IEG

Independent Evaluation Group

THE WORLD BANK

Development Results in Middle-Income Countries

An Evaluation of the World Bank's Support

Evaluation Summary

THE WORLD BANK GROUP

WORKING FOR A WORLD FREE OF POVERTY

The World Bank Group consists of five institutions—the International Bank for Reconstruction and Development (IBRD), the International Finance Corporation (IFC), the International Development Association (IDA), the Multilateral Investment Guarantee Agency (MIGA), and the International Centre for the Settlement of Investment Disputes (ICSID). Its mission is to fight poverty for lasting results and to help people help themselves and their environment by providing resources, sharing knowledge, building capacity, and forging partnerships in the public and private sectors.

THE INDEPENDENT EVALUATION GROUP

ENHANCING DEVELOPMENT EFFECTIVENESS THROUGH EXCELLENCE AND INDEPENDENCE IN EVALUATION

The Independent Evaluation Group (IEG) is an independent, three-part unit within the World Bank Group. IEG-World Bank is charged with evaluating the activities of the IBRD (The World Bank) and IDA, IEG-IFC focuses on assessment of IFC's work toward private sector development, and IEG-MIGA evaluates the contributions of MIGA guarantee projects and services. IEG reports directly to the Bank's Board of Directors through the Director-General, Evaluation.

The goals of evaluation are to learn from experience, to provide an objective basis for assessing the results of the Bank Group's work, and to provide accountability in the achievement of its objectives. It also improves Bank Group work by identifying and disseminating the lessons learned from experience and by framing recommendations drawn from evaluation findings.

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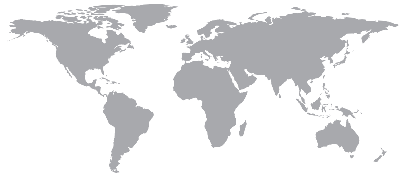

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—Evaluation Summary—

2007
The World Bank
Washington, D.C.

http://www.worldbank.org/ieg

1818 H Street NW
Washington DC 20433
Telephone: 202-473-1000
Internet: www.worldbank.org
E-mail: feedback@worldbank.org

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World Bank InfoShop
E-mail: pic@worldbank.org
Telephone: 202-458-5454
Facsimile: 202-522-1500

Independent Evaluation Group
Knowledge Programs and Evaluation Capacity Development (IEGKE)
E-mail: eline@worldbank.org
Telephone: 202-458-4497
Facsimile: 202-522-3125

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Foreword

Middle-income countries are facing rapidly evolving development challenges as their economies mature and integrate into the global economy. As a group, the 86 middle-income countries account for about one-fifth of world output, and their per capita income has grown by almost 4 percent annually since 1995. Yet they are still home to one-third of the world's poorest citizens, living on less than two dollars per day.

The World Bank has provided US$163 billion in loans to these countries since 1995 and it allocates about half its administrative budget to working with them. Today, as a group these countries have far more choice than they did even 10 years ago in obtaining both finance and knowledge for development. With the dramatic changes in the global context, many stakeholders and outside commentators have begun to propose that the Bank change its relationship with this group—with proposals ranging from strengthened engagement to withdrawal.

This IEG evaluation brings a fresh perspective to the debate by assessing the development effectiveness of the Bank's recent work. It presents evidence—including views from the client countries themselves—about the outcomes of the Bank's support to individual countries over the past 12 years. It also spotlights three growing dimensions of the Bank Group's role—sharing knowledge across countries, engaging countries in global programs, and combining support to the public and private sectors.

The Bank's support for fostering growth and reducing poverty has contributed to the considerable success of middle-income countries in these key areas. But the Bank must swiftly become more effective on other crucial issues where its work has not yielded pronounced advancements—dealing with inequality, combating corruption, and protecting the environment. Yes, the Bank should continue its engagement with this group—but it will need to depart from business as usual.

The Bank has to become more agile in response to rapidly changing client needs. It needs to draw upon middle-income countries' own capacity more systematically, connecting such capabilities to help low-income countries and to tackle global challenges. Its work must consistently introduce and scale up cutting-edge development solutions. Change in these aspects will allow the Bank to continue offering support that will effectively benefit the more than 800 million poor in middle-income countries.

