5

Monitoring the Performance of International Financial Institutions

The environment in which the international financial institutions (IFIs)—the World Bank, the International Monetary Fund (IMF), and the regional development banks—operate today is different from that of just a few years ago. Globalization, a growing differentiation among developing countries, the availability of alternative financial resources, and the multiplication of actors on the development landscape—all these have forced IFIs to adapt their strategies for supporting developing countries' efforts to meet the Millennium Development Goals (MDGs). Through closer collaboration with one another and with development partners, and through reform of their own governance, these institutions are seeking greater legitimacy and relevance in a world of overlapping and increasingly complex development mandates. This chapter examines the responsibilities of the IFIs within the Monterrey compact and their recent performance in carrying out those responsibilities.

Evolving Roles

All IFIs are constantly adapting their strategies to respond to new demands and the changing external environment. The IMF recently conducted a broad-based review of its medium-term strategy (box 5.1).[1] The World Bank and the regional development banks have devoted considerable attention to clarifying roles and determining priorities. Although deliberations are still under way, and agreement has not yet been reached on all the trade-offs, discussions to date have highlighted five key challenges:

- How best to support progress toward the MDGs in the poorest countries
- How to strengthen and adapt the IFIs' engagement in middle-income countries
- How to respond to the challenges of globalization and the need for global public goods
- How to better promote coherence and collaboration among IFIs and between them and their development partners, and
- How to strengthen the voice and representation of developing countries in the governance of the IFIs.

Accelerating Progress on MDGs in the Poorest Countries

Increased financing, advice, and capacity support from the IFIs is critical if low-income countries are to sustain recent progress in implementing the MDGs. Poverty reduction strategies provide a sound framework for countries to articulate development priorities and for IFIs to support countries' efforts.

BOX 5.1 The IMF's medium-term strategy

The IMF's medium-term strategy, published in September 2005, considered the future direction of the IMF in areas key to its lead mandate on international monetary cooperation and global financial stability.

Surveillance: The IMF is enhancing the effectiveness of surveillance through greater focus, candor, and even-handedness. The medium-term strategy is proceeding on two parallel tracks: implementation of surveillance and development of its legal basis. Steps to enhance the implementation of surveillance have included initiation of the first multilateral consultation, a new modality for discussing common problems; deeper analytical work on exchange rates, including extension of the existing multicountry framework to emerging market economies; strengthening of the IMF's analytical and advisory capacity on financial sector and capital market issues, with better integration of this work into surveillance; greater focus on cross-border spillovers, regional issues, and cross-country issues; and stronger outreach. The legal framework is being revisited through an ongoing review of the 1977 decision on surveillance over exchange rate policies and consideration of a possible remit-independence-accountability framework.

Emerging market economies: The IMF is strengthening its advice on financial sector and capital market issues and considering the adequacy of instruments to support members, as well as the possibility of a new contingent financing instrument for crisis prevention.

Low-income countries: The IMF is enhancing support for efforts to achieve the MDGs by sharpening its focus on issues critical for growth within its macroeconomic and financial areas of responsibility, providing assistance for capacity building in these areas, helping meet challenges of effective use of increased aid inflows and debt relief, and supporting the development of debt strategies and improved debt management.

Capacity building: The IMF is improving alignment with members' needs and its own strategic priorities, taking advantage of complementarities with other providers.

Governance: Work in the area of governance is currently focused on reform of quotas and voice; other priority issues include the management selection process and the role of the IMF Executive Board.

Efficient operations: The IMF is enhancing efficiency and prioritization in its operational work and support activities and strengthening its risk management systems. Efforts under way have resulted in a number of streamlining initiatives, as well as real reductions in the IMF's administrative budget in recent years. These efforts are being complemented by consideration of ways to strengthen the IMF's income base and the ongoing review of World Bank-IMF collaboration (see below).

Source: IMF 2006. "Managing Director's Report on the IMF's Medium Term Strategy." September SM/05/332.

Countries are now setting clear goals and targets linked to public actions, improving their budgeting and monitoring systems, and opening the public space to a more inclusive discussion of national priorities and policies. On the donor side, progress has been made to align and harmonize assistance with countries' priorities, and filling country-specific analytical gaps. Yet connecting results with resources remains a major challenge.

Increased attention is being devoted to coordinating aid at the country, regional, and global levels. Coordination has become paramount not only because of the increased number of players, but also because many of the new providers deliver aid in a more fragmented fashion and outside the established domestic process and framework. This includes ensuring that resources from vertical funds support country-specific development priorities, and that the delivery of aid reinforces rather than undermines domestic processes (including budget formulation and execution). As discussed in chapter 4, progress has been made in some of these areas, but scaling up has been limited. The upcoming 15th replenishment of the International Development Association (IDA) will be an important test of donors' intentions regarding not only their 2005 commitments (to support the Multilateral Debt Relief Initiative (MDRI) and scale up official development assistance), but also the role they see for the multilateral development banks (MDBs) in a changing aid landscape.

