benchmark for judging the success of its strategy for shared prosperity.

1.5 Paralleling these developments in poverty and inequality, regional and country-level progress toward achieving other Millennium Development Goals (MDGs) has likewise been uneven, with Sub-Saharan Africa and East Asia and Pacific occupying opposite ends of the spectrum. Despite significant absolute progress from a relatively weak starting position, Sub-Saharan Africa remains off-target for most MDGs, whereas the East Asia and Pacific Region is mostly on-target for all MDGs. Parity in the enrolment ratio of girls to boys at primary level education has been reached, and targets have been met in relation to access to safe drinking water and to improvement in the lives of slum dwellers. Good progress is also being made toward improving the ratio of girls to boys in second level education; however, other targets, such as those relating to infant, child, and maternal mortality, access to basic sanitation, and primary school completion rates are proving more elusive.

1.6 Analysis of performance for each MDG shows significant variation in the contribution of individual countries to meeting relevant targets. For example, 88 countries are on track to meet MDG1.a (eradicate extreme poverty), seven have made progress, and four are moderately off-target. Seventy-two countries are on track to meet MDG3.a (increase the ratio of girls to boys in primary and secondary education), and two groups of 11 countries have, respectively, made progress or are moderately off-target. Only 18 countries are on track to meet MDG 4.a (reduce infant mortality); however, 20 have made progress and 34 are only moderately off-target.

1.7 Crisis-related fluctuations notwithstanding, economic growth has been a major driver of progress on the MDGs with the global economy playing an important role. World output growth is forecast to reach 2.4 percent in 2013 and 3.2
per cent in 2014 (Figure 1.2). Activity is expected to gradually accelerate in advanced economies from mid-2013, and despite a slowdown in 2012, the prospects for emerging markets and developing economies are positive (Table 1.1). Most economies in Asia and Sub-Saharan Africa and many economies in Latin America and Eastern Europe and Central Asia are already seeing higher growth; however, economies in the Middle East and North Africa continue to struggle due in part to difficult ongoing internal transitions (World Bank 2014).

Figure 1.2. Growth Rates by Income Levels

1.8 Many low-income countries are experiencing sustained growth, and most have recovered from the crisis. These developing country economies have taken off from diverse economic bases including: manufacturing (Bangladesh, Cambodia); natural resource exploitation (Ghana, Mongolia); agriculture (Ethiopia); or a combination of both agriculture and natural resources (Lao People’s Democratic Republic). In other cases, economies have made progress in the absence of a dominant sector (Mozambique, Tanzania). Recent commentary suggests that prospects for many of these dynamic, low-income countries appear stronger than those of their peers during the 1960s and 1970s. Overall, output growth in emerging markets and developing economies is expected to increase from 5 percent in the first half of 2012 to close to 6 percent for 2014, driven by favorable macroeconomic conditions and recovering demand from the advanced economies (IMF 2013).

1.9 But medium- and long-term risks to development results and sustainability remain. From an economic perspective, the capacity of developed countries to trade with faster growing developing economies is inhibited due to political and economic issues, limiting overall growth and development potential as well as job creation. The 2013 World Development Report (WDR) found that to keep employment rates constant, around 600 million new jobs will have to be created over a 15-year period (World Bank 2012). Many developing countries still have to undergo significant
structural adjustment to regain competitiveness. The level of political and policy stability required to achieve such reforms cannot be taken for granted. Management of the necessary individual and collective processes poses inherent risks that could, if realized, lead to a protracted period of low growth or, in extremis, another recessionary cycle that could ultimately challenge the robustness of growth in the developing world.

1.10 Many countries face also escalating physical and political risks. Physical risks from natural and manmade disasters are likely to continue and may increase. The growing frequency of hydrological and meteorological disasters associated with climate change is likely to continue, bringing drought, crop failure, and income losses due to the disruption of trade. Political risks, such as those associated with the Middle East including the prolonged conflict in Syria, and the ongoing transitioning elsewhere in the Middle East and North Africa Region pose significant development challenges.

Table 1.1. Real GDP Growth Outlook (percentage change)

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<tr>
<td>World</td>
<td>-2.4</td>
<td>4.1</td>
<td>2.8</td>
<td>2.3</td>
<td>2.4</td>
<td>3.2</td>
<td>3.4</td>
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<tr>
<td>High-income countries</td>
<td>-3.7</td>
<td>3.0</td>
<td>1.7</td>
<td>1.3</td>
<td>1.3</td>
<td>2.2</td>
<td>2.4</td>
</tr>
<tr>
<td>Developing countries</td>
<td>2.0</td>
<td>7.3</td>
<td>6.0</td>
<td>4.8</td>
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<td>5.3</td>
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a. Estimate.
b. Forecast.

Opportunities and Challenges for the World Bank Group

1.11 Developing countries have clearly made impressive gains on growth and poverty reduction since the start of the new millennium. They have weathered major crises in food, fuel, and financial markets, natural disasters, and conflicts. But the way ahead remains fraught—and filled with risks and uncertainties—both for them and for their development partners. Importantly, although there has been much progress, there is still a long way to go, especially for the people in the world’s bottom billion.

1.12 In confronting this changing environment, the World Bank Group has adopted an ambitious new strategy geared to eliminating absolute poverty within a generation and to boost shared prosperity, including by giving special attention to the countries in the most fragile situations. The new strategy emphasizes the need for adaptive behavior in response to “fast-moving challenges and opportunities,” and places a premium on the management of risk and volatility (see
CHAPTER 1
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Box 1.1). To this end, the Bank Group plans to invest in knowledge and technical skills, and to focus on multisectoral approaches with opportunities for the Bank, IFC, and MIGA to collaborate in pursuit of shared strategic goals. Going forward, the rollout of the associated change process will provide opportunities to systematically feed learning back into practice and, in turn, to improve Bank Group development effectiveness.

<table>
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<th>Box 1.1. The New Strategy of the World Bank Group</th>
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<td>Under its new strategy, the World Bank Group will work in partnership to help countries end extreme poverty by 2030 and promote shared prosperity in a sustainable manner. The two goals emphasize the importance of economic growth, inclusion, and sustainability, including strong concerns for equity.</td>
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<td>The Bank Group’s value proposition will be, building on a strong foundation, to work with the public and private sectors in partnership to:</td>
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<td>▪ Contribute to the global development agenda through dialogue and action on ongoing and emerging development challenges, bringing the perspectives of all its member countries.</td>
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<tr>
<td>▪ Support clients in delivering customized development solutions backed by finance, knowledge, and convening services.</td>
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<tr>
<td>▪ Help advance knowledge about what works, combining the world’s leading development research and practitioner experience with a commitment to transparency, open data, global outreach, and knowledge dissemination.</td>
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<td>To this end, the Bank Group needs to reposition itself, including through investments in knowledge and technical skills, breaking down silos, focusing on multisector approaches, bringing in resources more effectively through partnerships, strengthening the country engagement model, and supporting evidence-based public policy. The Group will establish global practices and focus on smart risk-taking while preserving its fiduciary, integrity, and safeguards norms.</td>
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<tr>
<td>The Bank Group will work as One Bank Group, increasing systematically collaboration across the Group, with a new Country Partnership Framework and an increasing number of joint projects, reinforced by stepped-up efforts to align policies, practices, and resources with a realigned financial strategy.</td>
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<tr>
<td>Human resource management will be improved to nurture and sustain the Bank Group’s greatest assets—its dedicated and experienced staff.</td>
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1.13 In implementing the new strategy, the Bank Group will need to draw on the lessons learned from all sources—including evaluation—making the current report both timely and opportune. To be most helpful in meeting the challenges ahead, RAP 2013 focuses on activities where Bank Group performance might be
improved as an input into the pursuit of the new strategy. Most of these activities—
involving, for example, CAS results frameworks, knowledge services customized to
client needs, project quality at entry, and improved supervision—are neither new
nor exciting. But they are the core underpinnings of Bank Group products and
services and in turn of development effectiveness. Successful implementation of the
new strategy will require that they be strengthened in order to restore the Bank
Group’s performance to its historic levels of excellence and preeminence.
Meanwhile, RAP data also show that Bank Group internal cooperation remains the
missed opportunity it has long been, but hopefully will also benefit from the new
strategy’s focus on “One World Bank Group.”

Organization of the Report

1.14 The report is organized in five chapters, including this initial introductory
one. Chapter 2 presents findings from Independent Evaluation Group (IEG) country
program, project, and thematic evaluations and their implications. Chapter 3
explores the Bank Group’s operational risk management, including a fresh analysis
by IEG of project entry risks and outcomes. Chapter 4 looks at Bank Group
institutional effectiveness, referencing ongoing mechanisms such as the World Bank
and IFC corporate scorecards and MIGA’s Development Indicators, the
Management Action Record, and the broader change agenda in which the Bank
Group is engaged. Chapter 5 summarizes lessons relevant to the challenges
identified in this report. This year, for the first time, regional updates are provided
as part of the RAP (see Appendix H).

1.15 In accord with previous practice, RAP 2013 is grounded in IEG evaluation
data and reports. Consistent with previous practice, this report was prepared using
a mixed methods approach involving: (i) analysis and synthesis of recently
completed IEG evaluations as well as validations of self-evaluations of Bank Group
projects, programs, and activities; (ii) analysis of databases containing results-related
data; (iii) literature review to include major Bank Group publications and other
relevant material; and (iv) interviews and other interactions with key staff and
managers.
2. World Bank Group Operations: Findings from Evaluation Work

**Highlights**

- The Bank Group scaled up its resource outflow in response to the global economic crisis of 2008–2009; as a result, the Bank’s equity-to-loan ratio has declined. In FY13, for the first time ever, International Development Association (IDA) commitments were larger than for the International Bank for Reconstruction and Development (IBRD)—the latter have dropped sharply from the crisis-related peak in FY10.

- The growth of International Finance Corporation (IFC) commitments has been driven by short term finance instruments while long-term finance has leveled off. The guarantees of the Multilateral Investment Guarantee Agency (MIGA) have grown, mainly driven by a new type of coverage against the risk of non-honoring of financial obligations by a sovereign or sub-sovereign government entity.

- World Bank Group country program performance has been declining over time, reflecting (i) the impact on country outcomes of the food, fuel, and financial crises and the prolonged international recession that followed them; (ii) declining Bank Group portfolio performance; and (iii) issues in implementing the results-based country assistance strategy framework that was introduced in FY06.

- IBRD borrowers show better country outcomes than IDA-eligible countries. Among regions, Africa and Middle East and North Africa present the most significant challenge for the Bank Group.

- Overall Bank portfolio performance on lending operations has declined, driven by investment projects. Development policy operations have performed consistently well. In line with historical experience, IBRD-funded projects have performed better than IDA projects. Contrary to the general trend, IDA project performance in fragile and conflict-affected states (FCS) has improved.

- Monitoring and evaluation are essential for the Bank’s delivery of results but its ratings continue to show deterioration.

- Development outcome ratings for IFC investments have declined from historically high levels due to low performance of projects in IDA countries, a substantial decline for infrastructure projects, and a further slide for financial market operations.

- IFC’s short-term instruments provided relevant trade finance risk mitigation, but their recent faster growth in lower-risk markets requires close monitoring of IFC’s additionality in these markets.

- The results for IFC investments in IDA countries reflect both shortcomings in IFC’s work quality and higher risks. Inadequacies in the quality of IFC’s front end work quality combined with a greater frequency of higher-risk projects led to difficulties in achieving positive results when exposed to unexpected challenges.

- MIGA’s evaluated guarantees perform well. The Small Investment Program has been effective in extending MIGA’s reach into higher-risk countries. But the program has experienced low operational results in FCS.

- The Bank’s main strength on knowledge services is its ability to fulfill in a timely
manner client requests for state-of-the-art advice. Knowledge services requested by the client and designed specifically to achieve client objectives are more likely to achieve successful outcomes than services of more generic character.

- The success rate for IFC Advisory Services has remained slightly below its target, with activities in IDA and IBRD countries showing similar success rates.

2.1 This chapter distils the key messages from recent Independent Evaluation Group (IEG) work on Bank Group operations. The Bank Group supports its clients through loans, credits, grants, investments, and guarantees as well as through knowledge services and partnerships. These interventions, primarily those financed by the World Bank, are bundled into country programs and into regional and global programs. Interventions supported by the Bank, IFC, and MIGA also have a sectoral or thematic orientation, which IEG uses for analytic purposes in assessing the Bank Group’s effectiveness.

2.2 This chapter begins by summarizing the evaluation environment for the Bank Group’s lending and nonlending activities in terms of their volumes and directions. It then turns first to the results from Bank-Group-supported country programs; second to major sectoral and thematic results, summarizing the findings of recent IEG evaluations; and third to portfolio performance for the Bank, IFC, and MIGA, individually. Finally, the chapter turns to knowledge services provided by the Bank and IFC. Differences in evaluation methods used by the three Bank Group institutions, reflecting their different business models and clients served, are taken into account in the presentation of the findings. An important caveat to this analysis is that the conclusions are based on Bank Group activities that have already been completed, sometimes several years in the past; hence they may or may not apply to ongoing activities. Nevertheless, the recurrence of evaluation lessons over time suggests that evaluations can offer many useful insights to help improve the effectiveness of Bank Group interventions going forward. (See appendix A for an overview of evaluation methods across the Bank Group).

Trends in World Bank Group Commitments

2.3 The Bank Group responded to the global economic crisis, inter alia, by scaling up its financial support to developing countries and by accelerating its processing of disbursements. The Bank (mainly through IBRD) sharply increased its lending volumes, with Bank commitments reaching an annual average of $53 billion in FY09-10, compared with $25 billion in FY07-08. There was somewhat greater reliance during the crisis on projects that were relatively easy to prepare and negotiate. Programmatic development policy operations (DPOs) declined compared
to stand-alone DPOs. In investment lending, additional financing was used more frequently than in normal times, as were simple and repeated projects. Processing times for the preparation of operations declined.

2.4 Partly due to the rapid increase in lending operations during FY2008–10 with only limited increase in capital and reserves, there was a decline in the Bank’s equity-to-loan ratio—from 37.5 percent at the end of June 2008 to 29.4 percent at the end of FY10—and a consequent decline in the Bank’s ability to take on more risky assets. These changes reflect deliberate and considered choices by management and shareholders, and the Bank remains above the strategic capital adequacy range. The decline in headroom was partly a result of the high volume of IBRD financing, but also of the decline in income following the reduction in loan spreads just before the crisis, and the commitment of transfers to IDA. Similarly, IFC has experienced a decline in capital headroom since the financial crisis, as expressed in its Deployable Strategic Capital. As discussed below, MIGA’s guarantee volume has grown rapidly since FY11, driven by a new type of coverage with a higher risk profile. While its overall capital utilization remains at a comfortable level, MIGA expects that with a continued rapid expansion of relatively higher-risk products and of coverage in high-risk markets, capital utilization would increase and statutory capital limits may be reached over the medium term.

2.5 New lending commitments by IBRD have been declining since FY10. They were $15.2 billion in FY13 (Figure 2.1). This volume was still higher than the pre-crisis historical average of $13.5 billion in FY05–08, but lower than the $20.6 billion in FY12. The Bank’s strength is based on IBRD’s robust capital position and shareholder support, as well as on prudent financial policies and practices, which help maintain its AAA credit rating. IBRD’s equity comprises primarily paid-in capital and reserves. As of June 30, 2013, paid-in amounts in connection with the 2011 capital increase were $1.9 billion and the equity-loan ratio stood at 26.8 percent as of June 30, 2013. While the headroom situation is now stabilizing, it warrants continuing attention for preparedness for any future crisis situations.

2.6 In FY13, for the first time ever, annual IDA commitments were greater than IBRD commitments. IDA commitments amounted to $16.3 billion in FY13. The largest share of resources, $8.2 billion, was committed to Africa. South Asia, $4.1 billion, and East Asia and Pacific, at $2.6 billion, also received large shares of funding, followed by Europe and Central Asia, Latin America and the Caribbean, and Middle East and North Africa. Commitments for infrastructure and human development increased significantly. IDA is financed largely by contributions from partner governments. Additional financing comes from IBRD’s net income, grants
from IFC, and borrowers’ repayments of earlier IDA credits. Under the Sixteenth Replenishment of IDA (IDA16), which covers FY12–14, total resources amounted to SDR 33.9 billion (equivalent to $50.9 billion). As of June 30, 2013, SDR 19.9 billion (equivalent to $29.9 billion) of the IDA16 envelope had been committed to credits, grants and guarantees. The replenishment process for IDA17, which covers FY15–17, is underway.

2.7 IFC’s investments have reached historically high levels, almost entirely driven by short term finance instruments. Having reached a high of $18.3 billion in FY13, the volume of IFC’s long-term and short-term programs is similar in size to annual commitments of IBRD or IDA. The overall increase in commitments is almost entirely due to the growth in short term finance instruments, mainly the Global Trade Finance Program, a guarantee program to support trade transactions. Thus, while short term finance instruments now account for more than 40 percent of IFC’s commitments, traditional long-term investments have changed little since the beginning of the financial crisis in 2008 (Figure 2.2a). The trend in IFC’s long-term finance reflects in part the continuing impact of the 2008 crisis, but internal factors also likely play a role. Another measure of IFC’s portfolio size, core mobilization from other financiers, grew by 27 percent over the same period, adding about 40 percent to IFC’s overall commitments during FY11–13.

2.8 The increased focus on financial markets operations has implied that IFC has moved from direct support to enterprises to wholesaling of support through
financial intermediaries, with limited evaluability of IFC’s contribution and impact in such operations. Both the short-term and long-term finance through financial intermediaries have grown in importance in IFC’s new commitments, whereas financing for real sectors has remained relatively constant, and infrastructure has declined since FY08–10. As a share of IFC’s commitments, wholesaling operations through financial institutions account for 58 percent (FY11–13), up from 47 percent in FY08–10. This means that for over half of its investments IFC has no direct relationship with the underlying borrowers, investees, or beneficiaries, but relies on intermediary bank and nonbank financial institutions to pursue its development strategies. RAP 2012 highlighted the implications of this trend, including in terms of challenges to measuring and attributing results in wholesaling projects to IFC (IEG 2013a).

2.9 IFC’s commitments in IDA-eligible countries have grown at a rapid rate, also driven by short-term finance, while long-term finance has leveled off. IFC’s commitments in IDA countries increased by 46 percent between FY08–10 and FY11–13, twice the pace of growth in IFC’s overall commitments (Figure 2.2b). The main driver was again short-term finance, which rose to 57 percent of commitments in IDA countries (FY13). Long-term finance, on the other hand, has fluctuated around $2 billion and $2.5 billion in annual commitments (FY08–13) without a clear trend. The result has been a further concentration of IFC’s IDA country investments in the financial sectors, while the share of real sectors—infrastructure, natural resources,
manufacturing, agribusiness, and services — has declined. IFC’s exposure in IDA countries increased to 35 percent in FY11-13 (up from 30 percent during FY08-10).