Vinod Thomas
Director-General, Evaluation


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Executive Summary

The 86 middle-income countries (MICs) form a diverse group of considerable global importance, and they are home to one-third of the world's poor. The World Bank has lent $163 billion to MICs since 1995—nearly two-thirds of its total lending to all developing countries—and allocates about half of its administrative budget to work with this group.

This evaluation of the Bank's programs (fiscal years 1995–2006) concludes that its support in fostering growth and reducing poverty has been appreciated by MICs and has made a contribution to their considerable success in these major areas. But it also concludes that the Bank must become more effective on issues where its work has not yielded pronounced advancements, notably dealing with inequality, combating corruption, and protecting the environment.

The Bank's quality stamp—reflected in technical expertise, project design and supervision, and advisory services—has been a key strength. Its advisory work has been strong on diagnostics but would have greater impact if it concentrated more on specific local needs. It could have done better in drawing on MICs to help shape priorities for global programs and in finding ways to increase synergy across the Bank, the International Finance Corporation (IFC), and the Multilateral Investment Guarantee Agency (MIGA). Looking ahead, the Bank should continue its engagement with MICs, but it must depart from business as usual. To produce greater development benefits it has to become more agile in response to rapidly changing client needs; draw upon MICs' own capacity more systematically; and more clearly demonstrate best practice to deliver impact beyond the Bank's limited direct role.

A Rapidly Changing Context in MICs

MICs—the 86 countries that fall into the middle-income range set by the Bank's World Development Indicators—account for just under half of the world's population, are home to one-third of people across the globe living on less than $2 per day, and are found in all six of the Bank's geographical Regions. They cover a wide income range—the highest- income MIC has a per capita income 10 times that of the lowest. The group has grown in number since the mid-1990s, including 10 countries (for example, China and Egypt) that moved from the low-income to the middle-income category. MICs are also important partners of, shareholders in, and borrowers from the World Bank.

The environment in MICs has changed significantly in recent years and is likely to continue to evolve rapidly. MICs' institutional capacity has been strengthening, while the increasing role of the private sector in most economies and growing globalization have added to the complexity of the development challenges they face. The group has enjoyed an expansion of choice in its sources of both development finance—the number of MICs with capital market credit ratings has more than doubled since the mid-1990s—and of knowledge. Indeed, for MICs the Bank's new lending amounts to only a small and declining share of national investment—0.6 percent in 2005, down from 1.2 percent in 1995. Repayments on existing loans exceeded new disbursements by an annual average of $3.8 billion for the group over the past 12 years. It is in view of these changing conditions, and debate about the role of the Bank in MICs, that IEG evaluated the Bank's lending and nonlending activities in the group over fiscal 1995–2006. The main question is: How has the Bank's engagement with MICs fared in this setting?

Performance on Priorities for MICs and the Bank

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

On the overarching priority of promoting growth—emphasized at the corporate level in the two-pillar development strategy—the Bank's support to MICs has been effective and generally well regarded by clients. MICs as a group have grown robustly, particularly since 2001, when more than two-thirds of the group had achieved average annual per capita growth above 2 percent. The close match between country and Bank priorities has created an environment for ownership of measures to enhance growth. Nearly 70 percent of respondents in this evaluation's client survey rated the Bank's support in fostering growth as moderately effective or better. The Bank's macroeconomic and structural policy analysis has been good, and this analytical work has been combined with policy-based lending in several countries, including Colombia and Romania, to put growth-enhancing measures into practice. Bank-financed projects in several sectors that can help facilitate growth, including those in infrastructure, have been particularly strong performers.

In moving beyond growth into poverty reduction, MICs have secured some positive outcomes overall. The group as a whole has lifted nearly 400 million people above the $2-per-day poverty threshold since 1993. In addition to the world-leading achievements of China, the other MICs have reduced their poverty rate by 20 percent, and this has been considerably faster than the reduction observed in low-income countries (LICs) over that period. And clients in MICs across the income spectrum have provided a favorable assessment of the Bank's overall support to reducing poverty—with three-fifths rating its help as moderately effective or better.