The Africa Action Plan (AAP) illustrates how the World Bank is working to promote country-led efforts in partnership with other donors (box 5.2).[2] The AAP is based on an outcome-oriented framework to guide the work of the Bank's Africa region in four pillars: accelerating shared growth, building capable states, sharpening the focus on results, and strengthening the development partnership. The AAP was designed to be dynamic and adaptive in order to concentrate on those areas that promise strong results and reflect the World Bank's evolving role in the development partnership.

IFIs are also paying greater attention to the special needs of states with weak policies and institutions, and to tailoring support to different groups of low-income countries with different needs. How they are strengthening countries' capacity to promote growth and deliver basic services to the citizens of fragile states is described in the final section of this chapter.

Strengthening and Adapting Engagement in Middle-Income Countries

The growing differentiation in development conditions across countries and the increased availability of alternative financial resources

BOX 5.2 The World Bank's Africa Action Plan

The first progress report on the AAP, to be presented to the World Bank's Board of Executive Directors in spring 2007, examines emerging regional and international trends and assesses progress against each of the four pillars on which the AAP is based. It also proposes changes to strengthen the World Bank's role in the development partnership in Africa. Specifically, the report recommends increasing efforts to accelerate economic growth by deploying resources in a concerted effort to overcome the most critical constraints to growth, supporting good governance and capacity development in resource-rich but slowly growing economies, using innovative instruments to mobilize development finance, and helping integrate vertical programs and new partners into sustainable country-based institutions.

Implementation progress in fiscal years 2005/06 and 2006/07 was broadly satisfactory:

- *Progress has been best in the shared growth pillar—supporting the drivers of growth and participating in growth.* The AAP is on track to deliver the results committed to in all but two (agricultural productivity and gender) of the pillar's nine thematic areas. It is ahead of projected progress in four areas. Private sector development, closing the infrastructure gap, and addressing HIV/AIDS and malaria have shown significant progress, both in increased Bank Group support and from evidence that countries are closer to delivering development outcomes. Good progress has been achieved in establishing the preconditions for an export push, in regional integration, and in primary education, including addressing gender discrimination. Progress is on track in supporting skills development, and the IFC has played a leading role in pushing business education. Accelerated progress will be needed to increase agricultural productivity and to connect the poor to markets. Despite some promising initiatives, substantially more work is needed to increase the economic empowerment of women.
- *The capable states pillar has supported African governments in improving the transparency, accountability, and provision of social services, but progress has been mixed.* Good progress

continued

BOX 5.2 The World Bank's Africa Action Plan *(continued)*

was made in improving public financial management and in rolling out the Extractive Industries Transparency Initiative. The Africa Region's Capacity Development Management Action Plan (CDMAP) supports countries in building capable states. More progress could have been made with an earlier launch of the program.

- *The results pillar is assisting countries in developing operational strategies to deliver development outcomes*. There has been good progress on the results framework, and the Bank Group is on track to deliver the priority actions. Some African countries, such as Burkina Faso, Ghana, Mozambique, and Tanzania, undertook substantial efforts to clarify their development goals and targets, based on a medium- to long-term vision, and to link these to public actions. They also developed action plans to improve monitoring and evaluation. Implementation of statistical capacity building and accelerated data programs have picked up pace; however, progress in building statistical capacity remains low throughout Africa and lags other regions. Progress on the Bank's results agenda has been sufficient to mainstream these efforts into the day-to-day management of the AAP.
- *The global development partnership pillar is leveraging IDA-14 for greater impact.* There has been considerable progress on the partnership pillar. Countries have taken the lead in developing baselines and action plans for the Paris Declaration with development partners. Progress on harmonization and alignment at the policy level—expressed through the working groups of the OECD Development Assistance Committee—has been encouraging. Progress includes work on selective scaling up of aid for Africa, the launch of resources and results processes, and improved alignment with development partners to the new generation of poverty reduction strategies. The Africa Catalytic Growth Fund received initial funding and has launched operations designed to crowd in substantial donor support.

The IFC and the Multilateral Investment Guarantee Agency (MIGA) have made substantial contributions to implementing the AAP. Much of the progress in the shared growth pillar is due to the joint efforts of IDA, the IFC, and MIGA in private sector development, infrastructure, and skills development. The IFC began its Strategic Initiative for Africa based on three objectives: improving investment climates, improving support for small and medium-size enterprises, and supporting project development for potential IFC projects.