2.10 IFC’s exposure in low-income fragile and conflict-affected states (FCS), which have been added to IFC’s strategic target areas more recently, has remained low. Commitments in low-income FCS have remained at about 2 percent of IFC’s long term finance total, and have increased in parallel to those in IDA countries. The increase in FCS mirrors the trend in IFC’s overall investments and does not represent a significant shift in IFC’s overall portfolio toward FCS, but rather to frontier markets more generally (IEG 2014a). However, in contrast to IDA countries as a whole, IFC’s investments in FCS are highly concentrated in infrastructure. Seventy-eight percent of commitments (60 percent of projects, FY01-12) have been in three sectors: telecommunications, transportation, and oil, gas, and mining. Conversely, the FCS portfolio is less focused on financial markets.

2.11 MIGA guarantees have also grown to historically high levels, mainly driven by a new type of coverage for sovereign payment risk. MIGA’s operational regulations were amended in April 2009 and June 2013 to enable the agency to offer insurance coverage against the risk of non-honoring of financial obligations by a sovereign or sub-sovereign government entity or a state-owned enterprise. Though not unique to the global insurance market, this is a new coverage type for MIGA and part of the update to its products intended to meet the changing risk mitigation needs of investors and to benefit host countries by facilitating greater lending flows for productive use, primarily for infrastructure projects with significant developmental benefits. This new product is also consistent with an IEG recommendation (IEG 2008a) that MIGA seek innovative ways to utilize its comparative advantage in covering complex projects in the least-developed and highest-perceived-risk environments.5

2.12 The new coverage has helped achieve a major increase in MIGA’s support to IDA and FCS. Overall, MIGA’s business grew by 57 percent in FY11-13 compared to FY08-10 (Figure 2.3). As part of this growth, MIGA’s issuance to projects in IDA-eligible countries is now 47 percent (FY11-13) — coming from a low base in FY08-10. Correspondingly, the share of new guarantee volume in Africa has increased to 31 percent (FY11-13). Driven by several large-scale projects, MIGA’s support to FCS has also increased to 22 percent of guarantee issuance (FY11-13).
2.13 In addition, MIGA has achieved a major shift in the composition of its portfolio from the financial sector toward infrastructure. MIGA has significantly diversified its portfolio away from its heavy concentration in the financial sector whose share of new coverage declined from 70 percent to 20 percent (FY08–10 versus FY11–13). In contrast, the share of infrastructure, driven by the new coverage, has increased from 21 percent to 50 percent, in line with MIGA’s strategic intentions. This shift was also due to the phasing out of MIGA’s strong support to banking institutions in Central and Eastern Europe during the financial crisis, which had resulted in a heavily concentrated portfolio in the financial sector in that region.

2.14 Going forward, the new product also creates new challenges for MIGA’s business model. While the loans to governments under the non-honoring insurance coverage are intended for specific projects, the risk MIGA is covering is not associated with these projects but rather the payment risk of a sovereign or sub-sovereign. Moreover, the loan proceeds are fungible. In addition, these guarantees will require credit monitoring and active portfolio management to account for the possibility of credit deterioration or rating downgrades for the sovereign or sub-sovereign obligors, or ownership changes for state-owned enterprises.

RESULTS FROM COUNTRY PROGRAMS

COUNTRY PROGRAM EFFECTIVENESS

2.15 The country program, as defined in a country assistance (or partnership) strategy (CAS), is an important intersection point for the activities of all three Bank Group institutions. CASs are the primary means for the Bank and the country authorities to agree on development assistance priorities for the coming period. IFC,
and to a lesser degree MIGA, are increasingly aligning their programs with this process by participating in the preparation of joint country strategies. The findings in this section are based on aggregate results from IEG's reviews of CAS Completion Reports (CASCRs) and on evidence from its in-depth country program evaluations that provide more in-depth analyses over longer time horizons.

2.16 The programs of IBRD countries performed better than those of IDA-eligible countries during the review period. In the set of country programs that were rated during FY06-FY13 the higher the country income the better the rating. On average, IBRD countries showed better results than IDA countries, which in turn had better average outcome ratings than FCS (Figure 2.4). This positive and long-standing correlation between performance ratings and income per capita is confirmed statistically and points to administrative capacity and institutional development as important drivers for results. It also points to a need to enhance capacity building efforts at the lower end of the income scale of clients in order to improve country outcomes.

![Figure 2.4. CASCR Outcome Ratings by Region and Institution](image)

**Source:** IEG data.

**Note:** AFR = Africa; CAS = country assistance strategy; EAP = East Asia and Pacific; ECA = Europe and Central Asia; FCS = fragile and conflict-affected states; IBRD = International Bank for Reconstruction and Development; IDA = International Development Association; LCR = Latin America and the Caribbean; MNA = Middle East and North Africa; MS+ = moderately satisfactory or better; MU- = moderately unsatisfactory or lower; SAR = South Asia.

2.17 Among the Bank’s regions, the Africa and Middle East and North Africa Regions are lagging. In those two regions only about 50 percent of the country programs reviewed attained IEG ratings of moderately satisfactory or better (MS+). The Africa Region’s relatively low score reflects its larger than average number of IDA-eligible and FCS countries. For the Middle East and North Africa Region, the
situation was affected by the political instability in several countries during the review period. The East Asia and Pacific, Europe and Central Asia, Latin America and the Caribbean, and South Asia Regions are fairly even on their ratings and close to the target of 70 percent set in the corporate scorecard. The East Asia and Pacific and Latin America and the Caribbean Regions both exceed this target in this set of country partnership strategies rated during FY06–FY13.

2.18 CASCR ratings suggest that country program performance has been declining over time. For the period FY06–FY13 the performance of the World Bank Group country programs has shown a declining trend, with the exception of the period FY06–FY07 where both the self-evaluations by the regions and the IEG ratings showed an improvement in measured performance. Figure 2.5 shows the decline in average outcome ratings between FY06–09 and FY10–13 in all three categories of countries: IBRD eligible, non-FCS IDA-eligible, and FCS.

2.19 The deterioration reflects three main factors, albeit to different degrees in different country settings. First is the impact on country outcomes of the global food, fuel, and financial crises and the international recession that followed. Second is the significant deterioration in the portfolio, discussed in the next section of this chapter, which itself was also impacted by the adverse external economic and financial environment. And third, are the deficient results frameworks that underpinned many CASs—including weak links between instruments and intended outcomes, ineffective monitoring and evaluation (M&E) systems, and a continued focus on outputs rather than outcomes, notwithstanding the adoption of a new results-oriented CAS framework in 2006 and associated guidance to staff.

![Figure 2.5. CASCRs Rated Moderately Satisfactory or Better in Two Periods](image)

Source: IEG data.

2.20 While income per capita and institutional capacity are important factors in determining results, this review also traces the unsatisfactory outcomes to other
factors affecting clients across the income scale. External factors—particularly the effects of the 2008 global economic crisis—appear to have had a persistent effect on country programs evaluated in FY10–FY13. Moreover, country ownership of Bank strategies, the quality of results frameworks, and to a lesser extent, the realism of the strategies are qualitative variables that showed an impact on IEG ratings. While ownership is highest for IBRD programs compared to the others, results frameworks fall short for all Bank clients between the pre- and post-crisis periods.

2.21 Inadequate results frameworks affect the outcomes of country programs. An internal IEG review of a sample of CASCs prepared after the new CASC guidelines of January 2011 found that out of the initial 221 program goals evaluated, 70 (32 percent) could not be measured because they had no associated outcomes, the outcome was not measurable, or the outcome indicator was irrelevant to the ultimate objective. Absence of such information affects the measured performance of country programs and constrains the effectiveness of results frameworks as a management tool and as an instrument to account for results.

*International Bank for Reconstruction and Development*

2.22 IBRD countries show a relatively high but declining average rating. During the FY06–FY13 period, 71 percent of IBRD country programs achieved IEG ratings of moderately satisfactory or better. IBRD countries in the cohort had an average per capita income on a purchasing power parity (PPP) basis of more than $10,000, which put them in the first quartile of the income distribution. Factors associated with their higher levels of income helped the programs achieve an average rating of over 3.8 on the six-point scale, substantially above the average of 3.67 for the whole set. Yet, the results showed a substantial difference between two periods. During the pre-crisis period of FY06–09, over 82 percent of IBRD country programs were rated moderately satisfactory or better (average rating 3.94). During the post-crisis period of FY10–FY13, this ratio declined to 62 percent (average rating 3.65).

2.23 External factors were a major player in the deterioration over time. All Bank Group clients were affected by the 2008 global financial crisis that started in advanced countries, especially the United States and advanced European countries, and then extended globally, affecting emerging markets and low-income countries. This led to a decline in per capita gross domestic product (GDP) growth rates and associated economic tensions in the countries affected that may have contributed somewhat to the decline in ratings between the two periods FY06-09 and FY10-13 despite an expansion of Bank programs.
2.24 But despite these conditions, many IBRD country programs were successful, providing useful lessons about what works even in difficult situations — often highlighting the importance of country ownership and Bank Group support through analytic work. About half of IBRD country programs — 34 out of the 70 evaluated for this review — showed satisfactory ownership. In a majority of the satisfactory programs, the country strategy was underpinned by a broad consultation and the government commitment was well established. For example, in the case of Turkey (FY04–FY07), a new generation of Bank-supported interventions incorporated the lessons from past failures. In the social sectors in particular, new operations were planned through an extensive consultative process informed by collaborative sector work. These preparatory activities had a significant impact on refocusing line ministries from an “inputs approach” toward an “outcomes approach.” And, as encapsulated in Box 2.1, Brazil illustrates another example of success, this time of the Bank and IFC both making analytical as well as financial contributions to important social programs.

**Box 2.1. Brazil: Successful Bank Group Engagement in a Middle-Income Country**

IEG recently evaluated the Bank Group’s involvement in Brazil during FY04–11, covering two country strategies (FY04–07 and FY08–11). Given the scale of Brazil’s economy, the Bank has had to rely on the catalytic role of its strategy and operations to have an impact.

IEG found that the Bank Group made significant contributions to catalyze progress in Brazil’s development agenda when it combined lending with analytical inputs on practical policy issues. For example, the Bank was effective in its support of the Bolsa Familia program — a conditional cash transfer program, improved student learning outcomes, and subnational results-based management systems. Some of IFC’s advisory support for structuring public-private partnership projects served as innovative models to be replicated by others in Brazil.

The Bank’s convening power provided diverse stakeholders with a platform to examine issues and trade-offs that cut across organizational boundaries in multisector operations at the subnational level. The Bank also helped Brazil reduce the pace of deforestation in the Amazon by supporting a major expansion of protected areas and indigenous territories, and by building the capacity of national and state environmental agencies. Results were less satisfactory in addressing infrastructure bottlenecks, particularly in logistics, and the cost of doing business, where the Bank did not have significant impact. These areas remain critical constraints to Brazil’s growth.

All in all, the successful engagement with Brazil over the past decade illustrates the need for adaptability of Bank Group strategies to changing country priorities.

*Source: IEG 2013b.*

2.25 In the less successful programs, country ownership was weak, with the Bank frequently owning the program more than the authorities. In some such cases, the Bank was perceived to have come into the CAS process with a substantial policy
agenda but in which the authorities were not as engaged or had only a superficial commitment. In other cases, government support was initially strong but weakened over time, sometimes following elections. For instance in Peru (FY06–11), the country strategy straddled two administrations. The first administration seemed committed to decentralization of social services, but the succeeding administration was less keen and eventually abandoned the strategy altogether. The Bank continued trying to implement aspects of the decentralization agenda with less-than-satisfactory results (IEG 2011a). A realignment of the Bank’s agenda with the new government priorities might have been possible with a more consistent policy dialogue.

2.26 Program results frameworks have shown a little improvement following the introduction of a results-oriented CAS framework in FY06. Indeed, just 15 out of 70 IBRD programs evaluated during the period—21 percent—had satisfactory results frameworks. The CAS frameworks suffered one or more of the following drawbacks: (i) poor links between instruments and activities and intended outcomes, and weak chains relating strategy outcomes to broader country goals; (ii) poor M&E systems, including indicators that were far removed from the outcomes they intended to measure; and (iii) focus on inputs and outputs rather than outcomes.

2.27 Results for the Middle East and North Africa Region countries have been well below average owing in part to political turmoil and to changes of regimes in some countries that have required a rethinking of the Bank strategy. Re-engagement with new authorities is also taking time to materialize. However, some of the Middle East and North Africa Region countries have relatively developed institutions and policy implementation capacity, and results frameworks in the Middle East and North Africa Region country programs have are also rated significantly better on average than the African country programs discussed later in this section.

*International Development Association*

2.28 During the FY06–FY13 period, 51 percent of non-FCS IDA country programs achieved IEG ratings of moderately satisfactory or better, significantly less than the score for IBRD country programs, reflecting the major differences in policy making and implementation capacity between the two country cohorts. Non-FCS IDA countries in the cohort had an average per capita income on a PPP basis of about $3,000 which placed them in the lowest three quartiles of the income distribution. IDA country programs had an average outcome rating of about 3.5 on the six-point scale against 3.8 for IBRD countries.
2.29 IDA country programs also show a declining trend. As in the case of IBRD countries, results showed a substantial difference between two periods of the sample. During FY06–09, 60 percent of the country programs were rated moderately satisfactory or better (average rating 3.67) and over FY10–FY13 this ratio declined to 40 percent (average rating 3.32). The relative decline in the average ratings between periods for IDA country programs was higher than for IBRD countries (-10.6 percent versus -6.8 percent).

2.30 External factors also affected IDA countries negatively. During the pre-crisis period, IBRD countries’ PPP per capita GDP was growing at more than 5 percent annually while that of IDA countries was growing at 4 percent. This relationship was reversed in the post-crisis period when IDA countries’ PPP per capita GDP grew by about 1 percent more annually than for the IBRD countries in the sample. At the same time average ratings of both projects and country performance in IDA countries declined by about 10 percent between pre- and post-crisis periods, suggesting common factors that applied in both cases.

2.31 Just over one-third of IDA country programs—21 out of 55, excluding 12 FCS programs—showed satisfactory program ownership, compared to about half of the programs for IBRD countries. In some of the countries that showed weak ownership, a lack of political consensus for reforms undermined the implementation of the Bank strategies. In a number of African countries, political divisions and difficulties in building reform coalitions were not fully recognized in the CAS, and proposed mitigation measures were inadequate to maintain reform momentum. Thus, despite considerable donor technical support, weak ownership and absorptive capacity posed significant constraints to the achievement of program outcomes.

2.32 Vietnam exemplifies how country and government ownership are essential for the success of the strategy. In the FY07–FY11 strategy the Bank Group aligned its strategy with the government’s plan, but some of the interventions had weak links to its expected results. The strategy had positive results that justified a rating of moderately satisfactory for the overall outcome. But those aspects of the strategy that had greater ownership—such as health and education—had better results than others, like improving the business environment and competitiveness.

2.33 Poor results frameworks hurt IDA country programs. Less than one-fifth of the strategies had satisfactory results frameworks among the IDA country programs reviewed. A common theme in the results frameworks that were not well-designed was weak links between interventions and targeted outcomes. Several outcome indicators were poorly defined or lacked baseline data, some were not monitored or available, and others were not designed in relation to the planned outcomes. In
addition, most of the targets were overoptimistic, IFC's contribution was only partially captured in the results frameworks, and some important objectives—such as governance—were missing from the frameworks.

2.34 The Africa Region showed below average ratings for ownership, results frameworks, and realism. Among the regions, 35 percent of the country programs showed satisfactory ownership compared with an average of over 40 percent for the whole set of country programs, with particularly difficult areas including civil service reform, decentralization, judicial reform, and local autonomy and accountability. Moreover, in the Africa Region only 16 percent of the results frameworks were satisfactory during the period. The Region includes several countries with immense institutional challenges, and progress on the overarching foundation of governance and public sector capacity has proved very difficult to achieve.

2.35 Bank strategies in IDA countries have shown inadequate selectivity in countries with weak administrative capacity, leading ultimately to strategies not owned by the government or other important stakeholders. In the Africa Region in particular, weak ownership led to long delays in releasing counterpart funds for Bank projects thus undermining the effectiveness of the Bank programs. Similarly, a relevant strategy was undermined by limited implementation capacity, lack of concreteness in the outcomes, and the government's lack of interest in the reforms underpinning the country programs. In other cases, weak country capacity lead to programs that appeared to clients as an imposition from the Bank without sufficient country involvement.

Fragile and Conflict-Affected States

2.36 Fragile and conflict-affected states have the lowest country outcome ratings among country programs. These countries—a subset of IDA programs—face low average per capita incomes and substantial institutional challenges. Only 42 percent of the country programs reach moderately satisfactory or better outcome ratings. The reasons for low CASCR review outcome ratings are twofold. First, positive project results in FCS countries are taking time to show effects on country program results and institutional transformations. Second, FCS country performance ratings are affected by the limited number of FCS evaluations, including for some of the better performing countries like Afghanistan. The primary reason for the small number of FCS ratings is that management does not prepare a CASCR for the FCS where Bank Group assistance is governed by ISNs.
2.37 The Bank has made significant efforts in FCS. The FCS may have been relatively less affected than other countries by the international financial crisis. But as demonstrated in the recent FCS evaluation, the Bank has also made considerable efforts on capacity building in these countries (IEG 2014a). In some, Bank attempts at civil service reform and strengthening have been affected by the substitution of civil servants by externally-funded advisers, and by competition for skilled national staff among development partners. Box 2.2 discusses country engagement in a challenging FCS—the case of Afghanistan.

**Box 2.2. Afghanistan: Successful Bank Group Engagement in a FCS Low-Income FCS**

IEG recently evaluated the Bank Group’s involvement in Afghanistan during 2002–2011. It found that in the initial stages of this involvement the Bank Group rightly focused on building core state institutions, delivering services to build confidence in the state, rehabilitating critical infrastructure, and initiating analytical work to build the knowledge base for future development assistance. The Bank also worked to help improve the delivery of social services, including health and education.

In part as a result of Bank and other donor support, Afghanistan now has a relatively strong public financial management framework and impressive revenue growth. Accounting and financial management reporting have improved with the adoption of the Afghanistan Financial Management Information System, which is used to pay salaries and to facilitate disbursement of donor funds and accountability in their use. Bank support also has led to the adoption of a civil service law and regulations for administrative reforms and to the extension of basic health services to cover all 34 Afghan provinces, which contributed to a 22 percent decline in the infant mortality rate and a 26 percent decline in the under-five mortality rate. And with Bank and other donor support for education, primary school enrollment increased from 1 million students in 2001 to 7.2 million in 2011. The enrollment of girls has growth from a negligible number to almost 3 million. While Bank Group results in supporting growth in the formal private sector were mixed, results have been noteworthy in microfinance, telecommunications, and mining.

This said, security conditions continue to pose a formidable challenge and achievements have not been uniform, including a number of setbacks. Moreover, public administration remains vulnerable, as there is little evidence that the new laws, procedures, and regulations are translating into improved civil service performance.

*Source:* IEG 2012a.