The Bank has paid significant attention to poverty in its country strategies, including helping to quantify and analyze its incidence, as well as to assist clients in developing responses to their particular poverty issues. This stance in addressing poverty has proved pertinent to most MICs' needs and has been successfully meshed with work on supporting sustained growth. For example, in Bulgaria clients appreciated the anti-poverty efforts that emphasized improving institutions and the investment climate alongside measures that specifically targeted pockets of poverty.

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

But on helping protect the poor during crises—one of the rationales for support to MICs suffering financial calamity—clients express some dissatisfaction with the Bank's efforts. Case studies confirm that the

Bank response speed in assisting countries once a crisis has emerged has been good (although coordination with the International Monetary Fund was suboptimal), its liquidity assistance has been appreciated, and its work helped advance structural reforms. Nevertheless, in Brazil, the Russian Federation, and Thailand, neither the Bank nor the authorities had strong contingency plans to strengthen social safety nets to protect the poor during crises. Furthermore, Bank support for more substantial social protection reforms, where sustained government ownership was not always apparent, had modest impact over the longer run.

Less progress has been made on important issues beyond the growth agenda, where there are significant challenges. In particular, more than half of MICs have seen inequality rising over the past decade. While the Bank's work has shown increasing awareness of the issue, it has not yet succeeded in helping countries deal convincingly with the problem. Over half of client survey respondents rated the Bank's work in addressing inequality as moderately ineffective or worse. In many MICs, inequality has a strong geographic dimension: particular regions within countries face a growing prosperity gap with better-performing locations. In Ukraine, for example, the Bank has supported regional development efforts, but reductions in regional inequality have yet to be secured.

Progress has also been sketchy and deficient in some respects on other important corporate priorities. On the challenge of fighting corruption, which is relevant to many MICs, there is limited evidence that the Bank's efforts have found much traction. Perception indicators measuring control of corruption have not moved significantly in the majority of MICs over the review period. In Indonesia, for example, despite some positive steps by the government and useful contributions from the Bank, corruption remains problematic, and the outcome of the Bank's work in this field has been assessed as moderately unsatisfactory. In this evaluation's client survey, views across MICs were quite stark on this issue—two-thirds of respondents judged the Bank's contributions to reducing corruption as moderately ineffective or worse, the most negative response received on surveyed topics. To some extent these observations may reflect the complex, sensitive, and long-haul nature of dealing with corruption. There are some signs of progress—for example, in Turkey and Ukraine—with Bank help, including support for improved procurement practices and better monitoring and awareness of corruption.

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

Influences on the Performance of the Bank

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

The Bank has not been agile and has struggled to keep pace with the speed of change in client needs and demands. This lack of agility has taken several forms. Clients in several countries emphasized slow responsiveness to changing country conditions, including their changing preferences on financing instruments, which may have undermined the Bank's relevance and led them to look elsewhere for financing. Another dimension is processes and procedures that are seen as cumbersome and that impede access to Bank support. Certainly clients take into account the specific financial terms as they make borrowing decisions. But nonfinancial costs of doing business, alongside other considerations such as quality and program relevance, carry even more weight for many clients.

The Bank takes too long to consider and implement significant changes—such as use of country safeguards in place of Bank-specific systems—in relation to the needs and opportunities presented in MICs. One timing issue the Bank has got right is better alignment of its individual country programs with national planning cycles—noted by clients in Colombia and China, among others—which improves the prospects of success.

Clients find the Bank's quality stamp—reflected in its technical expertise, project design, and supervision skills—to be a key strength. For some countries it is what is embedded in this quality stamp that provides the main value in Bank financing. And across MICs, Bank analytical and advisory work has been, in most cases, of high technical quality, and has satisfactorily embodied the lessons of international experience. For example, in Thailand its support for recent work on the economics of effective AIDS treatment helped link policy makers with the latest international experience, which further strengthened the country's programs. But on other occasions the effectiveness of knowledge services in shaping opinion for public policy and investment has been hampered by inadequate presentation and dissemination of reports. These weaknesses have held back the Bank's contribution to the information marketplace.