Despite good progress, significant changes to the AAP are needed in light of the development picture in Africa, results achieved during early implementation, the World Bank Group's evolving role in the development partnership, and global priorities needing collective action. The AAP will focus more selectively on outcomes over the next three years, concentrating on areas that promise strong results and reflect the Bank's evolving role in the development partnership. It will also use a new country classification, based on economic performance and institutional capacity, to guide the implementation strategy. And it will strengthen the leverage of IDA by adapting its strategy for scaling up resources.

Source: World Bank 2007.

have important bearing on IFIs' support to middle-income countries. Traditional bundled lending and knowledge management products remain important for many middle-income countries, particularly those with credit ratings below investment grade, but many middle-income countries are also increasingly looking for more customized financial and advisory services, unbundled from financing itself. Global public goods is one area where the IFIs are expected to play a key role in supporting middle-income countries' needs for customized financial and advisory services (see below).

Despite real progress in many middle-income countries, the support of the IFIs remains critical to these countries, which are home to 70 percent of the world's poor and still face major challenges in attaining the MDGs. The IFIs retain comparative advantages in providing strategic policy advice, development finance and financial services, and technical assistance and knowledge services, but this support needs to be better tailored to specific country conditions. The dialogue between IFIs and their middle-income clients has also highlighted a number of impediments, such as the responsiveness of the institutions to countries' concerns and the cost of doing business with them. These impediments must be tackled if the IFIs are to provide the full measure of support of which they are capable.

The focus of discussion by the heads of MDBs and the Development Committee last September in Singapore was on how to adapt strategies, priorities, and instruments in an environment in which the IFIs provide a smaller share of financial flows to middle-income countries than they once did.[3] The Development Committee strongly endorsed the World Bank's corporate role and mission to eradicate poverty in its partnerships with middle-income countries, reviewing the Bank's proposals to strengthen the IBRD's value added and engagement in response to the evolving and diverse needs of middle-income countries. The heads of the MDBs agreed to move ahead on three fronts in the middle-income countries' agenda: holding joint consultations with middle-income countries; exploring the possibilities for blending bilateral grant and multilateral lending resources; and expanding ongoing joint analytical work, technical assistance, and advisory and operational work.

Increasing the Provision of Global Public Goods

Growing cross-country interactions and interdependence have also brought attention more generally to the inadequate provision of global public goods and to the increasing role middle-income countries are expected to play in their provision. The recent report of the International Task Force on Global Public Goods highlights the factors that constrain the provision of global public goods.[4] Here the IFIs can play a central role, among other things in enhancing international financial stability, strengthening the international trading system, addressing climate change, preventing the emergence and spread of infectious disease, and generating knowledge.

One vital area where IFIs can have a broader role is that of clean energy and climate change. The communiqué issued by the leaders of the Group of Eight countries at their July 2005 Gleneagles summit called on the World Bank to take a leadership role in creating a new framework for clean energy and development. This request was reaffirmed by the Development Committee in September 2005, and the World Bank presented a framework for clean energy at the Spring 2006 Meetings (box 5.3).[5] Also the Asian Development Bank (ADB) established the Asia Pacific Carbon Fund in November 2006, and the Water Financing Partnership Facility in December 2006.

Improving Coherence and Cooperation among Institutions

The Monterrey conference placed a high priority on improving coherence and cooperation among key multilateral players. This is especially important given the growing interconnectedness of the development agenda. Cooperation among MDBs has been improving in recent years, evolving from ad hoc consultations to systemic cooperation across a broad range of issues. The heads of MDBs have by now articulated and published joint positions on most major global development challenges.[6]

Thematic cooperation, often pursued through technical working groups endorsed by the heads of MDBs, has been central to these coherence-building efforts. It has encompassed

BOX 5.3 The World Bank's framework on clean energy

"Clean Energy and Development: Towards an Investment Framework," the World Bank's framework on clean energy, is structured around three pillars: access, mitigation, and adaptation. The strategy supports widening access to energy services, efforts to control greenhouse gas emissions, and assistance to developing countries in adapting to climate risks. The approach was broadly endorsed by the Bank's Development Committee in April 2006.

A second World Bank report was presented at the September 2006 Annual Meetings at the request of the Development Committee. That report, "An Investment Framework for Clean Energy and Development: A Progress Report," assessed the potential value of new and existing financial instruments for accelerating progress in each of these pillars. It argued that the current financing instruments for energy access and adaptation are adequate, but that financing needs far outstrip available funds. The Bank is currently working with donors to increase concessional financing for the access agenda in Sub-Saharan Africa and performing more detailed analyses of what financing is needed for the adaptation agenda.