2.38 The FCS where policy ownership was not strong showed a few common characteristics. Three out of 12 FCS country strategies showed satisfactory ownership. Inadequate selectivity in countries with weak administrative capacity led to efforts stretched too thin over too many areas and ultimately a strategy not owned by the government or other important stakeholders. And sometimes policy dialogues came to a halt as commitment to reform fizzled amid alternative sources of funds or political disagreements.
Chapter 2
World Bank Group Operations: Findings from Evaluation Work

2.39 Over 40 percent of FCS country strategies during FY06–13 had satisfactory results frameworks – better than the IDA average. The main problems of FCS strategies’ results frameworks are typified by that for The Gambia. The results framework did outline the expected results chain linking strategy interventions to program and country goals. However, it did not capture a substantial portion of IDA’s assistance, and there was a lack of baselines and targets. Many outcome indicators did not capture the broad scope of the targeted outcomes but rather were just taken from specific Bank interventions with a more limited scope. Moreover, a number of outcome targets depended on interventions that were beyond IDA’s influence, as underlined by the lack of baselines and targets.

IEG Evaluations and Regional Self-Evaluations

2.40 IEG reviews and regional self-evaluations agree that outcome ratings for country programs are declining. Figure 2.6 shows that the trends for both the self-evaluation CASCRs and IEG’s CASCR Reviews have been declining over the period FY04–13, although with a disconnect as to the levels of the ratings. The self-evaluations have a somewhat larger negative slope than the IEG ratings, meaning a slowly declining disconnect. For the self-evaluations the average ratings declined from between moderately satisfactory and satisfactory in FY04 (4.7 on the six-point scale) to an average closer to moderately satisfactory (close to 4 on the six-point scale) in FY13. The IEG reviews show a decline in the ratings from an average rating close to moderately satisfactory in FY04 to an average rating virtually half-way between moderately satisfactory and moderately unsatisfactory in FY13.

Figure 2.6. CASCR Outcome Ratings by IEG and Management

[Graph showing trend lines with equations]

Source: IEG data.
Note: HS = highly satisfactory; HU = highly unsatisfactory.
RESULTS FROM SECTOR AND THEMATIC AREAS

2.41 IEG has also completed major sectoral and thematic evaluations in recent years that shed light on Bank Group results from that perspective and reinforced the country results reported above. In summarizing the lessons from these evaluations, this section utilizes four operational categories derived from reviews of various Bank Group corporate strategies and also CASs. They are:9 (i) expanding economic opportunities (macroeconomic stability and growth, poverty, public sector institutions, financial and private sector development, and agriculture and rural development); (ii) building infrastructure for growth (water, sanitation, transport, energy, and information and communications technology [ICT]); (iii) enhancing human development (education, health, and social protection); and (iv) ensuring environmentally and socially sustainable development (environment, social development, and gender). As noted earlier, an important caution to this analysis is that the evaluations cover activities that have already been completed, sometimes several years in the past; hence they may no longer apply to ongoing activities. Nevertheless, the recurrence of evaluation lessons over time suggests that evaluations can offer many useful insights to help improve the effectiveness of Bank Group interventions going forward.

EXPANDING ECONOMIC OPPORTUNITIES

2.42 Bank efforts to support procurement capacity building have been fragmented and focused mainly on legal and regulatory reform. IEG’s public procurement evaluation (IEG 2014b) also found that there has been extensive efforts to support procurement through policy-based lending instruments focused on broad-based economic policy reform, albeit the share of procurement in each operation was typically minimal, but limited evidence of systematic integration of procurement into the wider context of effective public expenditure. Notwithstanding progress, the Bank’s capacity building support would be more effective if it were tied to country-level strategies and systems.

2.43 Present Bank procurement guidelines are adequate, but with areas in need of improvement. This concerns provisions on consultant selection, on new and complex forms of procurement such as information and communications technology (ICT), and on public-private partnerships (PPPs). But procurement processes are time consuming and interpreted inflexibly. There is a need for better monitoring, clearer standards, and changes in incentives that would lead to the exercise of reasonable judgment and less risk aversion. More integrated risk management systems and a greater focus on risk, as opposed to value, could reduce the need for oversight through prior reviews. There is also a need for setting monitorable service
standards and to use procurement monitoring tools to help the Bank track the achievement of economy, efficiency, and value for money. Such tools would make a major global contribution to information on markets, suppliers and prices, thus contributing to Open Data, benchmarking, and knowledge objectives.

2.44 Building state capacity requires a particularly strong understanding of country context, including conflict and fragility drivers. IEG’s evaluation of assistance to low-income fragile and conflict-affected states (IEG 2014a) also found that measures need to be designed, sequenced, and paced realistically and aligned with the expectations of citizens, political economy constraints, and the needs of donors. The Bank's support has contributed to progress in public expenditure and revenue management, although success has been uneven across countries and reform areas. The Bank has used support for decentralization as an important element in the Africa Region, while hesitating to engage with decentralization in other regions until recently. The Bank has supported community-driven development as a useful vehicle for short-term assistance; but in the absence of a mechanism to ensure sustainability, its long-term viability remains questionable.

2.45 In fragile and conflict affected states, the Bank Group lacks a realistic framework for inclusive growth and jobs. The framework should be based on economic opportunities and constraints, and supported by effective coordination and synergies across Bank Group institutions. In the FCS context, a focus on inclusive growth and employment is highly relevant to address drivers of fragility, with important linkages to state-building and peace-building activities. Vulnerability caused by low per capita income and high unemployment is a major driver of conflict. But IEG finds that growth and job creation have been slow and face challenges in FCS. The private sector is constrained by the lack of infrastructure, a business friendly environment, bankable projects, and skills. Bank Group support for long-term jobs has focused on investment climate reforms, which are necessary but not sufficient for private sector development. The lack of synergies and linkages between infrastructure, human development, and private sector development across the Bank Group and fragmented interventions reduced the impact of programs on long-term employment. Many FCS are highly dependent on extractive industries, but in this area the Bank Group has paid more attention to legislation and regulatory reform and less attention to the distribution of benefits, local economic development and value chains, and the fragility risks (IEG 2014a).

2.46 A decline in analytical work affects agricultural support. The evaluation of World Bank Group support for the global food crisis response (IEG 2013c) found limited effectiveness in the resurgent financing mobilized in response to the food
crisis (FY08–09) due to a decline in analytical work, technical staff and resources for portfolio management. The evaluation also found that subsidized fertilizer programs alone are not the solution to the food price crisis. The availability of fertilizer is important to increase crop production. But crop production does not depend only on fertilizer. Availability of improved seeds is a crucial factor, and inadequate infrastructure, extension, and marketing arrangements also limit the effectiveness of fertilizer subsidies. There was not much evidence that aggregate crop production at the national level increased significantly as a result of the subsidized fertilizer programs financed by the global food crisis response program.

2.47 Participatory forest management operations have been the most successful at balancing poverty reduction, livelihoods, and environmental aims. The IEG evaluation of Managing Forest Resources for Sustainable Development also found that interventions have contributed substantially to environmental outcomes, although for the most part poverty reduction has not been satisfactorily addressed (IEG 2013d). IFC’s forest investments are creating jobs and helping forest companies produce higher value-added products, increasing productivity, and fostering the participation of smallholder farmers in tree farming schemes, but their impact could be increased by greater attention to promoting sustainable supplies that can be certified and traced.

2.48 IEG’s Global Program Review of the Forest Carbon Partnership Facility found that the Bank played a major role in shaping global forest-related priorities and dialogue (IEG 2012b). It suggested the need for a high-level, strategic discussion on how the Bank plans to support the implementation of Reducing Emissions from Deforestation and Forest Degradation (REDD) strategies going forward, particularly given heightened expectations among beneficiary countries.  

2.49 IFC’s strategic priorities are relevant for the twin goals of the World Bank Group, but the pro-poor orientation of its projects could be greatly enhanced. Although the majority of IFC projects generated satisfactory economic returns, they did not provide evidence of opportunities for the poor to participate, contribute to, or benefit from the economic activities the projects support. The fact that projects did not articulate or track poverty outcomes does not necessarily mean that they did not contribute to poverty reduction, but points to a failure to reflect poverty effects. Improvements are needed in three areas: First, the priority given to frontier markets needs to lead to investments in more IDA countries than where they are currently concentrated (For agribusiness IFC’s direct investment strategy has shifted towards food exporting countries and Sub-Saharan Africa). Second, IFC needs to continue to strengthen its partnership and communication with the World Bank to enhance its
2.50 The Bank Group has helped countries build innovation capacity but it could adopt a more strategic approach to supporting innovation and entrepreneurship for development. Market and government failures and other bottlenecks impede innovation and entrepreneurship, a source of economic growth. Developing countries need to build the capacity to find, absorb, and use new technologies and processes as well as foster entrepreneurs who can take risks, look for finance, and bring new products and processes to market. IFC investments fostering innovation had significantly lower outcome ratings than other projects. However, when assessing IFC innovation projects on a portfolio basis, given their higher-risk profile, the average financial and economic rate of return on innovation-related projects performed just as well as for projects without innovation components. The main channel for fostering innovation in MIGA-supported foreign investments was through technology transfer and acquisition of new technology and processes. IEG found many cases where MIGA projects that supported firm level technology upgrading helped promote innovation, skills development and growth of the private sector (IEG 2013e).

2.51 MIGA’s Small Investment Program (SIP) has been designed to increase its support to smaller-size manufacturing, agribusiness, and services projects, but operational results have been disappointing. The program has been effective in extending MIGA’s reach in its strategic priority areas. MIGA’s early engagement, focus on projects in relevant sectors, and use of an innovative instrument have been relevant to developing small and medium enterprises that are typical of FCS, which account for one-third of SIP projects. But the viability of these projects has been challenged by low demand for their services; poor access to infrastructure; weak management capacity; poor choice of local partners; high operating costs; and lack of knowledge of local markets. As a result, most projects reviewed by IEG for the FCS evaluation have struggled financially and operationally, and some have failed.

DEVELOPING INFRASTRUCTURE FOR GROWTH

2.52 Access to infrastructure contributes to inclusive growth and employment. However, the impact of infrastructure investments and the services that arise from created physical capacities can be undermined if they are not sustained. IEG’s water sector (2010a) and transport (2013f) evaluations found that, while physical outputs have been largely delivered as planned, the achievement of less tangible objectives, such as strengthened sector capacity or institutional reforms, has proved to be a challenge. Contributory factors include overly complex project design and ambitious
objectives relative to local capacity. IEG found that continuous and sequential support to appropriate government-led programs contributed to strengthening the sector’s institutional capability. There were only a few cases that ensured such cross-sector coordination or a consistent engagement.

2.53 In addition to institutional capability, financial viability is found to be linked to sustained infrastructure services. IEG’s transport evaluation also finds that a broad-based approach has contributed to gaining government commitment in sustaining transport outcomes. Based on this experience, sector- and project-level evaluations indicate that resistance to reform can be reduced through a sound analysis of the political economy built on stakeholder consultation, inclusive analysis, and active communication strategies. Positive returns can be achieved from linking investment operations with analytical and advisory services and relevant sector-wide reforms being addressed through DPOs.

2.54 Infrastructure has been a major focus of Bank Group involvement in FCS. The Bank has prioritized projects in the transport, urban, and energy and mining sectors. For IFC, 78 percent of its commitments in low-income FCS during FY01-12 were concentrated in telecommunications, transport, and extractive industries. Similarly, the volume of MIGA guarantees in low-income FCS has been highly focused on infrastructure, especially transport and telecommunications. Even so, in spite the huge demand for infrastructure services and the perception that the lack of infrastructure remains a leading constraint to private sector development and for growth, IEG concluded that the considerable Bank Group engagement in infrastructure as a whole has had only limited impact (IEG 2014a).

2.55 Support to telecommunications in FCS has been relevant and effective. The telecommunications sector is one of the few to attract sizeable and early investment and to demonstrate high rates of growth in FCS, outside of resource extraction. Telecommunications is considered a transformational sector due to its potential to spur growth, entrepreneurship, and the delivery of services. While the growth of mobile networks has been largely driven by private investment and accessibility has increased in great part due to greater competition, IEG found that the speed of mobile phone penetration has been faster in countries where the Bank or IFC supported ICT sector; and coordination has been identified in IFC telecommunications projects as a main success driver.

2.56 IFC-supported PPPs, mostly in the infrastructure sector, have performed better when IFC involvement was coordinated with Bank sector reforms, supported by client commitment and political will, and had experienced sponsors. A review of PPP advisory and investment projects undertaken by IFC in Africa
confirmed the importance of client commitment and political will as top drivers for the success of PPP advisory projects. The presence of sector reform supported by the Bank, strong commitment to the PPP from the government, and sponsors with proven experience underpinned the success of IFC PPP investments. IFC’s nonfinancial additionality, e.g., through IFC’s technical expertise during due diligence, was as important as financial additionality in PPP investments in Africa.\textsuperscript{12}

**IMPROVING HUMAN DEVELOPMENT**

2.57 Taken as a whole, recent IEG evaluations and reviews under the human development (HD) heading share a number of common recommendations and messages that reflect priorities in the new Bank Group Strategy (IEG 2006, 2009b, 2011c, 2011d). They include the need to (i) renew commitment to and increase engagement with low-income countries and with the most disadvantaged and poorest groups; (ii) build projects that have conceptually stronger results frameworks backed up, for example, by sound analysis and reliable baseline data; and (iii) improve overall project management and design through better matching of design to context, reduced complexity of design to reflect capacity, and enhanced risk analysis and mitigation strategies.

2.58 There have been some notable successes in HD areas, but the rate of improvements in some areas is problematic. Areas of progress include gender parity, increased access to education and advances toward realizing the human-development-related MDG. However, the Global Monitoring Report 2013 urges increased focus on reducing infant mortality, improving maternal health, and engaging early in education (World Bank and IMF 2013). Also, the degree of variability in performance across the regions is still high; for example, more than half of the 57 million children still out of school are located in Sub-Saharan Africa (UN 2013). The Bank’s higher-level goals, including human development related goals, continue to be affected by a variety of powerful, interlinked, dynamic factors. For example, increased market volatility that results in higher food prices can impact income poverty and have a knock-on effect for health outcomes, education results, and gender equality with nutrition as a key interlocutor in the process. To tackle the complexity of context, RAP 2011 notes an increasing Bank focus on broad systemic improvements in HD (IEG 2012c), and RAP 2012 emphasizes the shift toward engagement in systems change; for example, by developing social safety nets (SSNs) and institutional capacity prior to crises (IEG 2013a).

2.59 The focus in the education sector is moving toward a more demanding systems approach. The emphasis on systems change is reflected in the World Bank’s Education Sector Strategy 2020 (IBRD 2011).\textsuperscript{13} In order to deliver learning for all, the
strategy seeks to promote country-level reforms of education systems and to build a global knowledge base powerful enough to guide those reforms. The use of the term “education system” includes the full range of learning opportunities (e.g., public and private, formal and informal, in school and at work) signaling the Bank's intent to take opportunities to address barriers wherever they occur, including outside the bounds of education systems as traditionally defined, and the “hidden exclusion” of low quality and learning outcomes in schools serving the poorest children. (The emphasis on learning outcomes is in line with previous IEG reports that focused on the need to move beyond inputs and school attendance measurements.) But the achievement of systems change and learning outcomes is challenging. IEG’s portfolio note on education (IEG 2011d) found a substantial drop in the quality of rated education projects over a decade, with success concentrated in increasing access and improving equity of access, but less in achieving education quality, labor force management, learning, or efficiency objectives. The report also cautioned against effectively excluding the very poor in any attempt to address “learning for all.”

2.60 There is a need to improve health results, particularly for the poorest and most vulnerable. This is in spite of increased investment in health and the significant progress that has been achieved with IDA support over the last decade (e.g., 1.1 million malaria-related deaths avoided since 2000). Significant, system-based obstacles remain—from poor infrastructure and weak logistics to inadequate policies or lack of sustainable financing or health insurance coverage—that prevent lifesaving resources and other inputs from reaching those who need them most. IEG’s review of interventions to reduce child malnutrition in developing countries (IEG 2010b) found slow progress due in part to the food-price and global economic crises, while its review of 46 nutrition impact evaluations published since 2000 found, inter alia, no clear pattern of impacts across interventions due largely to the heterogeneity of real-world conditions and context within which interventions play out. However, the report found that Bank-supported conditional cash transfer, community nutrition, and early childhood development programs demonstrated some impact on child anthropometric (height, weight, and birth weight) outcomes. IEG’s 2013 review of impact evaluation evidence regarding efforts to reduce maternal and child mortality found that as a group the evaluated Bank interventions were effective in improving skilled birth attendance and reducing under-five mortality, but with fewer detectable impact as in other areas (IEG 2011d). The review also noted a skewed regional distribution of the available impact evaluations of Bank interventions, but a significant number of impact evaluations are currently under way or planned for Bank health sector interventions.
2.61 The development of social safety net programs now represents a dynamic and growing part of the Bank’s portfolio. Over recent years, the Bank almost tripled its social protection and labor lending to help countries respond to the food, fuel, and financial crises—from an annual average of $1.6 billion in 1998-2008 to an annual average of $4.2 billion for 2009-2011. IEG’s evaluation of social safety nets (IEG 2011c) found that Bank support had evolved over the decade as it moved from a project-centered approach focused on delivery of social assistance benefits, toward an approach focused on helping countries build SSN systems and institutions to better respond to poverty, risk, and vulnerability. The Bank’s support has relied heavily on both lending and knowledge sharing to engage clients. IEG concluded that whereas the Bank made significant progress in developing safety nets and addressing crises, key areas of support needed to improve including, for example, ongoing engagement during more stable times to help countries develop the capacity to respond to future shocks, and stronger engagement with low-income countries. The evaluation also found that strategic rather than project by project engagement strengthens the effectiveness of efforts overall.

2.62 A major issue identified in the food crisis response evaluation was the lack of an operational model for helping low-income countries target their support to the most affected groups in the absence of existing SSN systems. For the short-term food crisis responses, Bank-supported operations largely involved the topping-up of existing in-kind transfers, public works, and school feeding programs. The recently issued World Bank Social Protection and Labor Strategy incorporates several lessons from the food and economic crises and commits to increasing the Bank’s sectoral engagement in low-income countries.

2.63 In line with IFC’s strategic priority for health and education, its investments in these sectors increased by more than half in FY11-13 compared with three years prior. The growth in the portfolio has come exclusively from education services projects as IFC’s focus on private sector education has grown—mainly in tertiary education and less so in technical and vocational training. IFC’s investments in the health sector have stagnated over the two periods under review. In terms of results, the few completed ex-post assessments of education projects indicate that achieving satisfactory development outcomes still remains a challenge; the development outcomes of only four of nine projects were rated as mostly successful (IEG 2013h).

2.64 There has been progress in the Health, Nutrition, and Population (HNP) sector. An IEG follow-up study to its 2009 HNP evaluation found progress in several areas and that the issues raised by the evaluation are being addressed. Thus the
study found improved M&E, greater project quality control at the regional and sector levels, and increased multisector collaboration. In addition, more projects focused on health system development. The portfolio also appears to be improving, especially in Africa (a problem area in the original evaluation). More attention, however, is needed on the balance between investment and technical assistance (TA); administrative simplification should be an important priority; and the follow-up study noted major gaps in staffing.