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

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

Within the Bank Group, despite considerable high-level attention directed toward making the best use of its combined resources, internal cooperation among the Bank, IFC, and MIGA has been underwhelming. What efforts there have been to cooperate at the country level have been more apparent in strategy than in implementation. In country programs, Bank Group cooperation has been modest—barely half of planned instances of cooperation have come to fruition—and its purported potential has not been fully exploited. In Kazakhstan, for example, although several areas of cooperation were planned, only one-quarter of those took place. The main factors inhibiting cooperation are the incompatible timelines for projects, differences in organizational culture, and prevailing staff concerns that their time can neither be easily allocated to cooperation nor recognized in performance assessment. Another facet that has to be properly managed is the risk associated with potential or perceived conflicts of interest across the Bank Group, especially in turbulent market conditions at times of financial crises.

Overall Assessment

The outcomes of the Bank's country programs in MICs have been moderately satisfactory, on average, in meeting varied country-specific development objectives, including promoting growth and reducing poverty. The outcomes have been better than for the Bank's work in low-income countries (LICs), and indeed the most recent outcomes in large MICs, including Brazil and China, have been satisfactory—a notch higher on the rating scale.

Yet there is significant pressure to do better in an environment where MICs' demands are becoming more expansive and they have more choices of support. Taken together, a collection of indicators—from client surveys, in-country consultations, project reviews, and country program assessments—suggest that for the Bank's work to have a more pivotal demonstration effect, a greater proportion of it must reach the highest standards of effectiveness.

Recommendations

The Bank should continue its engagement with MICs, but take steps to produce greater development effectiveness. This requires the Bank to depart from business as usual and to reinvigorate its relationship with clients, incorporating the four main dimensions highlighted below.

Draw on MIC capacity

To promote greater country ownership of the Bank's work, and to create better opportunities for the Bank to learn from MICs and share their experience with LICs, Bank support needs to more systematically draw upon and develop each country's own expertise. To this end, management should require that country assistance/country partnership strategies and significant analytic and advisory activity (AAA) assignments have a clear plan to do this.

The Bank ought to identify incentives and obstacles to MICs' involvement in the governance of global programs. This could involve producing an inventory of governance arrangements for global programs it supports and conducting a formal consultation exercise with MICs (and other developing countries).

Demonstrate best practice

To deliver the maximum impact from the Bank's limited financial role in MICs, in partnership with clients, the Bank's projects and programs must be selected to go beyond conventional approaches and clearly demonstrate how they will add to best practice development activity in the respective country setting. They should also show whether, when, and in what way they are expected to play a catalytic role, being scaled up using resources beyond those initially provided by the Bank.

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

The Bank could more actively share best practice and encourage arrangements for knowledge transfer across countries, Regions, and sectors. Three specific measures to do this would be: (i) giving more weight to this goal in strategically managing staff rotation; (ii) ensuring that research and policy work go beyond general principles and focus on specific country-by-country needs; and (iii) reviewing the performance of the networks on this dimension.

Become more agile

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

The trial program would do well to go further and offer the selected MICs, each with strong institutional capacity, a new menu of support, incorporating features such as fast-track procedures, faster response times, and more flexible strategies.

The Bank should continue efforts to expand the choice of services it offers. This can be done by accelerating the development and deployment of (i) new financial instruments such as those helping countries manage and reduce vulnerability to external shocks; (ii) existing and new products that help tackle subnational challenges; and (iii) new arrangements—with clear, consistent, and user-friendly guidelines—for fee-for-service technical expertise, including that for project design and supervision.