In contrast to instruments for energy access and adaptation, current financing instruments and resources for designing and scaling up mitigation efforts are inadequate. The report suggested that a clean energy financing vehicle, with an initial capitalization of $10 billion, is needed. Such an instrument would blend concessional and carbon financing to fund the upfront capital costs of low-carbon technologies; it would be recapitalized through loan repayments and the sale of carbon credits. The Development Committee did not endorse the proposed financing vehicle, arguing that better use should be made of existing instruments.

A long-term, stable, global, and equitable regulatory framework is required to stimulate an international carbon market that could transfer tens of billions of dollars a year to developing countries in return for reducing their emissions. Without a significant increase in financing, progress on transitioning to a low-carbon economy is severely constrained, exacerbating climate changes and increasing the need for adaptation measures. The Bank and potential donors are discussing the concept of a carbon continuity fund that aims to ensure the carbon market does not collapse while governments negotiate a post-2012 regulatory framework.

In addition to developing an investment framework, the Bank is responding to other climate change–related mandates that emerged from the Gleneagles summit of the Group of Eight. It is working with the G8+5 countries to develop national action plans for a transition to a low-carbon economy. These plans would analyze which sectors and technologies provide the best opportunity for reducing greenhouse gas emissions, what policies would be needed, and what financing would be required. The lessons will be integrated in future country assistance strategies in order to promote growth options that are less intensive in greenhouse gas emissions but still meet developing-country priorities.

The Bank is also developing a screening tool that will provide the core tools for World Bank staff and client countries to assess the exposure of investments to risks from climate change and develop steps for dealing with them. Pilot adaptation studies are being prepared in several countries.

Finally, the IFC has responded to the mandate to develop local commercial capacity to develop and finance cost-effective energy efficiency and low-carbon energy projects by providing specialized credit lines and credit enhancement vehicles to local banks and leasing companies to establish self-sustaining lending products for sustainable energy.

Source: World Bank 2006. "Clean Energy and Development: Towards an Investment Framework."

all key aspects of the current development agenda, including the harmonization of procurement, financial management, environment and safeguard policies, investment climate surveys, and capacity development, governance, and anticorruption. MDBs that operate concessional windows have made considerable progress in harmonizing their performance-based allocation approaches, including related country and institutional assessments.

Memoranda of Understanding underpin much of this cooperation at the country level. All the regional development banks have such agreements with the World Bank, and the ADB has a similar agreement with the Inter-American Development Bank (IADB). More explicit and accountable cooperation frameworks at the country level would be however useful for addressing duplication and allowing MDBs to undertake operations on a larger scale.

Collaboration between the World Bank and the IMF and their division of responsibilities have also received considerable attention. In 2006 the managing director of the IMF and the president of the World Bank commissioned an external review on collaboration between the two institutions.[7] The report of the committee identifies scope for improvement and makes several recommendations. It calls on the institutions to develop a new "understanding on collaboration"; to strengthen cooperation on crisis management; to improve integration and harmonization of work on fiscal issues; to clarify the IMF's role in low-income countries; and to continue to improve collaboration on financial sector issues.

Increasing Voice and Participation by Developing Countries

At the Singapore meetings, the IMF's Board of Governors approved a package of reforms on quotas and voice aimed at better aligning the IMF's current governance regime with its members' relative positions in the world economy, and enhancing the voice and participation of developing countries within the IMF. These reforms are designed as an integrated two-year program to be completed no later than the 2008 annual meeting of the IMF Board of Governors. The first step in the program—increasing quotas for a small group of the most underrepresented countries, including China, the Republic of Korea, Mexico, and Turkey—was also approved at Singapore. These ad hoc quota changes would increase total IMF quotas by 1.8 percent and would raise the quota share of the four countries from 5.4 percent to 7.1 percent (and their voting shares from 5.3 percent to 7.0 percent).

Work has since begun on additional measures. One of these is a new formula to guide the assessment of the adequacy of members' quotas in the IMF, in preparation for a second round of ad hoc quota increases. Another is a proposal to increase the "basic" votes allotted to each member, to ensure adequate voice for low-income countries. Reform will also involve steps to enhance the capacity of African Executive Directors' offices to participate effectively in the governance of the IMF. These reforms will include an increase in staffing resources and possible amendment of the Articles of Agreement to enable Executive Directors elected by a large number of members to appoint more than one alternate director.

The Development Committee in Singapore "welcomed the [IMF] Managing Director's report on progress made in the reform of IMF quotas and voice, acknowledging the measures already taken by the Bank to enhance capacity in Executive Directors' offices and capitals of developing and transition countries, [and] asked the Bank to work with its shareholders to consider enhancement in voice and participation in the governance of the Bank." A series of consultations with the World Bank executive directors is ongoing, building on the issues identified by the Development Committee in previous meetings.