2.65 IEG’s gender evaluation (2010c) recommended several actions to regain and sustain momentum of gender integration to improve the development effectiveness of Bank support. As a result of this evaluation, the 2012 WDR, and the IDA16 Replenishment agreement, several changes have taken place in the Bank related to the gender and development agenda (GAD). Awareness has increased due to establishment of a results framework and regular monitoring, all CASs are monitored and the results are reported to the GAD sector board and senior management. Lending products are selectively monitored with results disaggregated by sector, region, and IDA or non-IDA. CASs and Interim Strategy Notes (ISNs) exceeded the policy benchmarks for being gender-informed, including all CASs that were discussed in the past year and all ISNs in 2012. The corporate scorecard and the IDA16 results management system include several gender indicators, and training in gender has been expanded. However, the GAD framework focuses on the design stage, on inputs rather than on outcomes. Augmentation would require linkages between these tiers and intended country program outcomes or DFOs for lending products.

PROMOTING ENVIRONMENT AND/socially Sustainable DEVELOPMENT

2.66 An IEG review of the Bank’s work in promoting policies with climate change mitigation benefits found that there is no significant trade-off between climate change mitigation and energy access for the poorest (IEG 2009c). It identified the scope for bundling efforts to remove subsidies with actions that improve energy efficiency and so reduce the burden of cuts. An evaluation of climate change mitigation through the Bank’s investments in renewable energy, energy efficiency, forestry, transport, and other sectors found that the Bank could increase its impact by supporting high-impact sectors and instruments (particularly through energy efficiency) and by supporting the local adaptation and diffusion of proven technologies, policies, and financial practices (IEG 2010d). Pilot and scale-up efforts were successful only when demonstration and diffusion mechanisms were well thought out.
2.67 Bank Group safeguards and sustainability policies have helped avoid or mitigate large-scale social and environmental risks. This was a conclusion of *Safeguards and Sustainability Policies in a Changing World*, which also commented that categorization of risks had been inconsistent, and supervision and monitoring of results had not been thorough (IEG 2010e).\textsuperscript{16} The evaluation found that the Bank’s compliance-based approach was becoming less effective as the portfolio moved beyond traditional investment projects. Shifts in the composition of the portfolios of all three institutions also presented a challenge to ensure continued relevance and effectiveness of the safeguards and sustainability policies.

2.68 Overall Implementation of Poverty and Social Impact Analyses (PSIAs) has experienced limitations. This was the conclusion of IEG’s evaluation of the *Effectiveness of World Bank Support to Poverty and Social Impact Analyses*, which found that there had been some highly effective individual PSIAs, but overall implementation had faced limitations, and there were issues concerning the timeliness of analysis and the extent to which country analytic capacity was developed (IEG 2010e). There were also issues concerning ownership by Bank staff and managers, quality assurance, monitoring, and evaluation. Quality assurance mechanisms should be strengthened to ensure that PSIAs are designed to achieve intended effects.

2.69 The environmental and social performance (E&S) of IFC investments has been stable in recent years. About two-thirds of projects are rated as satisfactory (63 percent). Over time, the E&S sustainability performance of financial markets projects has improved (70 percent satisfactory), while that of the infrastructure cluster has declined (67 percent in 2010–2012 versus 87 percent in 2007–2009). Manufacturing, agribusiness and services projects have also shown weaker performance, with only half of projects achieving satisfactory E&S outcomes. Although IEG evaluations point to improvements in IFC’s E&S appraisal quality for real sector projects, supervision quality has not been as strong, especially in regard to follow-up on inadequate client reporting on actual project performance (IEG 2013i).

**PORTFOLIO PERFORMANCE BY INSTITUTION**

**PERFORMANCE TRENDS IN BANK-FINANCED OPERATIONS**

2.70 This section reviews trends in the performance of Bank-financed operations on the basis of IEG project evaluations—reviews of Implementation Completion Reports (ICRs) and separate Project Performance Assessment Reports (PPARs). Performance and results are analyzed on an annual basis as well as by using averages for three-year nonoverlapping periods and three-year moving averages.
2.71 Recurrent lessons from evaluations point to the need to make adjustments for future operations in design and implementation support by learning from completed operations and periodic verification of progress. It is an explicit priority of current Bank strategy to learn from mistakes as well as successes and to disseminate findings effectively for better delivery of results. Lessons from completed operations are supposed to be incorporated for each new operation. Ex-post evaluations—even with a lag—have added value in providing feedback and in informing decisions to shape medium-term strategies. From this strategic perspective, fluctuations in relatively small annual samples of operations (e.g., for some Regions, many sectors, and DPOs) need to be evened out for more clarity on trends. And robust sample sizes are essential for statistically significant tests, articulated in this report by analysis of three-year periods.

2.72 **Overall Bank portfolio performance has declined.** Aggregate development outcomes measured as the proportion of moderately satisfactory or better outcomes on all types of lending operations financed by IBRD, IDA, and trust funds, fell to 71 percent in FY10-12 from 73 percent in FY07-09 and 80 percent in FY04-06 (Figure 2.7). This decline after FY06 reversed a previous trend of steady improvements over several years. The drop measured by moving averages reflects sharp declines in the proportion of moderately satisfactory or better outcomes in FY07 and FY10, along with partial and temporary recoveries in intervening years.

![Figure 2.7. Percentage of Operation Rated Moderately Satisfactory or Better for Development Outcome by Number of Projects (three-year moving average)](source: IEG data.)
2.73 The performance of DPOs has been better than the overall Bank average despite the more difficult operating environment from the recent global economic and financial crises. A dip in outcomes of DPOs in FY07-09 was followed by improved performance on more recent exits to reach 80 percent moderately satisfactory or better by number of DPOs for FY10-12 (Figure 2.7). The temporary decline to 75 percent in FY07-09 reflected lower performance on 31 DPOs because of issues of lack of client ownership and weak capacity in several regions as reported by management’s 2012 retrospective report on DPOs. However, the performance of investment projects has continued to deteriorate and drives the lower overall Bank outcomes, notwithstanding recovery in some years. By FY10-12, investment project outcomes measured by number of projects were at 69 percent moderately satisfactory or better, falling from 75 percent in FY07-09 and 79 percent in FY04-06. Outcomes of investment projects fell across IBRD, IDA, regions, major operational areas, and several sectors as discussed further in this section. An example of a highly successful DPO is shown in Box 2.3.

<table>
<thead>
<tr>
<th>Box 2.3. Learning from Success: The Philippines Food Crisis Response Program</th>
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<tbody>
<tr>
<td>The Philippines Global Food Crisis Response Program’s objectives were highly relevant to country conditions and to the country partnership strategy. Design took full account both of the program’s urgency and the institutional context in which it would be implemented. Government actions involved significant budgetary allocations; consolidation of the institutional mandate to cover social protection as a whole and thereby coordinate policy and actual implementation of the National Social Welfare Program; and introduction of a nationwide standardized and transparent household targeting system.</td>
</tr>
<tr>
<td>There was strong ownership by stakeholders, and the government was able to implement the reforms fully and in a timely manner consistent with its budgetary constraints and planning cycle. Design was selective and deliberately avoided some of the more complex and long-standing issues on the agenda of rice policy reform, such as the coverage of the rice subsidy program, permanent reforms in the trade regime affecting rice, and the focus on self-sufficiency rather than on food security. Addressing such issues would have made it impossible to respond to the food and related social assistance emergencies in a timely manner. However, the DPO-supported program may possibly facilitate moving on the trade reforms and phase-out of untargeted subsidies.</td>
</tr>
<tr>
<td>The substantial and direct results in the form of impact are well demonstrated by the conditional cash transfer (CCT) program. The gap between the incomes of beneficiary households and the average income is calculated to have been reduced by 5.3 percentage points, and severe poverty by 4.3 percentage points. The goal of reaching 320,000 poor households by the end of 2008 was attained; by May 2012, more than 3 million households were benefitting from the CCT. A subsequent study by the Australian Agency for International Development and World Bank concludes that although some challenges remain, the CCT successfully reached the poorest families in the Philippines (World Bank and Australian AID 2013). The proxy mean testing-based targeting system, combined with</td>
</tr>
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</table>
geographic targeting, helped minimize errors of inclusion and exclusion, and 90 percent of beneficiaries belonged to the poorest 40 percent of the population.

The program was based on sound analytical underpinnings in prior technical assistance; international best practice and methods; ongoing analytical work and policy dialogue in the rice sector; and the analytical work, policy notes, and consultant studies on improved targeting as well as the inclusive growth economic and sector work program under way during preparation. Supervision and monitoring and evaluation were carried out through related operations and economic and sector work, using international expertise as needed. The Bank responded flexibly to the government’s request through reopening the DPO for supplementary financing following the two major typhoons which struck the Philippines in 2009, thus keeping the social assistance program on track.

2.74 Bank portfolio outcomes by commitments have been less negative than when measured by numbers of operations, reflecting the larger size and better performance of IBRD operations relative to IDA operations. For DPOs, there was a sharp recovery after FY07–09, which improved to 92 percent in FY10–12 from 82 percent in FY07–09 and 89 percent in FY04–06 (Figure 2.8). However, for investment operations, the decline even by this measure has been pronounced and continuing, falling from 84 percent in FY07–09 (unchanged from FY04–06) to 77 percent in FY10–12—a decline that is significant at a confidence level of 95 percent. The more gradual nature of the decline when compared with the trend in investment project outcomes measured by number seems to indicate that project size matters, possibly because larger operations may receive more attention from the Bank and borrowers.

Figure 2.8. Percentage of Operation Rated Moderately Satisfactory or Better for Development Outcome by Commitments (three-year moving average)

Source: IEG data.
2.75 **IBRD-funded investment projects have consistently performed better than IDA projects.** Table 2.1 shows that by number of projects the outcomes of IBRD investment projects declined from 84 percent in FY04-06 to 80 percent in FY07-09 and 75 percent in FY10-12. Outcomes of IDA-financed projects in non-FCS declined from a lower level of 76 percent to 66 percent, and then to 62 percent for the same periods. Higher outcomes for IBRD projects may reflect on average greater country institutional capacity and supportive policy frameworks than in IDA borrowers. The declining performance of both IBRD and IDA-financed projects in non-FCS countries indicates common Bank-wide institutional factors discussed later in this section, principally related to issues in design and follow-up within the Bank’s control, which did not receive focused attention as in the case of projects in FCS also discussed below.

2.76 **Contrary to the general trend, performance of IDA projects in FCS has improved.** Projects in IDA FCS borrowers used in the aggregate to perform well below the level of non-fragile IDA countries. However, Table 2.1 shows that since FY07-09 their ratings are now modestly better, in spite of a slight decline to FY10-12 in their proportion of moderately satisfactory or better outcomes. IEG’s recent FCS evaluation found that increased Bank support through larger administrative budgets and more international staff deployed in FCS has contributed to this positive trend, together with increased lending in transport and economic policy operations with high performance. The evaluation also sees improvements in overall FCS results as in part reflecting development policy lending that has increased in quantity as well as in quality. There are important examples in IEG evaluations of lending operations designed to fit difficult FCS contexts, such as the Democratic Republic of Congo Multisector Rehabilitation and Reconstruction project, which featured design of implementation arrangements to compensate for the government’s capacity limitations and to help lay the foundations for strengthening ability to implement future development projects in a very large country with massive deterioration of infrastructure and a difficult governance context.

<table>
<thead>
<tr>
<th>Country Type</th>
<th>FY01–03</th>
<th>FY04–06</th>
<th>FY07–09</th>
<th>FY10–12</th>
</tr>
</thead>
<tbody>
<tr>
<td>IDA fragile states</td>
<td>62</td>
<td>64</td>
<td>69</td>
<td>67</td>
</tr>
<tr>
<td>IDA non-fragile states</td>
<td>70</td>
<td>76</td>
<td>66</td>
<td>62</td>
</tr>
<tr>
<td>IBRD</td>
<td>78</td>
<td>84</td>
<td>80</td>
<td>75</td>
</tr>
<tr>
<td>World Bank-wide</td>
<td>74</td>
<td>80</td>
<td>75</td>
<td>70</td>
</tr>
</tbody>
</table>

2.77 **Ratings for investment projects’ performance are not only declining, but also becoming more concentrated.** The percentage of investment projects at the high end of the six-point rating scale (rated satisfactory or highly satisfactory)
declined by 50 percent (from 49 to 24 percent) between FY04–06 and FY10–12 (Table 2.2). There has been a corresponding increase in the ratings around the middle projects rated moderately satisfactory and moderately unsatisfactory over the same period. In line with their higher overall ratings, a larger proportion of DPOs, at about 40 percent, were rated satisfactory or highly satisfactory in FY10–12; this is still a decline of about one-fifth from FY07–09.

Table 2.2. Satisfactory and Highly Satisfactory Ratings by Instrument Type (percentage)

<table>
<thead>
<tr>
<th>Fiscal-year period</th>
<th>HS</th>
<th>S</th>
<th>S or better</th>
<th>HS</th>
<th>S</th>
<th>S or better</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY01–03</td>
<td>4.3</td>
<td>44.0</td>
<td>48.3</td>
<td>3.5</td>
<td>44.0</td>
<td>47.5</td>
</tr>
<tr>
<td>FY04–06</td>
<td>3.7</td>
<td>45.0</td>
<td>48.7</td>
<td>3.0</td>
<td>50.3</td>
<td>53.3</td>
</tr>
<tr>
<td>FY07–09</td>
<td>3.3</td>
<td>32.3</td>
<td>35.6</td>
<td>8.0</td>
<td>42.3</td>
<td>50.3</td>
</tr>
<tr>
<td>FY10–12</td>
<td>2.0</td>
<td>22.3</td>
<td>24.3</td>
<td>3.0</td>
<td>36.7</td>
<td>39.7</td>
</tr>
</tbody>
</table>

Note: HS = highly satisfactory; S = satisfactory.

2.78 The ICRs and ICR Reviews (ICRRs) ratings show similar patterns, with a disconnect. There has always been a disconnect between the ratings from the ICR self-evaluations and IEG’s independent ICRRs — this is inevitable within reasonable bounds (typically within about 10 percentage points). Figure 2.9 shows that the patterns between years for the outcomes of investment lending have been broadly similar since FY00, but with a disconnect that widened after about FY07 until it narrowed again considerably in FY12 (with only partial coverage for ICRRs in the year), although it is still close to 10 percentage points. As noted later in this section, weaknesses of the results frameworks and of M&E in investment projects contribute to the rating disconnect.

2.79 Annual portfolio performance ratings are more volatile than the three-year averages. This is demonstrated in Figure 2.9 for investment projects, which shows
particularly large rating declines in FY07 and FY10 for the ICRRs of investment projects. As noted elsewhere, a backlog for IEG’s ICRRs still cover only 50 percent of FY12 exits; the aggregate results by percentages for that year are therefore not comparable with previous years for which the backlog of reviews is much smaller. The increase in disconnect over previous years followed from the Bank’s shift in FY06 to an increased focus on results specified in project objectives and indicators along with the requirement to provide evidence of outcomes to support ratings. ICRRs have not presented consistently such evidence, hampered by weak project M&E systems.

2.80 The performance of Bank investment projects varies across operational areas. Figure 2.10 shows that building infrastructure for growth registered the largest decline among major operational areas in outcomes of investment projects from FY07-09 (85 percent) to FY10-12 (72 percent). This change was statistically significant at a 95 percent confidence level and was driven by equally significant falls in the transport (92 to 73 percent) and water (86 to 63 percent) sectors. Expanding economic opportunities and environment and sustainable development showed smaller declines of 9 and 8 percent, significant at the 90 percent confidence interval for expanding economic opportunities. Enhancing human development recorded a small increase (5 percent, not statistically significant) in outcomes, because of a better performance of projects evaluated in the HNP sector (17 percent, significant at the 95 percent level of confidence). Between these four areas there has thus been an averaging trend, with large drops for the better performers and a modest increase for the lowest performer.

Figure 2.10. Investment Projects Ratings

<table>
<thead>
<tr>
<th>Percentage</th>
<th>FY07-09</th>
<th>FY10-12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic...</td>
<td>76</td>
<td>67</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>85</td>
<td>72</td>
</tr>
<tr>
<td>Human development</td>
<td>62</td>
<td>67</td>
</tr>
<tr>
<td>Earth and sustainable...</td>
<td>73</td>
<td>68</td>
</tr>
<tr>
<td>Bank-wide...</td>
<td>75</td>
<td>59</td>
</tr>
</tbody>
</table>

Source: IEG data.
Note: The difference in the share of projects rated moderately satisfactory or better between FY07-09 and FY10-12 is statistically significant at a 95 percent confidence for the category (*). AFR = Africa Region; EAP = East Asia and Pacific Region; ECA = Europe and Central Asia Region; LAC = Latin America and the Caribbean Region; MNA = Middle East and North Africa Region; SAR = South Asia Region.
2.81 Development outcome ratings by regions for investment projects are becoming somewhat less uneven, but at a lower level. Figure 2.10 also shows that between FY07–09 and FY10–12 the outcome ratings (moderately satisfactory and above) declined for all regions, but more sharply for the highest performing regions. The Europe and Central Asia Region declined from 86 percent to 73 percent and this was statistically significant at the 95 percent confidence level. The East Africa and Pacific Region declined from 82 percent to 77 percent, and the Latin America and the Caribbean Region from 77 percent to 71 percent. At the same time the ratings for the Africa Region dropped by just 1 percentage point, from 62 to 61 percent, and for the Middle East and North Africa Region by 4 points, from 65 to 61 percent. As a result, the gap between the highest and lowest performing regions shrank significantly. Box 2.4 discusses an innovative and successful project in Malawi.

Box 2.4. Land Reform in Malawi

In Malawi there has been a policy bias in favor of large farms that has marginalized smallholders while leaving many large estates idle. The Bank therefore supported this pioneering pilot operation (2004) based on voluntary land transfers to persons with little or no land willing to buy—the first redistributive land reform project in the Bank’s Africa Region and the first worldwide to use Bank funds for land acquisition, under a formal exception to the policy against disbursements for land purchases.

The original project objective was to increase the incomes of 15,000 poor rural families through a decentralized community-based land reform pilot program. When additional financing was approved (2009), the objective was altered slightly to include explicitly the intention also to increase agricultural productivity.

The project gave grants to groups of small farmers to buy land and provided training and inputs needed to develop viable farms. With some delays and domestic coordination problems, the project met its output target and exceeded both its original and revised development objectives. Two separate impact evaluations found that the increase in incomes, farm output, and agricultural productivity largely exceeded the results achieved by matched control groups. However, the boost to agricultural productivity tapered off after beneficiaries had used up their resettlement grants, and diversification from maize (the main staple) into cash crops was limited.

IEG rated the project outcome satisfactory, with strong achievement of original and revised objectives. Based on plausible assumptions, the economic rate of return exceeded expectations, and the project provided valuable lessons for such possible operations in Malawi or elsewhere. Bank performance is rated satisfactory, with thorough and practical design and implementation arrangements.