Make the most of Bank Group cooperation

The Bank Group must develop a more pragmatic approach to cooperation across the Bank, IFC, and MIGA, to successfully offer clients a more effective package from its combined resources. This approach could include new incentives or channels for cooperation, such as piloting single-country management arrangements. In cases where joint country strategies are appropriate, they should be prepared more rigorously, and followed through with performance monitoring designed to trace through the net gains from cooperation. Any new approach must be communicated to and gain the support of staff, who ultimately determine the extent and success of such cooperation.

Management Response

Management welcomes this Independent Evaluation Group (IEG) review of World Bank support to middle-income countries (MICs). It is comprehensive in its coverage of the relevant issues. It is also timely, given that management is in the process of implementing an action plan to strengthen its engagement with International Bank for Reconstruction and Development (IBRD) partner countries. In particular, management welcomes IEG's conclusion that the Bank should continue its engagement with MICs, and it agrees that the Bank should do more to improve the quality and impact of its support to MICs. Several of the actions aimed at achieving this goal are summarized in the Management Action Record, responding to IEG's specific recommendations.

Management Views on IEG's Analysis and Conclusions

The IEG review presents valuable analysis on the relevance of the Bank's work, the effectiveness of its country programs, the sharing and use of its knowledge, the role of MICs in global programs, and Bank Group cooperation. All of these issues are important for the ongoing work to strengthen the World Bank's engagement with IBRD partner countries, implementing the strategy endorsed by the Development Committee in September 2006 (World Bank 2006e). Overall, management finds the analysis and conclusions to be in line with its own priorities for action.

Priorities for action

Since the Development Committee endorsed the strategy, management has worked to speed its implementation. The strategic priority is to improve—and customize to the diverse needs of MICs—services in each of the Bank's business lines: strategic and coordination services, financial services, and knowledge services. Management is also seeking to enhance impact through greater Bank Group synergy and international cooperation and partnerships. Key actions for improving and customizing services are as follows.

- ***Strategy and coordination services.*** At the country level, the priority is to produce more flexible, customized country partnership strategies that integrate all Bank Group services relevant to the country, including support for the country's contribution to regional and global public goods (GPGs.) This work is going ahead on a pilot basis and will lead to a staff guidance note once other key proposals—such as on the use of country systems and the business models for supporting GPGs and delivering fee-based services—have been approved. On the global level, the priority is a business model for prioritizing GPGs for Bank engagement and the financing of that engagement, including support for countries' contributions to the provision of GPGs. The draft of a report to the next Development Committee meeting is currently undergoing Bank-wide review and will be discussed by executive directors in early September.

- ***Financial services.*** IBRD's role in providing financial services to MICs has evolved as their needs have changed. It currently offers MICs a range of banking products and services, including flexible loans and risk-management tools to help manage volatility in interest rates, currencies, and commodity prices, as well as credit enhancement. To facilitate protecting countries' development resources, it also offers debt management advice and wealth management and advisory services. Among the actions to broaden and improve the Bank's financial and banking services, three stand out. First, the Bank continues to streamline policies and procedures with a view to reducing clients' nonfinancial costs of doing business with the Bank and enhancing the Bank's response to client needs. Notably, the Board recently approved OP/BP 8.00, "Rapid Response to Crises and Emergencies," and it will soon receive a proposal for a revised policy on the preparation, appraisal, and supervision of investment loans. Second, on the crucial issue of the use of country systems where standards are mutually agreed and verifiable, in June, executive directors reaffirmed the Bank commitment to the use of country systems, endorsed the principle of country-based pilots, and agreed on a timetable for consultations and final discussion of a methodology for pilot use of country procurement systems (World Bank 2007). Third, proposals for improving the transparency and the competitiveness of IBRD loan pricing have recently been submitted for consideration by the Board.
- ***Knowledge services.*** The key action for meeting MICs' demand for more and better knowledge services is the development and implementation of a business model for the delivery of fee-based services across the full spectrum of Bank expertise, including analytic and advisory services, technical assistance, project design and supervision, and debt management services. A draft paper has been prepared for Bank-wide review and is expected to be presented to the Board in early fiscal 2008.