How Well Are the IFIs Performing?

Measuring the contribution of the IFIs to development effectiveness is difficult, and the measures used are imperfect. This section reviews the measurement of performance and suggests ways of strengthening such evaluations.

The Challenge of Assessing Effectiveness

IFIs play a multitude of roles. Some of these, such as supporting macroeconomic stability, providing development finance, and reporting on country performance, are more tangible than others and thus more amenable to assessment. Others, such as generating knowledge to inform policy makers or convening donor support around country strategies, are more difficult.

Although traditional portfolio performance indicators such as financial disbursements are relatively easily tracked, they say little about the IFIs' contributions to development. As the ultimate objective of all the institutions' activities is to foster development outcomes on the ground, measurement strategies must capture changes—or the lack of changes—in the lives of households, the activities of firms, and organizations on the ground.

The difficulty in assessing performance is compounded by the long time it takes for many development initiatives to bear fruit, and by weaknesses in statistics and monitoring. But a central constraint is that of attribution: a reduction in child mortality, for example, may be due in part to aid-supported programs, but many other factors may also be at work. Clear attribution of credit or blame is often not possible. Moreover, because money is fungible, it may be hard to know exactly what a given package of aid is financing, even if it is earmarked.

The challenge of attribution is made more difficult by the complex chain of causality linking external financing to development outcomes. External assistance to policy makers may influence the policy debate, sometimes through conditionality that is attached while operating with imperfect knowledge and little control over implementation. National and local policy makers manage the external dialogue with donors, but their ability to set and implement policies often depends on politics and the quality and capacity of bureaucracies and institutions. All this is compounded by the uncertainty over how policies themselves influence final outcomes.

Although far from complete, a stock of knowledge does exist on the development impact of many policies. Economic research and evaluations can generate this knowledge through ex ante and ex post analysis of national experiences, and through impact evaluations of specific interventions. Rigorous impact evaluation is indeed an important tool for generating knowledge and insight to help guide policy formulation.

IFIs and other groups, including independent evaluation agencies, international assessment initiatives, and interagency working groups, use various approaches to evaluate development effectiveness, as *Global Monitoring Report 2006* discussed. Each IFI has an independent evaluation agency that conducts evaluations at the project, country, and sector or institutionwide levels (box 5.4). While such assessments play an important evaluation role, some have asked that these evaluations be complemented by external evaluations.

Three aspects of IFIs' performance—financial support, efforts to strengthen results-based management, and progress toward harmonizing and aligning aid through the Paris Declaration—are discussed below.

Financial Resources for Development

IFIs provide a smaller share of financial flows to developing countries than they once did. Net official lending to developing countries has declined in recent years, while net private lending has significantly expanded. Private flows are estimated to have reached a record $643 billion in 2006, up from $551 billion in 2005 and about equally split between foreign direct investment ($325 billion), on the one hand, and private debt and portfolio equity ($318 billion), on the other (figure 5.1). Recorded private remittances also continued their upward trend, reaching almost $200 billion in 2006. The breakdown of private capital inflows underlying figure 5.1 reveals the sharp difference in their importance across country groups. The lion's share of flows is directed to middle-income and 'blend' countries (those countries eligible for both concessional and nonconcessional financing from IFIs, such as India and Indonesia). By contrast, only 1.6 percent of private debt and portfolio equity

BOX 5.4 How well does the World Bank contribute to development effectiveness?

Evaluations in 2006 by the World Bank's Independent Evaluation Group (IEG) shed light on how well the institution is reducing poverty, working with fragile states, implementing sectoral programs in education, infrastructure, and the environment, and responding to natural disasters.

Reducing poverty: The *Annual Review of Development Effectiveness 2006* identified three key areas where the Bank can strengthen its effectiveness in helping countries reduce poverty:

- Ensure that growth leads to jobs for the poor and productivity increases in poorer regions and sectors where the poor earn their incomes.
- Clearly articulate results chains so that Bank country assistance programs and individual projects set realistic objectives, consider key cross-sectoral constraints to achieving them, and pay adequate attention to building capacity.
- Tailor efforts to increase the accountability of public sector institutions to local conditions.

Working with fragile states: The Bank has contributed to macroeconomic stability and to the delivery of significant amounts of physical infrastructure, especially in postconflict situations. However, reforms in some fragile states have lacked selectivity and prioritization, and while the Bank has generally been effective in the immediate postconflict phase, its effectiveness needs to be improved following this phase, when structural change is needed.