However, the risk to development outcome is rated significant, given that the prospects are uncertain for the hoped-for scaling up in Malawi of this pilot. The government has not introduced the expected reforms that would allow for more efficient operation of land markets, and neither the government nor the Bank have committed to renewed efforts at redistributive land reform in the country.
2.82 Bank performance ratings as evaluated by IEG deteriorated substantially for investment projects between FY07-09 and FY10-12. This is shown in Figure 2.11 below. The Bank-wide decline of 9 percentage points between FY07-09 and FY10-12 was significant at the 95 percent confidence level. The decline was even sharper over the longer period from FY04-06, falling from 79 to 67 percent for all investment projects. This is a serious issue since by definition Bank performance is under the Bank’s own control. The performance declined for three of the four operational areas, most dramatically for environmentally and socially sustainable development (from 80 percent to 61 percent). The Bank performance rating was unchanged for human development. Five of the six Regions showed declines (statistically significant at the 95 percent level for the Africa, Europe and Central Asia, and Latin America and the Caribbean Regions). As a result of these declines and a sizable contrasting increase for the Middle East and North Africa Region from 52 to 66 percent, the difference from the highest to the lowest performing region dropped from 35 to 26 percentage points. The exit cohorts for the Middle East and North Africa Region are relatively small which makes it more difficult to draw firm conclusions from the available data, but the improvement in Bank performance is in itself encouraging. This has been the result of a renewed approach to portfolio quality that focuses on factors within the Bank’s control or sphere of influence in the face of very challenging regional conditions.

Figure 2.11. Bank Performance Ratings

Source: IEG data.
Note: The difference in the share of projects rated moderately satisfactory or better between FY07-09 and FY10-12 is statistically significant at a 95 percent confidence for the category (*) and a 90 percent confidence level (**).

2.83 Bank performance has two dimensions—its performance in ensuring quality at entry and the quality of supervision. Consistently, the quality at entry is
in the aggregate rated lower than the quality of supervision, but both showed a decline between FY07-09 and FY10-12. Quality at entry ratings Bank-wide declined from 72 to 66 percent moderately satisfactory or better. Among major operational areas, building infrastructure for growth showed the largest decline because of the transport and water sectors. Among Regions, East Africa and Pacific, Europe and Central Asia, Latin America and the Caribbean, and South Asia Regions all showed significant (95 percent confidence interval) drops in quality at entry in this period. Quality of supervision Bank-wide declined between FY07-09 and FY10-12, primarily among major operation areas, for economic opportunities and building infrastructure, and among regions, most prominently for the Europe and Central Asia and the Latin America and the Caribbean Regions. The decline in supervision quality was significant at the 90 percent confidence interval in public sector governance, energy and mining, and education. Issues in quality at entry and quality of supervision are discussed in more detail in chapter 4.

2.84 Management and IEG analyses concur on several of the issues underlying the declining project development outcome and Bank performance ratings on investment projects. Management carried out in 2012 a detailed analysis of some 500 completed projects based on IEG's ex-post project reviews. The key findings of these analyses conform to current IEG findings:

- **The steady decline in quality at entry is an important factor in the decline of project outcome ratings**, given the strong correlation between this rating and project outcomes. Thus in the management sample 84 percent of projects rated satisfactory (on the binary scale) also had satisfactory quality at entry, compared to only 29 percent of projects rated unsatisfactory.

- **Within quality at entry, weakness in project design has been the most important factor** (such as over-ambitiousness and complexity), followed by project analysis (such as weak or absent economic and financial analysis or risk analysis) and project readiness (such as through inadequate assessments of counterpart capacity and mitigating measures), while the relevance of objectives has generally been high both for satisfactory or better and unsatisfactory outcomes.

- **Quality of supervision, while consistently higher than quality at entry, has also shown a declining trend**. The management report quotes IEG assessments that about half of the projects rated moderately unsatisfactory or lower during FY00-10 had unsatisfactory supervision, with lack of proactivity in the form of appropriate follow-up and inadequate supervision as important issues. Management in its review also identified lack of candor in
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supervision ratings, indicating that project ratings did not provide adequate bases for problem recognition and resolution during implementation.

- **Country conditions matter.** The management report comments that a regression analysis undertaken for all exiting projects FY00-11 found a large and positive impact of country conditions as measured by Country Policy and Institutional Assessment ratings on outcome ratings. This finding shows the importance of country institutional and capacity constraints to which project design and supervision must adapt in order to lead to satisfactory outcomes.

- **Project-level factors matter as much as country factors.** Outcomes of previous projects for which the task team leader was responsible (the team leader’s track record) are an effective proxy for project-level factors. Recent analysis in this regard examines a large database of 6,000 Bank projects to arrive at this conclusion (Denizer et al. 2013). This finding is discussed in more depth in chapter 4.

2.85 In addition, management also considered as contributory factors to declining project outcome ratings the harmonization in 2006 of the rating scales and IEG’s stronger emphasis since that time on evidence and the quality of project M&E. It does not seem plausible that these one-time changes could contribute to the continued decline in ratings year after year, but the decline in ratings for quality of M&E is an important issue in itself, and is indeed a contributing factor to the overall decline in ratings.

2.86 **Tight operational budgets may also have contributed to lower project outcomes.** During the recent crisis years the Bank (mainly IBRD) sharply increased its lending volume to developing countries, with Bank commitments reaching an annual average of $53 billion in FY09-10, compared with $25 billion in FY07-08. Given the fixed budget arrangements in place for the last eight years, the increase in lending took place without a commensurate increase in resources allocated for project preparation and only a slight increase in supervision budget. The recorded cost of project preparation has been in gradual, steady decline during FY04-10. In real terms, there has been substantial decline in total expenditures on preparation costs. Average preparation costs declined consistently from about $556,000 per project in FY06 to $456,000 per project in FY10. The decline was across all regions of the Bank. Finally, it is important to note that the resources allocated to economic and sector work (ESW) also declined during FY06-10. In this context, the relatively stronger recent results of projects in FCS seem to be associated with stronger commitments of budgetary and human resources, including for TA to strengthen
domestic capacity - along with more focused staff and management attention. The IEG FCS evaluation noted that budgetary resources for supervision per million dollars in commitment volume increased by 55 percent in FCS during the FY07-12 period but had a more modest increase of 8 percent in the non-FCS group.

2.87 Managerial attention to quality may have been adversely affected by the matrix structure. IEG’s evaluation of the matrix system noted that quality at entry and quality of supervision had shown a declining trend since the introduction of the matrix in FY97-98 (IEG 2012d). It also observed that quality assurance systems focused on fiduciary and safeguards risks at the cost of other aspects of quality and that the matrix did not permit effective control spans for sector managers with large remits. Currently some Bank-wide changes are under way with the creation of global practice groups.

2.88 Monitoring and evaluation are essential for the Bank’s ability to deliver results. Therefore, M&E is addressed clearly in the Bank Group’s new strategy. All Bank operations are already required to be underpinned by results frameworks providing the basis for M&E, consistent with the results frameworks in country strategies and articulating them at the project or DPO level. IEG reviews M&E in ICR and CASCR reviews.

![Figure 2.12. Bank Monitoring and Evaluation, FY07-09 and FY10-12](image)

Source: IEG data.

2.89 However, the quality of M&E in investment projects has been declining. Investment projects in FY10-12 showed lower M&E quality than in FY07-09, as shown in Fig. 2.12. The number of such projects with M&E rated high or substantial declined from 33 to 26 percent, so that only about one in every four projects was rated in the top half of the rating scale, against 40 percent reported by the 2009 IFC
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annual report on development effectiveness (IFC 2009). In contrast, results
frameworks and M&E for DPOs were rated at 43 percent substantial or high for
FY10–12.

2.90 Common issues in M&E reported by IEG evaluations include limited
availability of sound baseline data, too many unfocused indicators, and too few
outcome indicators. Issues in countries include weak institutional frameworks with
high staff vacancies or turnover, lack of clarity in roles and responsibilities for data
collection, problematic management information systems, poor quality of data, and
poor use of data for decision making. M&E including results frameworks in global
and regional partnership and trust fund programs have faced similar problems, with
objectives or strategies not well-defined and difficult to measure, scope for
ambiguity in interpretation, and too much focus on process and outputs rather than
outcomes.

2.91 Shortcomings in M&E prevent the Bank from demonstrating fully the
results of activities it supports through projects. These shortcomings contribute to
some extent to lower ratings of project outcomes because of deficient specifications
of indicators, lack of information on their evolution, or failure to collect and present
relevant evidence for results claimed in ICRs.

PERFORMANCE OF IFC INVESTMENT PROJECTS

2.92 The development outcome ratings of IFC-supported projects have
continued to decline, albeit from historically high levels. Sixty-five percent of the
236 mature investment operations involving long-term finance evaluated from 2010
to 2012 had development outcome ratings of mostly successful or higher, compared
with 74 percent of the 213 operations evaluated in 2007–2009.17 On an annual basis,
development outcome ratings of rated projects peaked in 2008, prior to the financial
crisis (at 75 percent mostly successful or higher) and have since declined to 64
percent for the 2012 cohort (Figure 2.13). As discussed in Chapter 4, outcome ratings
of IFC investments (and MIGA guarantees) are not directly comparable with those
of Bank operations, given that the former are assessed both against market
benchmarks and achievement of objectives.
2.93 The performance of IFC projects in IBRD countries has remained strong, but has deteriorated in IDA-eligible countries. In spite of the strategic priority given to frontier markets, the gap in development outcome ratings of IFC’s investments between IDA (52 percent mostly successful or above ratings, down from 62 percent in the three preceding years) and non-IDA countries (73 percent) has widened (see Figure 2.14a). At the same time, the share of IDA projects among the sample of mature investments is rising, relative to non-IDA projects, reflecting IFC’s push into frontier markets between FY04 and FY07.

2.94 Unlike the experience in the Bank, IFC projects in low-income FCS have low development outcome ratings. Based on 26 ex-post evaluations of projects in FCS completed in 2001-2011, the development outcome ratings in FCS were modest (54 percent, or 14 out of 26 with mostly successful or better ratings), and somewhat lower than those in non-FCS IDA countries (59 percent mostly successful).

2.95 The results in IDA and FCS countries reflect both higher risks and shortcomings in IFC’s work quality. The decline in performance in IDA countries reflects higher country, sponsor, and markets risks, which are also reflected in higher required rates of return benchmarks for the projects to achieve positive business success ratings. In other words, projects in riskier markets have to meet higher weighted average cost of capital benchmarks for indicators such as project business success compared with projects in low risk markets. Evaluated projects in low-income FCS showed a higher-risk intensity (the presence of more than one risk factor per project) than in non-FCS IDA countries. Aside from external risks, a decline in the quality of IFC’s work in IDA countries, relative to that in IBRD
countries has also contributed to the lower project success rates (see Figure 2.14b). Comparing projects evaluated in 2007-2009 with those in 2010-2012, positive ratings for IFC’s appraisal work quality, which covers screening, appraisal and structuring, in IDA slumped from 73 percent to 50 percent. This is important because analysis in chapter 4 indicates that work quality is significantly associated with the likelihood of achieving positive development outcome.

Figure 2.14. IFC Development Outcome Ratings and Work Quality in IDA and Non-IDA Countries

a. IFC development outcome ratings  b. IFC work quality ratings

Source: IEG data.

2.96 **Drivers of the decline in work quality.** While a full explanation would need to await a comprehensive evaluation of IFC’s appraisal process, a review of projects in IDA countries and in two clusters, infrastructure and financial markets, provided some insights. The infrastructure cluster experienced the steepest decline of any IFC sector. Development outcome ratings declined from 80 percent mostly successful or higher in FY07-09—the highest among the clusters—to 63 percent in FY10-12. Here again, the decline in development outcome ratings was associated with a decline in IFC’s front-end work quality. Based on an IEG review of 19 infrastructure cluster projects with Expanded Project Supervision Reports done in 2010-2012, low development outcomes are most frequently associated with the inability of projects to generate enough revenues in the face of strong competition. The decline in the quality of IFC’s screening, appraisal, and structuring work appears to have been associated with reliance on optimistic assumptions about sponsor experience, market conditions, and costs that left them less resilient and able to cope with and
adjust to increased competition, regulatory changes, technological changes, and other unexpected shocks — perhaps aggravated by the headwinds in the global economy mentioned earlier — with the attendant decline in development outcomes.

2.97  The financial markets cluster, IFC’s largest, also experienced a continuing decline in development outcomes, from 72 percent to 59 percent\(^9\). Both the financial markets sector and the funds sector (collective investment vehicles) contributed to the decline. This performance was associated, and possibly driven, by a parallel decline in IFC’s appraisal quality, from 71 percent to 60 percent satisfactory or better for the financial markets cluster. On the other hand, IFC’s supervision quality remained fairly steady.

2.98  With respect to IFC’s short term finance instruments, IEG finds that the Global Trade Finance Program has been relevant in providing trade finance risk mitigation in emerging markets, but its faster recent expansion in lower-risk markets requires close monitoring in these areas (IEG 2013)). Initially concentrated in high-risk, low-income countries, during the 2008 global financial crisis the program became relevant in much broader markets, but has since then grown faster in lower-risk countries where program additionality is less clear (IEG 2013)). According to IEG case studies, GTFP had high additionality in high risk and crisis affected countries; however, in an IEG survey of issuing banks 44 percent of responses indicated that they have used the program for transactions that the banks would have executed anyway. The program has been effective in mitigating risks that would otherwise inhibit the activities of commercial banks, and played a useful role in connecting local emerging market banks with global financial institutions.

**PERFORMANCE OF MIGA GUARANTEES**

2.99  MIGA projects have relatively good development outcome ratings, albeit those in IDA countries and the infrastructure sector performed below average. Of 37 evaluated guarantee projects from FY09–12, 76 percent were rated satisfactory in terms of their overall development outcome (Figure 2.15).\(^{20}\) The success rate was higher for projects in non-IDA countries (85 percent of 20 projects) than in IDA countries (65 percent of 17 projects). Africa had the largest number of projects (16 or 43 percent of the total) but the lowest share of successful outcomes (56 percent). Among sectors, financial projects had the highest success rate (83 percent), followed by agribusiness, manufacturing, and services (73 percent) and infrastructure (69 percent).
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Figure 2.15. MIGA Development Outcome Ratings

Source: IEG data.
Note: AMS = Agribusiness, Manufacturing, and Services sector.

RESULTS FROM KNOWLEDGE PRODUCTS

2.100 Knowledge products are essential Bank Group instruments, bringing Bank Group’s analytic capacity and broad country and sectoral experience to bear in helping clients address their development challenges. IEG evaluations consistently show that sound analytical work contributes to successful project design and implementation, and capacity building is an increasingly important component of program delivery, customized to different types of client. Consequently, the new Bank Group Strategy places strong emphasis on knowledge as the key to become a “solution bank” and to assist client more effectively.

BANK KNOWLEDGE PRODUCTS

2.101 Bank Group country programs have shifted toward more intensive delivery of knowledge services relative to lending, and this trend is expected to continue. This shift is a response to an increasing number of Bank clients needing less financing but still wishing to maintain a partnership with the Bank based on TA and ESW, and corresponds to an earlier IEG finding that clients in middle-income countries preferred nonlending to lending services (IEG 2008b). In response, TA and ESW have more than doubled in the past 10 years, and core knowledge services have increased to about one-third of the Bank administrative budget from a quarter of the budget 10 years ago.

2.102 IEG conducted recently an evaluation of knowledge services, primarily to assess the effectiveness of TA and ESW in countries that make intensive use of such services as opposed to lending (IEG 2013k). The nine selected countries comprised high-income and upper-middle-income countries with a high share of knowledge services in their programs, a diversified economic structure, none or moderate Bank lending, and fee-based knowledge services. The sectors covered by the activities
comprised the full range of Bank expertise, from sector work in agriculture and education to multisector engagements in social protection, economic policy, and public sector governance.

2.103 **Raising stakeholder awareness has been the predominant use of Bank knowledge activities.** Figure 2.16 shows that use for other purposes was observed almost equally frequently in about half of the knowledge activities reviewed.

![Figure 2.16. Use of World Bank Knowledge Services and IFC Advisory Services (percentage of reviewed activities)](image)

2.104 **Lending, where present, remains a powerful driver of results of knowledge services.** Lending was not significant in most of the focus countries, but where present at least partial achievement of expected outcomes of Bank knowledge services was observed more frequently when knowledge services were used for the design of lending operations. This corresponds to the finding of the earlier evaluation that the presence of relevant ESW was statistically associated with better loan design.

2.105 **Intended outcomes are often achieved to at least some extent.** This has been demonstrated in both of the IEG evaluations (IEG 2008b, 2013k). The 2013 report found that intended outcomes were fully achieved or likely to be achieved in 47 percent of the knowledge activities reviewed and partly achieved in another 37 percent, with no significant difference between the various models of knowledge service delivery.
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2.106 Outcomes are more likely to be achieved when the knowledge services focus on specific sectors. Reaching outcomes can be more difficult in broader thematic areas, encompassing an ambitious reform agenda, or when the achievement of results requires multisector efforts, economic policy, and public sector governance. In such complex areas, knowledge service results can also suffer when new legislation is necessary to implement recommended reforms.

2.107 Knowledge services requested by the client and designed specifically to achieve client objectives are more likely to achieve outcomes than services of a more generic character. For example, in China there is evidence that the recommendations of the report Reducing Inequality for Shared Growth in China: Strategy and Policy Options for Guangdong Province, a high-profile study conducted jointly with the provincial authorities (World Bank 2011), are being gradually implemented with concrete results in declining inequality.

2.108 Knowledge services benefit from the use of local expertise. Use of local experts and counterpart participation appear to help modify global best practices to local conditions, consider capacity constraints, and improve stakeholder ownership of findings and suggested actions. Client participation in the various stages of knowledge services is often also associated with the achievement of results. Moreover, the 2013 evaluation found that knowledge services that achieved results have contributed more often to strengthening institutions as well as the analytical and policy formulation capacity of recipients.

2.109 The Bank’s main strength is its ability to fulfill in a timely manner client requests for state-of-the-art advice. The 2013 evaluation found that clients valued most the Bank’s ability to address relevant developmental issues, convey international best practice, act as a trusted knowledge broker, customize knowledge to the local context, and take a pragmatic approach to important issues that required multisector development solutions. Another key strength was linked to the Bank Group’s role as “knowledge connector,” such as for the Bank to use its convening power to mobilize top international experts for sessions with high-level officials or government agencies. The Bank has mostly used its informal networks to facilitate South-South exchanges and policy dialogues.

2.110 There are multiple examples of knowledge work used for capacity development. About 60 percent of Bank knowledge activities under the 2013 evaluation contributed to developing or strengthening institutions. Examples include in Chile for risk-based pension and insurance supervision; in Thailand for risk-based tax audits, analysis of tax incidence, and development of anticorruption institutions; and in Bulgaria and the Russian Federation for the development of performance-based budgeting. In the majority of cases where sustainability of
outcomes was likely, knowledge services contributed to strengthening institutions or the analytical and policy formulation capacity of recipients. This was observed less often when outcomes were partly sustainable and was virtually not observed when sustainability was unlikely.