Main Findings and Recommendations

IEG finds the Bank's support to MICs overall to be moderately satisfactory but suggests that the Bank can do better. It recommends that the Bank remain engaged with MICs but take steps to increase development effectiveness through these channels: draw more on MIC capacity; demonstrate best practice in its MIC support; and be more agile in providing support, including making the most of Bank Group cooperation. Management is in basic agreement with these recommendations and has actions under way or planned to address them. Details are provided in the attached Management Action Record.

Management Action Record

Major IEG recommendation	Management response
Draw on MIC capacity Bank support needs to more systematically draw on and develop each country's own expertise. To this end: • Management should require that country assistance/country partnership strategies and significant analytical and advisory activities (AAA) assignments plan clearly to do this. • The Bank ought to identify incentives and obstacles to MICs' involvement in the governance of global programs, including by producing an inventory of governance arrangements for global programs it supports and conducting a formal consultation exercise with MICs (and other developing countries).	***Substantially agreed*** Management agrees that it is important to draw more systematically on and develop each MIC's own expertise, in both country strategy and global program development and delivery. Management is preparing a note on World Bank responsiveness to demand for global public goods, to be discussed with executive directors in fiscal 2008. That note will include its plans for involving MICs (and other developing countries) in setting priorities and in drawing on MIC expertise. Part of this process will involve consultations with MICs. Management will also prepare a guidance note for staff on country partnership strategies with MICs that will address the issue of systematically drawing on and developing MIC country expertise, notably with regard to strategy development, economic and sector work and other AAA, and global program priorities. Lastly, management is preparing a partnership program to increase the use of MIC expertise and institutions. The fiscal 2008 Country Assistance Strategy (CAS) Retrospective will report on implementation. Management will consider the above agreed actions completed with that report.
Demonstrate best practice Bank projects and programs must: • Be selected, in partnership with clients, to go beyond conventional approaches and clearly demonstrate how they will add to best practice development activity in the respective country setting • Show whether, when, and in what way they are expected to play a catalytic role, being scaled up using resources beyond those initially provided by the Bank. Country programs, prepared in full partnership with MIC clients, must pay renewed attention to achieving greater effectiveness in three pressing and complex issues: combating corruption, reducing inequality, and protecting the environment. Programs need to draw on the full range of Bank and other resources available to meet these challenges The Bank could more actively share best practice and encourage arrangements for knowledge transfer across countries, Regions, and sectors by (i) giving more weight to this goal in strategically managing staff rotation; (ii) ensuring that research and policy work goes beyond general principles and focuses on specific country-by-country needs; and (iii) reviewing the performance of the networks on this dimension.	***Substantially agreed*** Management agrees that it must demonstrate best practice in its support to MICs. It will do so through four actions: (i) stronger country partnership strategies developed jointly with MICs; (ii) improvements in the range of services offered to MICs, notably financial services and the blending options, with a goal to better leverage Bank support; (iii) stronger links between Bank research and MIC needs; and (iv) better management of the pool of Bank expertise across all networks to ensure timely delivery of cutting-edge support. However, although all MICs want and deserve innovative options, in many MICs there will remain a demand for more standard support that the IBRD will need to meet. Management will consider the agreed actions complete with the full report to executive directors in the fall of 2007 on implementation of the action plan to strengthen the World Bank's engagement with IBRD countries.

(*Continues on the following page.*)

Management Action Record (*continued*)