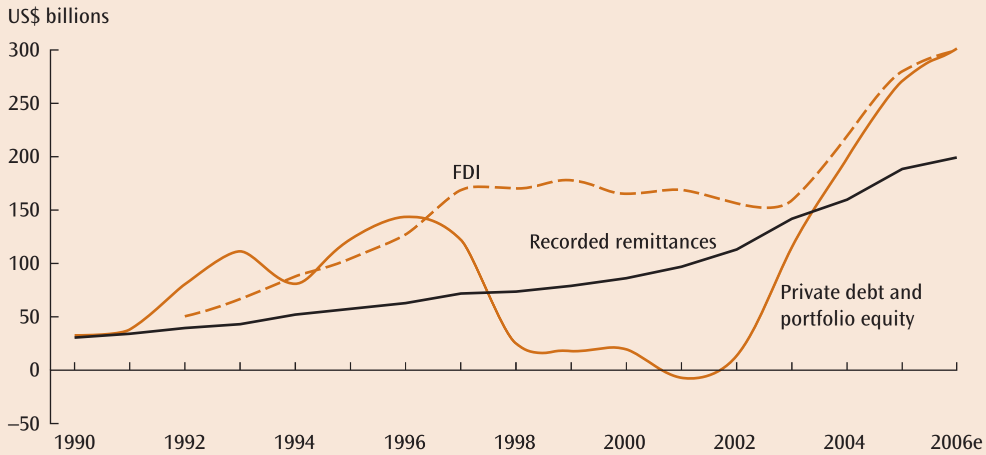
Implementing sectoral programs: Bank projects in education have helped raise enrollment rates, but have paid less attention to learning outcomes. Best practice appears to be doing both simultaneously. Infrastructure investments have contributed to growth and poverty alleviation, but often have imposed environmental burdens. Opportunities to mitigate these burdens require broader assessments of environmental impact, and sound national environmental strategies in designing and implementing infrastructure programs, setting environmental standards, and coordinating programs across sectors over a reasonably long time horizon. IEG also examined the Bank's work in looking at natural disasters. The Bank is the largest funding agency for disaster recovery and reconstruction in developing countries. Since 1984, the Bank has financed a total of $26 billion in disaster relief activities. The more than 500 projects involved represent almost 10 percent of all Bank loan commitments during this period. Over 80 percent of Bank disaster relief financing has addressed rapid onset disasters—floods, earthquakes, tropical storms, and fires. Within disaster relief projects, the Bank did better at reconstructing damaged infrastructure and housing than it did in reducing vulnerabilities and addressing their root causes. It is possible to anticipate where many natural disasters will strike, yet the Bank's disaster assistance efforts are underutilizing these vital lifesaving forecasts.

inflows are received by the 63 low-income countries, and only 4.7 percent of foreign direct investment. Remittances, however, are relatively important, with low-income countries receiving nearly 15 percent of total estimated inflows.

Despite the increasing share of private sources of financing, the IFIs' role remains important. In 2006, the five MDBs disbursed about $43 billion, a 20 percent increase over 2005. Although it is too early to assess whether it represents a temporary fluctuation or a permanent departure from recent trends, two occurrences stand out: a sustained increase in nonconcessional lending by the International Finance Corporation (IFC) and the European Bank for Reconstruction and Development (EBRD), mainly to the private sector; and a slight decline in concessional lending and overall disbursements to Africa.

Nonconcessional flows. Net official lending declined in the first part of this decade, particularly because of net repayments to the IMF of

FIGURE 5.1 Net private capital flows to developing countries



	1998	1999	2000	2001	2002	2003	2004	2005	2006
Private debt and portfolio equity (net inflows)	24.7	17.7	20.6	-6.5	12.1	113.7	194.6	270.6	318
IBRD and blend countries	26.2	18.0	21.5	–4.2	13.5	114.4	191.2	266.2	
IDA oil-exporters	–1.2	0.6	–0.5	–0.6	0.7	–0.3	0.1	0.4	
Other IDA countries	–0.4	-0.9	–0.4	–1.8	–2.1	–0.4	3.3	4.0	
Foreign direct investment (net inflows)	170.0	178.0	166.5	171.0	157.1	160.0	217.8	280.8	325
IBRD and blend countries	161.1	167.1	157.9	161.2	145.4	144.8	203.9	267.6	
IDA oil-exporters	4.7	5.4	4.6	4.3	4.9	6.5	7.4	7.7	
Other IDA countries	4.2	5.5	4.0	5.5	6.7	8.8	6.6	5.5	
Recorded Remittances (received)	70.7	76.6	83.8	95.3	116.2	143.8	163.7	189.5	200
IBRD and blend countries	61.3	66.7	73.1	82.1	100.0	125.1	140.9	161.9	
IDA oil-exporters	5.9	6.8	7.4	8.0	10.0	12.4	14.6	17.9	
Other IDA countries	3.4	3.2	3.3	5.2	6.2	6.3	8.2	9.7	