2.111 Where the Bank is less able to provide operational value for clients it also tends to achieve poorer results. The 2013 evaluation found that knowledge services that lagged in the achievement of outcomes were weak in conveying international best practice, providing relevant examples, producing new evidence and data useful for policy making, formulating actionable recommendations, and discussing the capacity requirements and administrative feasibility of implementing recommendations. In some cases the lack of customized solutions aligned with client demand hampered relevance.

2.112 The Bank needs to have relevant country knowledge to be able to deliver solutions. Its ability to customize knowledge services to the local context and to provide multisector solutions can be at risk of eroding where country knowledge is too shallow or too narrow. It comes out of the 2013 knowledge evaluation that this risk arises mainly when the Bank works through reimbursable advisory services and does not maintain a local presence. The Bank’s strengths may also be challenged by its increasing tendency to deliver knowledge services through the “consultant firm model,” with insufficient follow-up and emphasis on important issues for the medium-term development agenda. There is also an inherent tension between the Bank as a development agency—focusing on important medium-term development issues—and the Bank providing specific solutions to narrower problems suggested by the main counterpart in the country, such as a unit within the ministry of finance. This possible tension on who is the client needs to be resolved case-by-case, reflecting the Bank’s broader development mandate.

2.113 The monitoring of Bank knowledge services results is weak, both for individual activities and for country programs. This issue was discussed in both the 2008 and 2013 evaluations. In the latter, only 17 percent of the assessed knowledge activities had at least a partial results framework in the country partnership strategy, allowing a tracking of the contribution of the activity to the broader development outcomes sought by the strategy. Similarly, only 23 percent of the knowledge services included, at least partly, result indicators to track the achievement of the activity’s outcomes.

2.114 Strong M&E is required for the Bank’s new “science of delivery.” This relates to evidence-based design, agile implementation, and structured learning. In particular “rapid cycle learning” from project design to implementation will need to be based on a strengthened M&E framework for both projects and country
programs. Significant investments would therefore seem to be required in M&E for the greater effectiveness of knowledge services.

2.115 The Bank’s strategic positioning with respect to other knowledge providers seems generally favorable. In relation to other international financial institutions, universities, think tanks, and global consulting firms interviews under the 2013 evaluation found the Bank generally recognized as a credible and neutral partner and in some cases in a unique niche position with few if any perceived competitors.

2.116 But the Bank could strengthen its learning from upper-middle-income countries and the intermediation of this knowledge to other countries. The 2013 evaluation found ample opportunities for learning from development experiences in the focus countries and that the mechanisms could be strengthened for such learning to be shared inside and outside of the Bank. In this regard it is worth noting that the 2008 evaluation with its broader scope found some evidence that ESW and TA could be less effective in countries with lower government capacity, and also that ESW tasks were less well-resourced in IDA than in IBRD countries.

2.117 The Bank can continue to expand the use of reimbursable advisory services. This would expand the feasible set of Bank services, ensure the sustainability of the Bank’s business model in knowledge-based country programs, and generate new knowledge that the Bank can then intermediate to lower-income countries. Reimbursable advisory services are a small but growing portion of the knowledge portfolio and policy framework for reimbursable services should be the same as the Bank knowledge services. The relevance of such services is strengthened by client demand and financial commitment, but results do not appear significantly different from those of knowledge services funded by the Bank’s own resources. Other fundamental success factors are more closely associated with the achievement of results.

IFC Advisory Services

2.118 IFC Advisory Services (AS) have aimed to provide knowledge, capacity building, and solutions to the private sector and governments in four business lines: Investment Climate, Access to Finance (A2F), Public-Private Partnership (PPP), and Sustainable Business Advisory (SBA). The strategies for AS have consistently emphasized support to IDA-eligible countries and increasingly shifted toward a more integrated delivery of IFC advisory and investment services. As part of the Bank Group’s change process, AS will be aligned with several IFC and Bank departments and global practice groups to seek greater synergies across the World Bank Group.
2.119 As expenditures have continued their growth even as the number of new projects has fallen, indicating an increase in project size and more programmatic approaches. In line with its strategy, IFC increased the focus of advisory activities on IDA-eligible countries (66 percent of expenditures in FY11-13).

![Figure 2.17: IFC Advisory Services Success Rates (FY08-12)](image)

Source: IEG data.

Note: A2F = Access to Finance; IC = Investment Climate; PPPs = Public Private Partnerships; SBA = Sustainable Business Advisory. Results for FY12 include preliminary ratings.

2.120 The performance of IFC Advisory Services has remained just below IFC’s target success rate of 65 percent. IEG’s development effectiveness ratings of 346 projects closed in FY08–12 indicate that 59 percent of AS operations for which ratings could be assigned have had a development effectiveness rating of mostly successful or better. IDA and non-IDA countries experienced the same level of performance (60 percent). The Africa Region, the one with the largest number of evaluated operations (88), had the lowest effectiveness rating at 48 percent, driven mainly by low results for the SBA, whereas the Europe and Central Asia and South Asia Regions performed best. Both the ability to assign ratings in evaluation dimensions and the evidence of positive ratings declined from outputs to outcomes and to impacts.

2.121 Among business lines, Access to Finance (A2F) was the best performing. Sixty-six percent of projects were rated high for development effectiveness over FY08–12 (Figure 2.17). IEG also found that joint A2F Advisory Services and investments targeted toward extending lending to women were particularly successful, while broader small and medium enterprises lending and microfinance initiatives performed below the A2F average.

2.122 Public-Private Partnerships and Sustainable Business Advisory projects had lower development effectiveness ratings. They were rated mostly successful or
better in just over 50 percent of projects. IEG’s analysis suggests that PPP projects are more risk intensive (in terms of individual risk factors identified at appraisal) than those in other business lines. Lack of political will of government clients, along with challenging country conditions (social, political, and legal readiness for the PPP transactions), were the main factors affecting projects that performed poorly. As a result of waning client commitment, strategic relevance weakened during implementation. Nevertheless, IFC’s additionality was visible in both successful and failed PPP projects.

2.123 Investment Climate advisory projects experienced average development effectiveness ratings—61 percent mostly successful or better. After PPP, Investment Climate presents the highest incidence of “too early to judge” ratings at the impact level. Most Investment Climate projects aim to implement legal and regulatory reforms or institutional changes that take time to materialize. Therefore impacts cannot realistically be observed at project completion.
3. Risk Management and Results

<table>
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<th>Highlights</th>
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<tr>
<td>The World Bank, International Finance Corporation (IFC), and Multilateral Investment Guarantee Agency (MIGA) have all invested heavily in parallel and complementary processes for managing strategic, operational, stakeholders, and financial risks. Risk failure appears to be relatively minor and contained, but both entity and project-level risks can be better mitigated.</td>
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<tr>
<td>Independent Evaluation Group (IEG) evaluations have found that pressures to support the delivery of global and regional public goods have necessarily involved joint actions with external parties, which in turn have entailed risks to the cohesion of the Bank Group corporate strategy, to relations with stakeholders, and to the stability of its financial standing.</td>
</tr>
<tr>
<td>At the project level, operational risk involves a balance between compliance with fiduciary requirements and delivery of effective development results. Fiduciary weaknesses uncovered in recent evaluations have been addressed, but risk management tools are in need of renewal.</td>
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<tr>
<td>In its choice of projects there is evidence that the Bank may be less risk averse than often perceived, while declining performance of investment projects suggests that the risk of failure to deliver development results may be increasing.</td>
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<td>Sampled Bank projects in fragile and conflict-affected states (FCS) showed higher-rated risks yet they achieved outcome ratings similar to those in International Bank for Reconstruction and Development (IBRD) countries.</td>
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<tr>
<td>Evidence from Bank Implementation Status and Results Reports shows that risk management during implementation is weak.</td>
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<tr>
<td>The evidence does not support major departures from present risk management practices for the Bank, but the attention must be paid to replacing or improving the Operational Risk Assessment Framework and Procurement Risk Assessment Management System and achieving better project performance.</td>
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<tr>
<td>For IFC investment and advisory projects, development success was found to be significantly associated with the quality of IFC’s quality of work, under all external risk conditions.</td>
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<tr>
<td>Project design was a major determinant of IFC Advisory Services project outcomes as well as effective implementation. A new mandatory risk framework has significantly increased identification of risks that may lead to more effective project risk management.</td>
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<tr>
<td>MIGA’s portfolio is relatively concentrated in higher-risk countries, especially its Small Investment Program. Although IEG’s analysis did not find a relationship between country risk and development outcomes, the largest grouping of projects with high outcomes was in the low-risk quadrant.</td>
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3.1 This chapter focuses on how World Bank Group manages risks. This focus is timely because of the 2014 World Development Report (WDR) (Box 3.1) and the increased recognition of risk management as a critical factor in successful
development. As highlighted in the 2012 Results and Performance report, uncertainties in the world’s economy have been heightened by the multiple crises in food, energy, and financial systems during 2007–2009 and their aftermath that is still being felt (IEG 2013a). The worldwide retraction in capital markets has heightened the perceived risk of lending to emerging markets and developing economies; declining capital flows reflect this (Chelsky et al. 2013). Political instability in some areas and the threats posed by climate change and natural disasters add a further dimension (IEG 2013b).

**Box 3.1. Highlights of the 2014 WDR on Risk and Opportunity: Managing Risk for Development**

The 2014 World Development Report (WDR) focuses on the management of risk for development (World Bank 2014a). Key messages include:

- Effective risk management can be a powerful instrument for development.
- A strong risk management strategy includes these four components: knowledge, protection, insurance, and coping.
- To confront risk successfully, it is essential to shift from unplanned and ad hoc responses when crises occur to proactive, systematic, and integrated risk management.
- Identifying risks is not enough: The trade-offs and obstacles to risk management must also be identified, prioritized, and addressed through private and public action.
- For risks beyond the means of individuals to handle alone, risk management requires shared action and responsibility at different levels of society, from the household to the international community.
- Risk is a shared responsibility between the Bank Group and client countries.
- Governments have a critical role in managing systemic risks.

Five principles of public action for better risk management were developed:

- Do not generate uncertainty or unnecessary risks.
- Establish the right incentives for people and institutions to plan and prepare, while not imposing risks or losses on others.
- Keep a long-run perspective by building institutional mechanisms that transcend political cycles.
- Promote flexibility within a clear and predictable institutional framework.
- Protect the vulnerable while encouraging self-reliance and preserving fiscal stability.

Effective risk management is good business: The costs of prevention are often far smaller than the costs of treatment, and benefits often far outweigh the costs. Demonstrated cases include vaccinations, early warning systems, weather forecasts, and nutritional interventions.


3.2 The ongoing Bank Group change agenda is thus being pursued under conditions of significant uncertainty, and is to involve a shift away from risk avoidance toward “smart” risk management, accepting reasonable increased risk for greater development impact. The Bank Group reform agenda also includes modernizing its products, rebalancing its matrix management system, and
providing remedies for identified control weaknesses. Attention to risk is implicit in all of these efforts.

3.3 This chapter first deals with risk management at the agency and program and project levels for the Bank (including the results of an IEG analysis of the relationships between project risks and results), and then for IFC and MIGA, respectively. The analysis for IFC and MIGA emphasizes project level risk factors influencing development outcomes. Much of the discussion is based on existing IEG evaluations, including on the Bank side of International Development Association (IDA) controls, the government and anticorruption (GAC) initiative, trust funds, crisis responses, and procurement, complemented by analyses undertaken for this report.

3.4 There are two important aspects to Bank Group risks. This chapter deals with risks primarily from the perspective of managing the likelihood of committing mistakes. However, there is another and much broader aspect—the risk of not delivering on development effectiveness and poverty impacts, such as from misplaced priorities and incentives. The whole of this RAP can be seen as addressing aspects of this broader risk, including the discussion later of the observed relationship between risk and outcomes in Bank Group operations.

3.5 Each of the Bank Group agencies has its own system, but with complementarities that support the Group—IDA, IFC, and MIGA—as a whole. Common among them are mechanisms to address the risks facing the entity as a whole as well as at the levels of the client country and individual lending, investment, and guarantee operations. Development impact is the end objective of all three agencies, but with significant differences given their different types of operations—the Bank as a sovereign lender and IFC as a profit center lending and investing to the private sector; for MIGA the focus is on the country risk context. In each case, entity-level risk involves a focus on aspects of the Bank Group’s financial standing; impediments to the effectiveness of its development impact; and the sustainability of the Bank Group’s operations as a global and knowledge- and solutions-based leader in development.

**World Bank Agency-Level Risks**

**Lessons from IEG Evaluations**

3.6 In the present climate of continuing global uncertainty, the Bank Group faces competitive and other pressures that can place at risk its corporate strategy, stakeholder relations, and financial standing. However, given its robust risk
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management structures, the Group does not appear to be beset by levels of risk that might seriously jeopardize its mission. But risk pressures exist that must be managed to protect project development outcomes, and ongoing attention must be paid to proposed mitigations and remedies as the Bank Group pursues its change agenda.

Corporate, Strategic, and Stakeholder Risks

3.7 IBRD and IDA face ongoing risks related to stakeholder support, a changing competitive position, and possible financial constraints. Two complicating aspects of maintaining stakeholder support that have been subject to recent evaluations are: (i) the need to deliver global and regional public goods, finance and services through Global and Regional Partnership Programs (GRPPs); and (ii) the need to respond to the impacts of climate variability and change. A third aspect that is both relevant and recently studied by IEG concerns an internal factor—the matrix management system—affected the Bank’s ability to respond to these pressures. Managing the risks generated by these factors is essential to the fulfillment of the Bank Group goal of retaining its leadership position as a knowledge and solutions institution and an effective champion for poverty reduction around the world.

Global and Regional Partnership Programs

3.8 The effectiveness of the Bank Group’s global programs is discussed in chapter 4. Their rapid growth has been fuelled by the demand for action to address the delivery of global, regional, and country public goods. These partnership programs have permitted the Bank Group to offer new products that benefit a wide range of stakeholders. At the same time, IEG studies found that GRPPs can strain the Bank-client relationships by creating a stakeholder triad—donors, Bank, and client—whose agendas may not always be closely aligned (IEG 2009, 2011a). This situation can jeopardize the cohesiveness of Bank strategies and add to tensions within the Bank’s matrix management system. In its synthesis report of 17 major GRPPs, IEG found significant vulnerabilities in three areas: performance, governance, and Bank management and oversight. The Bank has developed strategies that commit both Network and Regional vice presidential units to strengthening oversight and linkages to country strategies and result frameworks, but these commitments have not always been fulfilled (IEG 2011a).

3.9 IEG found that shared governance within the vast diversity represented by the GRPPs has strained the Bank’s country-based business model. This has raised concerns that the Bank’s accountability would be diluted, and has also presented potential conflicts of interest because of the multiple roles played by the Bank in both
governing and overseeing programs. Reflecting IEG’s concerns, the Bank has presented a new management framework for partnership programs.

3.10 IEG also found that stronger oversight and risk management was needed to ensure strategic alignment with the Bank’s development goals, but systems to track performance have been lacking. A stronger risk framework would involve an updated GRPP database; guidelines for Bank staff working on GRPPs and serving on their boards; adequate budgetary resources for effective oversight; regular reporting on involvement in GRPPs; more specifics on sustainability for the longer term to guard against closure once Bank participation ends; and a policy framework and training for staff engaged in managing these programs. As reported in chapter 4, there has been some recent progress on some of these issues.

**Matrix Management**

3.11 The Bank’s matrix management is still in place although changes are underway under the new Bank strategy. The matrix was designed with two goals in mind: to enhance client country responsiveness and to secure the delivery of world class technical services to its clients. In its 2012 evaluation of the Bank’s organizational effectiveness, IEG found improvements in attaining country responsiveness; 96 Country Assistance Strategy Completion Reports in 80 countries recorded successful country programs in two-thirds of all cases examined since introducing the matrix. But imbalances and a range of malfunctions in the matrix were putting at significant risk the Bank’s objective of becoming an effective knowledge and solutions bank (IEG 2012a). In a still dominant regional- and country-based structure, lending imperatives appeared to trump quality factors and knowledge delivery. Quality assurance had been de-emphasized since the Quality Assurance Group was dissolved and not replaced with an equivalent; although recently, as discussed in chapter 4, management has initiated a significant quality program motivated by the decline in outcome ratings for investment projects. Both quality at entry and quality of supervision have declined since the matrix was introduced.

3.12 Several key issues were identified (IEG 2012a) that are relevant for the Bank’s ongoing reform process. Resource imbalances had driven network staff to increasingly seek trust fund support for their activities, with some ensuing inefficiencies and added risks. The intended links between global knowledge and local applications in the form of solutions for client countries had been hampered by silo mentalities (sectors, regional, and networks). Interaction between regions and networks had declined dramatically, and the expected cross-fertilization of knowledge into the Bank’s projects had often been missing. Decentralization had
empowered country management units in the field, but these had not always interacted well with network staff in the center.

3.13 **There were also mismatches between country assistance strategies (CASs) and sector strategies.** The latter have longer time frames for completion and no specific operational content. Major Bank knowledge instruments—economic and sector work products—have been more successful in their completion than in their dissemination and contribution to dialogue. The control span of some sector managers was too large to ensure the delivery of quality services; for example, the Sustainable Development Network and the Human Development Network had 47 and 40 staff per sector manager, respectively. With the combination of silo complexes and global decentralization, IEG found the Bank in danger of becoming more akin to a set of six regional development banks with serious possible consequences for the knowledge sharing required by a knowledge bank.

3.14 **IEG made strong recommendations for substantial changes to the matrix system.** They included rebalancing the country-sector relationship to improve the institutional incentive structure for knowledge sharing under guidance of the newly created Knowledge and Learning Council; creating better staff incentives for knowledge sharing and quality of results; redefining the scope and purpose of social safety nets on a shorter five-year cycle; strengthening the emphasis on quality management; and improving interactions and knowledge flows as well as quality control at a Bank-wide level, within the regional matrix, and within the Sustainable Development Network, seen as overly encumbered (IEG 2012a). These issues remain relevant as the Bank Group is reorganizing its structure into Global Practices.

**Climate Change**

3.15 **The Bank has long been at the forefront of addressing climate-related risks.** It has supported efforts to combat and adapt to climate change, such as in its pioneering management of carbon funds; and it has mobilized funds for a Pilot Program on Climate Resilience. The Bank’s adoption of a Strategic Framework for Development and Climate Change (SFDCC) in FY09-11 mainstreamed a focus on adapting to climate variability and climate change as part of its business strategy at both the country level and in projects. This is a particularly vexing area of corporate risk management for the Bank because both climate variability and change outcomes can become catastrophic, yet the probabilities of occurrence are either essentially unknowable or problematic to discern. IEG found that anticipatory adaptation (i.e., a climate industry term meaning pay now to avoid damages later) is inherently unappealing both to individuals and countries faced with urgent expenditure needs (IEG 2013b). Given the relatively early stage of the Bank’s addressing these issues,
and despite its deployment of sophisticated analytical tools and new financial instruments, the segment of its strategic risk management portfolio dealing with anticipatory adaptation remains a work in progress.