Major IEG recommendation	Management response
Enhance the Bank's agility The Bank needs to set up a program to test new approaches for a selected group of countries, through the following: • A much more decisive push on the existing pilot for the use of country systems—significantly increasing the number of countries and projects actually implementing the new approach on the ground by mid fiscal 2008 • Offering the selected MICs a new menu of support incorporating features such as fast-track procedures, faster response times, and more flexible Bank strategies • Accelerating the development and deployment of (i) new financial instruments such as those helping countries manage external shocks; (ii) existing and new products that help tackle subnational challenges; and (iii) new arrangements—with clear, consistent, and user-friendly guidelines—for fee-for-service technical expertise, including that for project design and supervision.	***Substantially agreed*** Management is taking a range of actions to increase the Bank's agility in support of partner countries. The Bank will offer MICs an expanded menu of support options through a more flexible portfolio of access to expertise and financing. A major step, outlined above, is giving more flexibility to country teams in producing and implementing country partnership strategies, encouraging them to use it, and monitoring that use. Work on country systems, which will add to agility and reduce the cost of doing business, is advancing with Board endorsement in June 2007 of a plan to accelerate progress. To provide greater agility, management will continue to improve internal Bank procedures with a streamlining of investment lending during fiscal 2008. As partners' needs have changed, IBRD's role in providing financial services to MICs has evolved considerably beyond traditional lending. To help countries manage risks from interest rate, currency, and commodity price volatility, IBRD currently offers flexible loan products as well as derivative/risk-management tools for application to IBRD and in some cases non-IBRD liabilities. It offers related debt management advice and wealth management/advisory services to assist countries in protecting their development resources. Management is accelerating the implementation of the provision of customized financial solutions support to borrowers through an enhanced internal review process. The Deferred Drawdown Option instrument is being reviewed to improve its effectiveness. As part of its MIC strategy the Bank has been engaged in developing new market-based solutions to help countries deal with catastrophic events, with a recent launch of the first ever Regional insurance facility, for Caribbean countries, as the initial result of this effort. Work is under way to mainstream and scale up public sector financing at the subnational level under a newly established department, as a joint initiative of the IBRD and the International Finance Corporation. Finally, management will develop a consistent framework for interested partners to draw on the Bank for fee-based advisory services and technical assistance in project implementation. Management will consider the above agreed actions complete with the report on the use of country partnership flexibility in the CAS Retrospective; the approval of the streamlined policy for investment lending; continuation of ongoing efforts to customize

Major IEG recommendation	Management response
	financial solutions and expand choice of financial services, such as those for managing external shocks and subnational financing; and the introduction of the new framework for fee-based services for interested partners. Management will report on overall progress periodically to executive directors, starting with the report to executive directors in the fall of 2007 on implementation of the action plan to strengthen the World Bank's engagement with IBRD countries.

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

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

Background

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

The IEG Report

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

Draft Management Response

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

Overall Conclusions

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

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

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

The following issues were raised during the meeting.

General Issues

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

Performance of the Bank

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

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

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

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

Relevance of the Bank's work

Several speakers shared the view that the precise financing terms of Bank lending were less of a pivotal determinant in clients' borrowing decisions and other factors were very important, including the quality of Bank's work, program relevance, and nonfinancial costs of doing business. However, others emphasized that the financial services of the World Bank and their competitive pricing were still pertinent. Several speakers commended the evaluation's positive reports on the Bank's technical assistance and advisory services. They supported the Bank creating more flexibility in unbundled knowledge from financing, while recognizing bundled services can remain a main strength of the Bank. Regarding fee-based services, a few members indicated that consulting services should not become the mainstream of Bank services to clients. While the Bank's good work on diagnostics was highlighted, its weakness in applying expertise to specific needs was also noted.

Country programs

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

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

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

Sharing and use of knowledge

Several speakers commented on the Bank's role in demonstrating "best practices" to ensure it adds the maximum value it can to MICs in meeting their development challenges. They also noted that MICs' demand for knowledge, including analytical and advisory activities tailored to particular country circumstances. A few members stressed the Bank's comparative advantage in knowledge dissemination. There were also comments on the role of the Bank, which management viewed as a peer-to-peer collaboration rather than a teacher-student relationship. One member agreed that the Bank was a partner, but another saw it as a knowledge "clearing house" or a teacher helping to identify best practices.

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

Engagement in global programs

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

Cooperation across the Bank Group

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

Jiayi Zou, Chairperson

This document is the executive summary of the Independent Evaluation Group's main report entitled Development Results in Middle Income Countries: An Evaluation of the World Bank's Support. The full text of the evaluation, including the World Bank Management's comments and a summary of the discussion by the World Bank Board's Committee on Development Effectiveness, is available at www.worldbank.org/ieg/mic, and in hard copy from the World Bank's publications office and information centers.

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