Source: Work Bank Debt Reporting System and staff estimates.
Note: e = estimate.

large disbursements of emergency assistance (box 5.5) as well as early repayments of World Bank loans by some middle-income countries. However, gross disbursements—a proxy for new demand—suggest that nonconcessional lending by MDBs to middle-income countries remains strong (figure 5.2). Non-concessional gross disbursements increased by 29 percent to about $32 billion, in 2006. This represents the first significant increase in non-concessional lending that was not preceded by a financial crisis. By far the greatest share of the 2006 increase came from the EBRD, which increased its lending in dollar terms by 80 percent,[8] followed by the IBRD, and the IFC, which increased their lending by 31 percent and 38 percent respectively. Most of the recent increase went to Europe (figure 5.3).

Concessional flows. Growth in concessional lending in previous years had been driven by IDA's contribution, with support for Sub-Saharan Africa growing sharply between 2000 and 2004 and support for East and South Asia rising in 2004. This support fell in 2005–06 (figure 5.4), with lending by IDA declining but lending by other MDBs continuing to

BOX 5.5 Lending by the IMF

The IMF's General Resources Account (GRA) provides nonconcessional financial support to member countries experiencing temporary balance of payments difficulties. The IMF also provides financial support through special GRA facilities and policies (including emergency assistance for natural disasters and postconflict emergency assistance) and concessional loans to low-income countries under the Poverty Reduction and Growth Facility (PRGF). GRA net flows depend largely on the needs of large middle-income countries facing economic crises; they are consequently erratic on a year-to-year basis. Following early repayments of large loans by Argentina, Brazil, and Indonesia, the IMF's GRA credit outstanding declined to SDR 9.8 billion ($15 billion) at end-2006, its lowest level in 25 years, and well below its all-time peak of SDR 70 billion ($105 billion) in 2003. Net PRGF lending is less erratic but also substantially affected by the needs of larger low-income member countries and the provision of debt relief.

Net flows from the IMF to developing countries, 2000–06 (in millions of U.S. dollars)

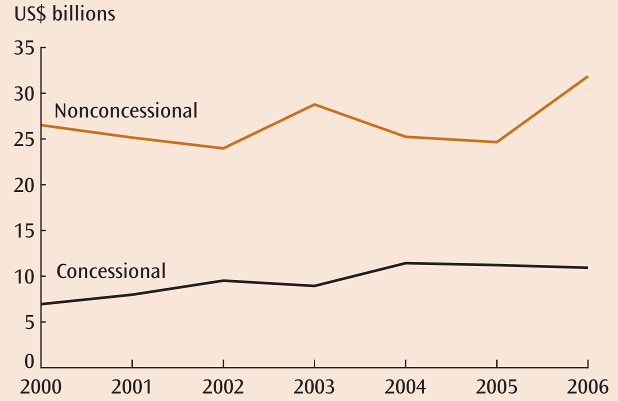
	2000	2001	2002	2003	2004	2005	2006
Net Concessional Fund Assistance[a]	**–148**	**106**	**567**	**9**	**–179**	**–715**	**–3,587**
Disbursements	650	1,111	1,741	1,187	1,204	597	744
Repayments [b]	798	1,005	1,174	1,178	1,383	1,312	4,332
Net Nonconcessional (GRA) Fund Assistance [c]	**–10,644**	**19,031**	**13,109**	**2,002**	**–14,314**	**–39,802**	**–27,382**
Disbursements	9,466	30,249	32,678	28,429	6,181	3,381	3,486
Repayments	20,111	11,219	19,569	26,427	20,495	43,183	30,868
Total Net Flows	**–10,793**	**19,137**	**13,676**	**2,010**	**–14,493**	**–40,517**	**–30,970**
Of which: Sub-Saharan Africa	–22	–178	165	–394	–318	–739	–3,053
Memo: Gross Emergency Assistance	184	0	35	18	453	189	10

Source: IMF Finance Department.
a. Includes disbursements and repayments of PRGF, SAF and Trust Fund loans.
b. The sharp increase in repayments in 2006 reflects the provision of MDRI debt relief.
c. Korea is classified as a high-income country and so their GRA repurchase of SDR 4,462.5 million in 2001 is excluded.

increase. The dwindling relevance of the MDBs in leveraging external resources—due to a possible decline of contributions to IDA and the regional development banks (RDBs) as a share of total official development assistance—may further affect their role in supporting achievement of the MDGs in low-income countries. Among multilateral organizations, IDA's role as main channel for multilateral ODA has been surpassed by the European Commission and the United Nations since the 1990s. The amounts of core contributions channeled through IDA and, on a smaller scale, through regional banks, peaked in the 1980s and have declined thereafter. IDA's share in total multilateral ODA declined from 42 percent in the 1970s to an average of 20 percent in the 2001–05 period.