3.16 The IEG evaluation showed that benefits from climate-related risk management through the adoption of the SFDCC have accrued at both country and project levels. However, unmitigated risks remained in three areas: taxonomies and screening, results frameworks and rain index insurance, and new financial instruments.

3.17 Taxonomies and Screening. An analytical framework and taxonomy of concepts and terms for adaptation to climate variability and adaptation to climate change have been created, and there is some progress in their application. Of 56 CASs completed in during FY09-11, 21 had a significant focus on adaptation and another 12 had a modest focus. The International Finance Corporation (IFC) has been piloting climate risk and adaptation initiatives since 2007. Its 2012 revised performance standards include specific requirements for identification and screening of climate risks and adaptation opportunities in IFC-funded projects; however, IEG finds that climate risk screening in both agencies remains ad hoc. The Bank has developed and plans to deploy project-level screening tools for selected climate-sensitive sectors.

3.18 Results Frameworks and Rain Index Insurance. The Bank has addressed climate risk with specific tools at the project level but has not yet developed an adequate results framework to track adaptation and resilience. In rain-fed agriculture, the Bank has successfully supported watershed management, with some cases of maladaptation. The Bank has also recently initiated greenhouse gas accounting for selected projects, and plans to roll out such accounting in a phased manner. There have been cases of successful expansion of irrigation systems and improved water management,¹ and the Bank has supported drought mitigation through rain index insurance. But so far, rain index insurance has not become a major risk management tool.

3.19 New Financial Instruments. In the area of disaster management for IBRD countries, the Bank pioneered the Catastrophe Deferred Drawdown Option, which has been well received by IBRD borrowers. In addition, the Bank has developed other financial risk management products, including the Caribbean Catastrophic Risk Insurance Facility; however, they can only provide coverage for a small fraction of the total damages from floods and storms. The Bank has shifted its focus from disaster relief to disaster risk reduction, leaving a major gap in addressing climate risk. Much unfinished business remains in this part of the Bank’s portfolio.
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3.20 Despite these intractable aspects of the risks to climate adaptation, IEG identified specific actions that can be taken to anticipate and mitigate these risks. They were reflected in five recommendations: to develop reference guidelines for incorporating climate risk management into project and program design, appraisal, and implementation; to improve results frameworks for national adaptation measures in selected relevant areas by creating indicators of adaptation capacity, measures of household vulnerability, and measures of water use sustainability and recurrent urban flooding; to adopt pilot approaches to better assess the costs, benefits, sustainability, and impact of activities with presumed resilience benefits; to support countries in developing hydrometeorological services and in sharing their information; and to promote attention to anticipatory adaptation by fostering a focus on coastal zone management in order to encourage resilience-serving spatial planning.

Financial Risks

3.21 Two new sources of financial risk have emerged from the global crises and the Bank’s responses to the need for global and regional public goods: Pressures have grown on its capital adequacy and headroom; and the stability of its funding sources is threatened now that external sources are the dominant source of disbursements by the Bank. The replenishment of IDA and trust funds is not controlled by the Bank.

Response to the Global Crisis

3.22 The headroom declined. In its evaluations of the Bank’s response to the global economic crisis, IEG found that the sharply increased magnitude of lending, the decline in global interest rates, and the use of traditional instruments and their low yield rates had left the Bank with limited headroom to accommodate new crises in middle-income countries (IEG 2011b, 2012b). Currently, the Bank operates at a comfortable level for its callable capital (around 10 percent), and headroom risk has been mitigated by the secular decline in IBRD lending over the past three years. IBRD commitments, which were almost $44 billion in 2010 or 71 percent of Bank, IDA, and trust funds commitments and disbursements, declined in 2013 to less than $15 billion or 53 percent.

Use of Trust Funds

3.23 Meanwhile, the Bank has come to rely increasingly on external funding to complement its own resources. As a result the cohesiveness of its strategy, its independence and reputation, and its effectiveness, efficiency, and accountability in using these funds are at risk of eroding. These developments also have brought into question both the additionality and predictability of these external sources of
funding. In its evaluation of trust funds, IEG suggested that priority should be placed on reducing the fragmentation of trust funds and that mobilization efforts should be focused around funds that complement—rather than act as a substitute for—Bank operations (IEG 2011c).

3.24 IEG also recognized that management had instituted a program to integrate trust fund controls more fully into the Bank’s internal controls. Total trust fund contributions exceeded IDA contributions in each of the last three replenishment periods. However, the bulk of this increase was channeled through Financial Intermediary Funds (FIFs) over whose operational content the Bank has no supervision or oversight authority. Funding for FIFs is often financed from the multilateral aid budgets of donor countries, so these funds may thus compete with IDA. As discussed in chapter 4, management has responded to the IEG trust fund recommendation for a three-pillar trust fund structure (IEG 2011a).

PROJECT-LEVEL RISKS AND RESULTS

3.25 Recent IEG evaluations have also examined the Bank’s control of risks at the project level. IEG analyzed operations risks from the perspectives of (a) what is the evidence of how internal controls have balanced fiduciary risks against development effectiveness; and (b) what does the evidence suggest regarding the links between at-entry risks and project results and outcomes.

Internal Controls Reviews

3.26 Fiduciary weaknesses, including in controlling for fraud and corruption risk in operations financed by IDA, were uncovered in two major evaluations. IEG carried out an evaluation of IDA Controls (2005–2009) and an overlapping evaluation of the implementation of the 2007 Strategy and Implementation Plan on GAC (IEG 2011d). The review of IDA controls was the most far-reaching examination in the Bank’s history of the quality and compliance of its internal controls, involving a management self-assessment and a review and opinion by the Internal Audit Vice-Presidency, both feeding into IEG’s independent evaluation and reporting to the Board of Directors. IEG’s major finding was that the Bank’s internal controls operated generally to a high standard, but there were some significant fiduciary weaknesses. The lack of explicit controls to address fraud and corruption in Bank-financed projects constituted a material weakness. In addition, there were six significant deficiencies, including in the Bank’s fiduciary controls, specifically in some of its procurement practices, and somewhat in its weak enforcement of financial management. The GAC evaluation found a clear conflict between the Bank’s lending
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imperative and its ability to implement the GAC strategy by withholding lending if fraud and corruption risks were not being adequately addressed.

3.27 Management responded to the IDA controls findings with a Five-Point Action Program (FPAP). This introduced among other remedies the Operational Risk Assessment Framework (ORAF) and the Procurement Risk Assessment Management System (P-RAMS), these were seen as potentially major improvements in the Bank’s ability to address fiduciary risks including of fraud and corruption in its projects. Moreover, fiduciary diagnostic studies showed the limitations of addressing fraud and corruption risk in countries without a strong commitment among the political elites despite judiciaries having the will and capacity to back this effort (IEG 2008). IEG was subsequently asked to review the FPAP and wrote a follow-up report, acknowledging the progress that had been made in improving the Bank’s controls, downgrading the material weakness to a significant deficiency, and removing two of the remaining six significant deficiencies.

3.28 The FPAP was seen as a major advance. IEG had stressed the cultural dimension of addressing fraud and corruption risk by deploying ORAF and P-RAMS, and argued that the effectiveness of these instruments would take time to become fully operational. However, Bank management has now found the newly introduced instruments to be inadequate in both design and operation. This leads to significant questions about the extent to which the remedies introduced after the IDA controls review and other related studies are still valid and whether the Bank’s procurement and safeguard risks are being adequately mitigated.

Procurement Policies and Risks

3.29 Procurement is a key aspect of fiduciary risks. For the first time in its history, management has conducted a major review of its procurement policies and procedures. IEG conducted a parallel review to assess whether the Bank’s procurement practices best achieve development effectiveness (IEG 2014b). The IEG study also evaluated the Bank’s methods and instruments for managing procurement risk and considered whether the right balance had been found between risk and efficiency in procurement systems. Client country capacity was found to be the overwhelmingly critical factor in determining procurement efficiency and effectiveness. Where capacity is weak, poor procurement performance becomes more likely. The Bank has placed considerable emphasis on improving country procurement capacity, using a variety of instruments including diagnostic studies such as country procurement assessment reviews, project-related technical assistance, grant-funded technical assistance, and a few dedicated free-standing Bank loans.
There has been progress in recent years; however, IEG found that a strategic approach to building country capacity with systematic goals has often been lacking.

3.30 **IEG concluded that the present procurement guidelines for goods and works are reasonably successful in securing fairness, competition, and transparency in contracts under Bank procurement (IEG 2014b).** It saw scope for a graduated shift toward greater use of country procurement systems as long as the Bank maintained its presence. On procurement risk management, IEG found a wide array of instruments available to project staff in tailoring risk assessment and mitigation, noting the relatively high quality of procurement risk treatment in projects as well as the progress made in addressing fraud and corruption risk even before the introduction of P-RAMS.

3.31 **IEG also extensively reviewed the design factors and applications of P-RAMS so far, including how it has been operationally linked to the ORAF. P-RAMS was found to be cumbersome in design and rigid and repetitious in application, adding little to the quality of either procurement risk assessment or mitigation. Its links to ORAF, where evident, were found to be much less effective than originally intended. In the opinion of many practitioners surveyed as part of the IEG study, P-RAMS exercised risk management through “checking boxes,” which is not what was intended. A new operational risk rating template is under preparation. The availability of risk tools that encourage staff to exert judgment about risks and their priorities remains the challenge.**

3.32 **Evidence from the procurement evaluation corroborates management’s own findings that—contrary to their original promise—neither ORAF nor P-RAMS have added much value to the pre-existing procurement risk tools.** The two systems should therefore be improved or replaced by other risk management tools, while the evaluation also suggested that the Bank could be less risk averse in procurement methods and processing. Measures of procurement risk and risk failures suggest that procurement risks have been reasonably well contained. Such measures include misprocurement, procurement complaints, and “red flag” referrals to the Integrity Vice Presidency, all of which fall within the range of less than 2 percent of total contracts. IEG therefore saw scope for reducing the share of prior-reviewed contracts, focusing prior reviews on the highest risk contracts, and making better strategic use of findings from Post Procurement Reviews and Independent Procurement Reviews (IEG 2014b).
Safeguards

3.33 The Bank Group’s safeguards and sustainability policies have helped to avoid or mitigate large-scale social and environmental risks. IEG’s safeguards evaluation (IEG 2010b) found that the Bank’s safeguards and sustainability policies, first adopted in the 1980s and extended with the creation of the Inspection Panel in 1992, have helped to avoid or mitigate large-scale social and environmental risks. But it also found that improvements were needed in certain areas: Risk categorizations that were inconsistent across the World Bank Group; supervision and monitoring of safeguards measures that were not thorough; an emphasis placed more on compliance with policy strictures than on project outcomes; and the need for grievance mechanisms in parallel with the Bank’s Inspection Panel and the Compliance Advisory Ombudsman in IFC and MIGA, but with a more rapid response cycle. In addition, in compliance-driven approaches, client ownership was often wanting. This suggested the need for greater use of country systems and framework monitoring to accommodate the growth in noninvestment lending products where civil witness oversight can take place.

Risk and Results in Projects and Programs

3.34 In an exercise carried out for the RAP 2013, IEG examined the relationship between at-entry-level project risks and final project outcomes. To this end, it assembled data from the project appraisal documents (PADs) of a random sample of 200 investment lending (IL) projects and 30 development policy lending (DPL) operations. Two questions were at the center of exercise. First, is there evidence to suggest that the Bank has been overly risk averse in its choice of projects? Second, what can be said empirically regarding the correlations between projects’ at-entry risk ratings and their final results?

Evidence on Risk Aversion

3.35 The analysis found that in the aggregate, that is, when IBRD and IDA projects are considered together, the Bank may be less risk averse than often perceived in choosing projects to fund—at least for small projects. Figure 3.1 shows that based on the 200 projects, 46 percent of the sample were rated as having substantial or high risk, and 54 percent were rated moderate or low risk. Measured by commitments, the share of higher-risk projects fell to around 29 percent, suggesting that larger projects selected for Bank funding (such as in infrastructure) may tend to have less at-entry risks.
3.36 Chapter 2 showed similar differences in ratings — albeit for project development outcomes — when project counts were measured in numbers of projects versus volumes of commitments. There, the main driver was IBRD versus IDA, as IBRD operations tended to have both higher satisfactory rates and larger commitment volumes. Here the IBRD versus IDA distinction is similarly a key driver — with the difference being simply that IBRD projects both tend to be larger and have lower at-entry risks for all the same reasons discussed in chapter 2 with respect to IBRD countries’ higher program outcome scores.

**Figure 3.1. The Distribution of Risk and Outcome Ratings in the Sample of 200 Investment Lending Projects**

![Graph showing distribution of risk and outcome ratings]

**At-Entry Risk as It Relates to Project Outcomes**

3.37 The analysis also examined several questions about project outcomes. How do project outcomes relate to the perceived riskiness of projects? Do higher-risk projects tend to have better performance outcomes, or is there greater variability in their outcomes? Are there differences between IL and DPL in these risk-result outcomes? Are the relationships the same for different sectors and groups of countries? Do changes in risk ratings during supervision add to the explanation of the risk-result relationship as measured by the at-entry PAD risk ratings? Details of the method and results of this analysis are summarized in appendix F.

3.38 The data sets for both risks and outcomes are heavily clustered around central ratings, with few projects at the extremes of either risk or results (Figure 3.1). Most projects in the sample were rated moderate or substantial risk, with only a small fraction rated high or low risk. On the outcomes side, the bulk of the sample was found to be moderately unsatisfactory, moderately satisfactory, or satisfactory,
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with only a few projects rated highly unsatisfactory or highly satisfactory. To this extent the correlations were dominated by the mid-ranges, and a fitted regression line showed a very gentle slope, which was negative (higher risks associated with lower returns) but not statistically significant.

Quadrant Analysis

3.39 The sample indicates that lower-risk projects may tend to be associated with better outcomes. This result is more graphically evident from the quadrant display of the same data, summarized in Figure 3.2. The greatest number of highest performing projects (75 out of 200, or 38 percent) are in the lower-risk quadrant A, while the highest risk quadrants B and D have fewer high performers (27 percent) and greater numbers of lower performing projects (19 percent, compared to 17 percent in quadrant C). The hypothesis that riskier projects would have greater variability of outcomes is also not supported. Low-risk-rated projects had the highest standard deviation in outcome ratings, although the evidence is not strong. This quadrant analysis was repeated using total project commitment values rather than numbers of projects, showing that a larger percentage—about 47 percent of total project value—was found within Quadrant A (lower risk, higher return). Notwithstanding the lack of statistical significance, this analysis suggests overall a relative absence of risk-return trade-offs in Bank investment projects.

![Figure 3.2: Quadrant Analysis of Risks and Outcomes in the Projects Sample](image)

Note: IEG estimates are based on Business Warehouse data for risks and Implementation Completion and Results Reports for outcomes.

Development Policy Lending

3.40 A similar analysis was conducted for DPL lending, with broadly similar results. Since DPL program documents do not provide risk ratings, it was not possible to correlate at-entry risk ratings with outcomes, but correlations were made using risk to development outcomes, which are risks to sustainability assigned by project staff at completion. No significant insights from this analysis suggested that DPL experience
was much different from IL projects although possibly it may be slightly more risky overall. However, compared to investment lending, the types of risks described in the program documents for DPLs were largely more institutional, political, and fiscal.

Risk and Results by Country Groupings

3.41 Country groupings may have quite different project risk profiles. The above risk-results linkages were examined for the four key country groupings found in Bank lending: IBRD, blend, IDA, and IDA fragile and conflict-affected states (FCS). These four groups show in the sample quite differentiated overall risk ratings (see Figure 3.3). Projects from IBRD and blend countries have generally lower-risk ratings (only 34 percent and 45 percent of projects in IBRD and blend countries respectively were rated substantial or high risk) while those from IDA countries had significantly higher risks (48 percent substantial or high risk), with the highest being the projects in IDA FCS (69 percent).

![Figure 3.3. Risk-Results Outcomes by Country Groupings](image)

Note: IEG calculations based on Business Warehouse data for risks and Implementation Completion and Results Reports for outcomes.

3.42 In IDA FCS higher-risk projects may have higher development outcomes. In terms of outcomes, always bearing in mind the lack of statistical significance of the analysis, these findings demonstrate interesting correlation. They indicate that for IBRD and blend countries lower-risk-rated projects tend to have better outcomes, since the projects in these countries have been rated 69 percent moderately satisfactory or better (MS+). This is just short of the Bank target of 70 percent MS+ for these countries. For IDA countries, and most particularly in FCS, projects risk are higher on average but tend to have better outcomes; the outcome ratings in projects in the FCS sample were
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the same (69 percent MS+) as those for IBRD and slightly better than those for blend countries, even though the FCS risk ratings were much higher.

3.43 There may be lessons to be drawn from these results regarding budget allocations, intensity of supervision, and Bank processing procedures. Overall, the analysis indicates a country grouping dimension to the relationship between risks and possible outcomes that would be a pertinent factor for any new risk policies at the project level. Lessons from this dimension might be applied to FCS, and also in other countries where the Bank might wish to pursue a new smart risk strategy.

Sector Groupings

3.44 The analysis also indicated some risk-return differences between different sector groupings. The sample of projects was grouped into four thematic areas: expanding economic opportunity, building infrastructure and growth, enhancing human development, and sustaining environmental and social aspects. The largest area in the sample, enhancing human development (73 projects out of 200), had the highest risk rating (56 percent substantial and high) but with outcome ratings (62 percent MS+) below the mean of 65 percent. For the projects in expanding economic opportunity, risks were lower (40 percent substantial and high) but outcomes were lower still below the mean (59 percent MS+). For building infrastructure, the risks were lower (44 percent substantial and high) while the outcomes were the second highest at 71 percent MS+. Sustainable development had the lowest risk (29 percent substantial and high) and the highest outcome ratings (79 percent MS+), but with only 14 projects out of 200, this sample is likely under-representative.

Risk Management during Implementation

3.45 This analysis found evidence which suggests that dynamic risk management (i.e., managing risk reasonably in real time during implementation) is often lacking. The evidentiary basis for this analysis was the extent to which risk ratings were found in the Implementation Status and Results Reports (ISRs), and the frequency with which these ratings were changed during the life of the projects. IEG found a surprising lack of use of the ISR as a risk monitor and even less as a source of any degree of dynamic risk management. In the sample of 200 projects, 51 (26 percent) had no risk ratings recorded in the ISRs; of the 149 projects which did contain ratings 123 (83 percent) showed no changes in the ratings throughout the project life. The outcomes ratings for the group that had changes, compared to the much larger group in which no changes were made, were almost identical, suggesting that dynamic risk management either did not occur or did not have any significant impact. This underlines the evidence
gathered from other sources that has called into question the efficacy of the ISR as a risk management tool under current practices.

**Risk and Development Outcomes in IFC and MIGA**

3.46 **IFC’s and MIGA’s approaches to risk management derive from their development mandates and the need to manage financial risk.** IFC and MIGA have underpinned their risk management strategies with capital adequacy frameworks (since FY07) based on an economic capital framework. More recently, IFC and MIGA have further aligned their overall risk frameworks with the Bank Group wide Integrated Risk Management Framework.

3.47 **IFC’s project level monitoring and evaluation (M&E) systems are a tool to track and address strategic risk.** IFC’s risk management framework focuses on four areas: strategic, operational, financial, and stakeholder risks. The key approach for managing strategic risk consists of an ex-ante assessment of the strategic fit of each project with the guiding principles for IFC’s operations (catalytic role, business partnership, and additionality), environmental and social policies, and IFC client integrity reviews. A sound and credible M&E system can provide updated information about the extent to which IFC meets its development objectives and thus manages its strategic risk effectively.

3.48 **MIGA’s dual mandate as a development institution and a financially self-sustaining guarantee agency is at the core of its approach to risk management.** The main risks faced by MIGA are insurance risks (risks arising from its portfolio of insured projects), credit risk (especially related to reinsurance counterparty credit risk), as well as other types such as interest rate and exchange rate risks, operational (including internal controls) and legal risks. Building on processes for assessments of country and project risk, MIGA’s key management risk system is its economic capital framework, which is used for determining capital adequacy, pricing, provisioning, and portfolio management.

3.49 **Risk-taking is fundamental to IFC’s and MIGA’s mandates as they depend on private enterprises as the conduits for their development results.** IFC and MIGA supported private sector projects and their development outcomes involve types of risks (e.g., commercial) that differ from those faced by Bank projects implemented by client governments. Figure 3.4 below illustrates the relative differences in country risk for IFC investments compared with MIGA guarantees and IFC Advisory Services (AS) based on Institutional Investor Country Credit Rating (IICCR) scores for new project approvals (note that lower scores correspond to higher risk). Not surprisingly, MIGA
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has operated in a higher-risk environment compared with IFC investments. IFC’s AS have been deployed in more risky environments than its investments; particularly its investment climate advisory projects, which have been undertaken in higher-risk countries.

Figure 3.4. Average Country Risk of Approved Portfolio (three-year rolling average)

Source: IEG data.
Note: Based on Institutional Investor Country Credit Rating (ICCR) scores, which range from 0 to 100. Higher scores represent lower risk.

Risks and Development Outcomes in IFC’s Investment Portfolio

3.50 To explore the extent to which IFC’s risk monitoring system could be used to obtain better development results, the following section examines several dimensions of the relationship between risks and outcomes for IFC investments. The following section explores several determinants of development outcomes for IFC investments, including risk identification, mitigation, and portfolio management. The assessment used IFC’s Credit Risk Rating (CRR) system data, originally designed to assess the credit risks associated with each client company, together with work quality and outcome ratings from the entire set of IFC project evaluations (Expanded Project Supervision Reports [XPSRs]) on projects approved between 1998 and 2008, and evaluated from 2003 to 2012. The objective was to identify the key external and internal risk factors associated with the projects’ development success and estimate the relative impact of each these factors, using a simple statistical regression model.

3.51 Based on IEG’s regression analysis three of the external risk factors drawn from the CRR are identified as closely associated with development results (in
addition to the country risk discussed earlier): management quality, profit margin (for real sector projects), and quality of corporate governance (for banks). Basically, for projects where these risk factors had been rated low by IFC staff at appraisal, there was a good chance that the development outcome of the project would be mostly satisfactory or better. Conversely, projects for which these factors had been scored as high, risk tended to have lower development outcomes.

3.52 Figure 3.5 shows the association between the number of risk factors per project and development outcome ratings. Projects with two external risk factors scored as high had a success rate of 25 percent, whereas projects without any external risk factors scored as high achieved a success rate of 80 percent. These findings broadly echo the risk-results analysis described above for the Bank, where less risky projects were more frequently found to have better outcomes, though the statistical significance was less in the case of the Bank.

3.53 IEG’s analysis also confirmed the expectation that internal, IFC-controllable work quality factors can act as mitigants of external risks and improve development results. The three work quality factors—drawn from IEG’s XPSR ratings—considered in the analysis are: quality of screening, appraisal, and structuring; quality of supervision and administration; and IFC role and contribution (additionality). Here again, better ratings for each of these work quality factors were associated with better development results.

3.54 Figure 3.6 shows how IFC’s work quality factors are associated with portfolio-level development outcome success rates. It suggests that better work quality helps projects achieve better development results, and that the quality of appraisal (screening, appraisal, and structuring) has a somewhat greater impact than the quality of supervision and of IFC’s role and contribution. Thus, for example, 85 percent of
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projects with a high (i.e., satisfactory or excellent) quality of appraisal had a mostly successful or better development outcome, while 74 percent of projects with a high quality of supervision achieved mostly successful or better outcomes.

Figure 3.6. IFC Work Quality Influencing Development Outcomes

![Graph showing IFC Work Quality Dimensions]

Source: IEG data.

3.55 The regressions also found that the association between external risk factors, IFC’s work quality, and development outcome ratings is statistically significant. On this basis, the estimated regression model can be used to provide insights regarding the relative sensitivity of project outcomes to alternative assumptions about specific risk factors, both internal and external. Thus, for example, the results suggest that the development outcomes of all projects are highly sensitive to the client company’s management quality; the outcomes of real sector projects are sensitive to profit margin; and the outcomes of financial institution projects are sensitive to the quality of corporate governance. Financial institutions are also more sensitive to country risk, reflecting the systemic risks associated with the banking industry. Of the internal factors, the development outcomes of real sector projects are highly sensitive to the quality of IFC’s screening and appraisal, while the outcomes of financial institution projects are more sensitive to the quality of IFC’s role and contribution (additionality). These findings point to areas which deserve greater attention as IFC strives to improve its development results.

RISK AND RESULTS IN IFC ADVISORY SERVICES

3.56 Encountering risks over which IFC does not have full control is an expected part of AS. Negative perceptions of affected communities or other parties; market, economic, and political factors; and environmental hazards are all risk factors that
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IFC cannot fully control when implementing AS projects. However, data from past projects shows that IFC’s proactive risk management can effectively mitigate the degree to which external risks affect project success. Of projects tagged by IEG as having been strong in identifying risks, only about one-third had risks that could not be mitigated.

3.57 To better understand the relationship between risks and results IEG analyzed the risks and results for a sample of 289 AS projects completed from FY2008–2011 rated for development effectiveness. Additionally, IEG has systematically assessed the work quality of AS, which is intended to reflect the strengths and weaknesses of IFC’s work at two stages: (i) project preparation and design, and (ii) project implementation. This RAP uses IEG’s work quality assessments to analyze the impact of IFC’s internal risk factors on project outcomes. Detailed information on the process and rating criteria for work quality assessments is presented in Appendix F (Annex 2).

3.58 IEG’s design work quality rating is based on the assessment of several design areas such as appropriate mix of project activities, identification of committed counterparts, needs assessment, and tailoring of projects to local conditions. Similarly, the rating for project implementation work quality was based on analysis of factors such as engagement with clients and stakeholders, work of consultants, and project management methods.

3.59 Comparing AS project’s work quality and development effectiveness ratings, an association emerges between high work quality in project design and high development effectiveness. As shown in Figure 3.7, below, only 60 percent (173 of 289) of the projects completed in FY08–11 (with a development effectiveness rating) scored ‘high’ on project design (i.e., ratings of “excellent” or “satisfactory”). However, considering those projects that scored ‘high’ on project design, 84 percent (145 of 173) went on to achieve positive development effectiveness ratings. Meanwhile, projects scoring ‘low’ on project design (i.e., rated “partly unsatisfactory” or “unsatisfactory”) achieved success only 21 percent of the time (24 of 116 projects).
Figure 3.7. IFC Work Quality Influencing Development Effectiveness

3.60 A similar impact was found with respect to the quality of project implementation. Figure 3.7 shows that of the 71 percent achieved high development effectiveness ratings. Thus, up to a certain degree, project teams are able to make corrections or change course during implementation.

3.61 IFC’s mandatory risk framework for AS was enhanced in FY12. This has had an impact, including: (i) the use of consistent structure and terminology; (ii) the provision of a list of possible risks to consider, rather than forcing AS project teams to identify risks on their own (in their own words); (iii) the assignment of impact and likelihood rating for each risk identified; and (iv) the enhancement of risk identification, simply through its existence in the AS portal. Within the first two years of introducing the mandatory risk matrix, the median number of risks identified increased from two to six per project. Data from FY12 and FY13 AS approvals also indicate the emergence of distinct risk profiles for each business line.

3.62 But the use of a structured risk framework carries its own risks. Simply increasing the quantity and consistency of identified risks does not necessarily translate into higher quality risk identification, nor does it necessarily translate into improved risk mitigation. While the risk framework provides the basis for such improvements, it will only be an effective risk mitigation tool if it is actively used and updated throughout the project lifecycle. IFC itself identifies projects’ failure to follow up on risks as a common shortcoming, a finding which again echoes the findings in the Bank’s analysis of weak risk management during supervision. The framework in its current state is not designed or equipped to promote, reward, or assign responsibility (apart from workflow approval) for risk taking. And whereas
IFC management has indicated a desire for taking greater risks, the framework does not provide any incentive (and perhaps instead provides a disincentive) for IFC staff to seek out or engage in higher-risk projects.

**Risk and Results in MIGA’s Guarantees Portfolio**

3.63 How do MIGA’s project outcomes relate to the perceived riskiness of projects? Do higher-risk projects tend to have better performance outcomes, or is there a greater variability in their outcomes? There are several challenges in addressing these questions. First, project risk measurement in MIGA focuses on country risk and general project viability rather than a project-level risk system. Although MIGA assesses projects’ viability at appraisal stage, MIGA’s focus is on the political risks it insures, underpinned by a thorough country risk assessment and assessment of projects risks and risk mitigants for each proposed guarantee. By contrast, IFC as a financier considers various aspects of commercial risks in its decision making as well as performance measurement.

3.64 Because of the political risk product offered by MIGA, its portfolio is relatively concentrated in higher-risk countries, especially its Small Investment Program (SIP). As shown in Figure 3.8, on average, SIP projects tend be in higherrisk countries, as reflected in their IICCR ratings of less than 30 (note that a higher IICCR score indicates lower country risk). This is consistent with the intended purpose of the program: SIP projects are expected to be located in countries that have not attracted substantial foreign direct investment or where political risk insurance (PRI) providers have little presence. MIGA’s regular guarantees, on average, tend to be located in medium-risk countries although more recently the trend has been towards higher risk environments.

![Figure 3.8. Risk and Results of MIGA Projects](source:image)

Source: IEG data.
3.65 Based on IEG's evaluation results, there is no significant association between country risk levels or changes in country risk levels during the project life cycle and MIGA development results. In high-risk countries (as measured by IICCR at the time of issuance of the guarantee), the development outcome success rate was 70 percent, while in low- or medium-risk countries, the rate was 66 percent. Similarly, projects experiencing an improvement in country risk categories between the time of approval and evaluation had a 79 percent success rate compared with a rate of 65 percent for projects that remained in the same country risk category during their implementation. However, because of the small number of observations (58 projects with development outcome ratings), the difference in results is not statistically significant, and other variables may play a more dominant role (such as the differential results by sector as shown in Figure 2.15 in chapter 2).

3.66 The introduction of MIGA's non-honoring of (sovereign) financial obligations (NHFO) coverage in FY10 has implications for the risk profile of MIGA's portfolio and the type of risk assessment and monitoring required. MIGA recognizes that the NHFO coverage has a higher-risk profile than its traditional PRI coverage, which is limited to a list of defined risks, such as currency convertibility. By contrast, NHFO covers against default on payments by the ultimate sovereign, sub-sovereign, or state-owned enterprise (SOE) obligor for any reason, without an arbitral process. Finally, risk profiles in projects may vary, requiring more rigorous credit assessment, credit monitoring and dynamic portfolio management to account for the possibility of credit deterioration or rating downgrade for obligors, ownership changes for SOEs, and risks due to fiscal deterioration.

Conclusions

3.67 Effective risk management is central to the Bank Group’s development efforts, and its three parts can enhance their knowledge of and focus on corporate risks and the relationships between their risk levels and development results. In operations, the Bank Group’s risk management architectures are robust and broadly coordinated, and have generally contained risk pressures at operational levels. However, at more detailed levels there are some weaknesses, including that not enough attention is being paid to dynamic risk (i.e. risk management during implementation)—evidence of an area of project management that could be tightened as a means to improve risk management. Also, the Bank’s ORAF and P-RAMS processes that were introduced after the IDA Control Review have not worked as intended, in the face of possibly increasing operations risk, which obliges the search for new or improved tools. A new operational risk rating template is under preparation.

3.68 Bank operations seem less risk averse than is often assumed, with the exception of FCS where there seems to be a positive association between risks and
results. For IFC, higher-risk projects have a lower chance of success, while better work quality is associated with better development outcomes. MIGA's portfolio performance shows no significant association between country risk levels and development results. The expansion of its product range to cover the non-honoring of financial obligations has important implications for the risk profile of MIGA's portfolio and capital utilization and requires enhanced assessment and monitoring efforts of such guarantees.
4. Institutional Effectiveness

*Highlights*

- The new World Bank Group strategy envisages a repositioned group against a background of global volatility and risks and identified weaknesses in effectiveness.
- Monitoring and evaluation including results frameworks represent cross-cutting—and perennial—problems in World Bank operations. There also is scope to enhance the focus of the International Financial Corporation’s (IFC) results framework on development impact and to improve its usefulness for learning and decision making.
- The Bank’s new approach to country partnership formulations has the potential to encourage more focused and coherent partnership strategies, with a stronger emphasis on program monitoring and evaluability.
- For investment lending, important aspects that determine results are quality at entry, quality of supervision, and quality of results frameworks, and the Bank needs to consider more targeted support and guidance for task teams.
- An improvement in the outcome ratings for projects in fragile and conflict-affected states (FCS) came from stronger attention and more resources, with more international staff in country offices, and a substantial increase in FCS analytical and advisory activities.
- An ongoing management program seeks to address the quality of Bank lending operations, motivated by the identified weaknesses in Bank performance in investment lending. Early implementation has been promising, notwithstanding delays associated with the ongoing organizational reforms.
- The traditionally high quality of IFC’s self-evaluations for investments has deteriorated over the past two years. The Multilateral Investment Guarantee Agency still needs to adapt and streamline its approach to self-evaluations to fit its business practices.
- Monitoring and evaluation of Global and Regional Partnership Programs (GRPPs) and multi-donor trust funds need strengthening, and GRPPs generally have weak linkages to Bank country programs.
- The new Bank Group strategy emphasizes the need to work as One World Bank Group, but thus far deliveries have largely been separate. Despite some encouraging examples, synergies among and within Bank Group institutions do not seem to have been exploited in a systemic way.
- The Management Action Record shows that adoption of the recommendations of the Independent Evaluation Group (IEG) increases over time and by the fourth year, 90 percent are substantially adopted.

4.1 This chapter builds on previous chapters’ discussion of outcomes and risks, focusing on the implications for the Bank Group’s institutional effectiveness. It starts with some background on the Bank Group’s new strategy as the context for the chapter’s consideration of particular topics, and then turns to institutional effectiveness in country programs, portfolio management, and knowledge services, global partnerships and trust funds, and internal coordination. It ends with a brief
discussion of the IEG Management Action Record (MAR), which tracks the implementation of IEG recommendations.

4.2 The new Bank Group strategy envisages a repositioned organization that has "catalyzed the development community to seize the opportunity to win the age-old struggle against poverty and exclusion" against a backdrop of rapid shifts in the global economy; volatility and global risks in an interconnected world that depends on international markets for goods, services, and finance; the potential impact of social and political instability as illustrated by the turbulent world events of the past decade; and the ever more clear challenges of climate change and environmental degradation. To this end the Group has set itself the two ambitious goals of ending extreme poverty and promoting shared prosperity (World Bank Group 2014).

4.3 Experience from previous institutional Bank reforms foretells short-term costs for longer-term gains. The strategy will involve significant institutional change. An evaluation of the reform process of the mid to late nineties under the Strategic Compact found that efforts to improve project quality had borne fruit, but changes to the Bank to make it more relevant and responsive (such as through decentralization) had increased costs and expanded the range of skills required for Bank involvement (Johnston and Battaile 2001). Perhaps paradoxically, partnerships had contributed to an overload rather than to greater burden sharing and selectivity. New lines of business had opened, but few old ones had closed. The Bank's administrative budget also had come under pressure from increased demands of, for example, improved project design and supervision, nonlending services, and global activities. These trends had led to a "remarkable" increase in organizational and staff stress.

4.4 It can be challenging to achieve priority objectives through institutional and organizational reforms. This lesson clearly emerges from the IEG matrix management evaluation (IEG 2012) that was discussed in chapter 3. The Bank's matrix management concept was introduced in the Bank as part of the 1997 institutional reform. Changes in the external environment indicate that the system is more relevant than when it was introduced; however, the evaluation also found:

- Considerable variations in the different components of country programs, with strong alignment with national priorities and flexibility when country circumstances changed, but low scores for realism, quality of results frameworks, and ownership;
- Global and regional programs not well integrated into country programs;

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• The persistence of sector silos and even stronger regional and network silos; and
• Issues of budget pressures and excessive spans of control, ineffective Bank budget processes in promoting cross-sector collaboration, and ineffective teamwork under the matrix system.

4.5 The Bank Group corporate scorecards are becoming a management and accountability tool to help track progress in strategy and change program implementation for the Bank Group as a whole. Work is under way for the design of a World Bank Group corporate scorecard and the alignment of the Bank and IFC scorecards and the key performance indicators of the Multilateral Investment Guarantee Agency (MIGA) with the Bank Group goals and strategy. The current intention is for the use of the scorecard to widen. It will still be used for strategic dialogue with the Board, and also as a management tool monitoring corporate performance.

4.6 Pending such changes, the current-Bank scorecard presents a high-level view through four tiers (Figure 4.1). Observations from the 2012 RAP are still highly germane: The scorecard’s relevance can be further improved; priority should be given to filling the gap in capturing the results of the Bank’s knowledge work; measurement can be improved especially in Tier II; and steps can be taken to make the Tier II information easier to interpret (IEG 2013a).

4.7 IEG needs to address the timeliness of its production of data used in the Bank scorecard. An audit of the scorecard in 2013 by the Internal Audit Vice-Presidency (IAD) underlined the 2012 RAP’s observations. It also pointed out that four of the seven indicators in the Tier III Development Outcome Ratings category have a three-year lag in the reporting of data; these are for IEG’s ratings of operations outcomes at completion. There are some unavoidable systemic delays for these ratings, but the current significant IEG backlog in completing Implementation Completion Report Reviews (ICRRs) is a contributing factor to the overall lateness of reliable numbers for these indicators.

4.8 IFC’s corporate scorecard has already been used as a performance management tool. The IFC strategic goals are cascaded down from the scorecard through regional and departmental scorecards, which are used to reward staff for contributing to corporate objectives. IFC has also linked staff performance awards to development results and to the financial results of operations in which individual staff members have been involved. The IFC Development Goals (IDGs) that were formally introduced in 2012 after two years of pilots include targets for reach, access, and other development outcomes designed to measure clients’ increased