An additional factor that may affect the future ability of IDA and the RDBs to support low-income countries could result from the impact of debt relief provided under the Heavily Indebted Poor Countries (HIPC) and Multilateral Debt Relief Initiative (MDRI). Through both of these initiatives, IFIs are providing large amounts of debt relief to poor countries.[9] Recognizing this, donors have specified that additional contributions are to be calculated relative to a baseline that maintains current contribution levels in real terms.

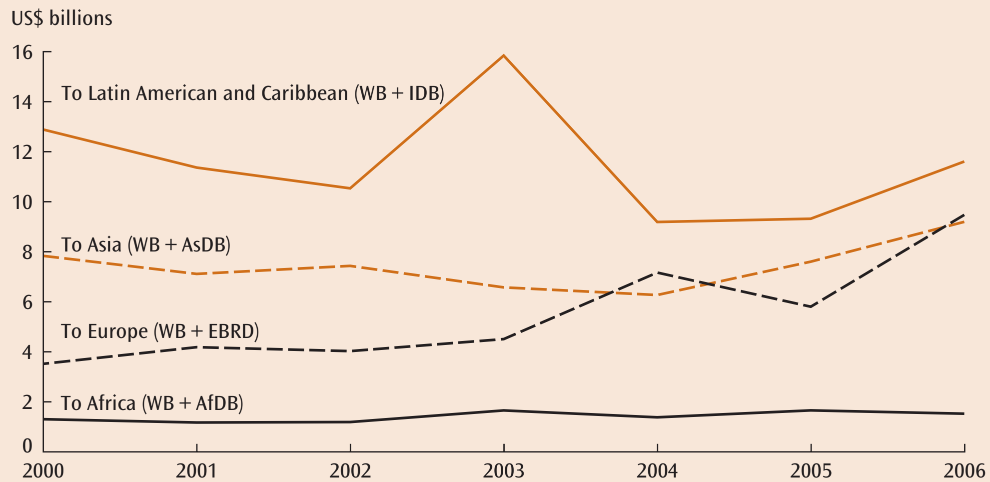
FIGURE 5.2 Concessional and nonconcessional lending by MDBs, 1999–2006



Source: Staff of the big five multilateral development banks.

Although donors have agreed on the need to have firm MDRI financing commitments backing the 10-year disbursement period of each future IDA replenishment, their actions do not yet reflect these commitments (figure 5.5). Monitoring donors' commitments on financing the MDRI is important to ensuring the additionality of donor financing over time. Of the 34 donor countries that have pledged to contribute to the MDRI replenishment of IDA, 28 had provided their Instruments of Commitment (IoC) as of end-December 2006.[10] IoC provide firm or unqualified financing commitments of $3.8 billion (representing 10 percent of the original projected cost of the MDRI) and qualified financing commitments of $20.5 billion (56 percent of total MDRI costs).[11] This leaves a gap between total costs and commitments of $12.4 billion (34 percent of total MDRI costs). Regarding forgone credit reflows resulting from the HIPC Initiative, donors have provided firm financing commitments to cover $1.4 billion in HIPC costs occurring under IDA's 14th replenishment (IDA-14). Beyond that, donor commitments will be needed to cover HIPC and

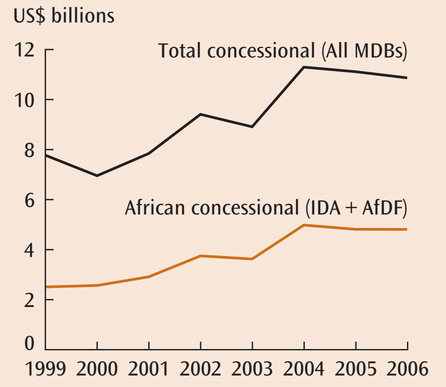
FIGURE 5.3 Nonconcessional lending by MDBs to different regions (gross disbursements), 1999–2006



Source: Staff of the big five multilateral development banks.

MDRI financing over the next two decades or so. Donors need to be mindful that any shortfall between targeted and actual commitments undermines IDA's long-term financial capability. The upcoming replenishments of the MDBs' concessional windows will be an important test of donor's intentions regarding their support for the MDRI and the future role they see for MDBs in a changing aid environment.

FIGURE 5.4 Gross disbursements of concessional lending by MDBs, 1999–2006

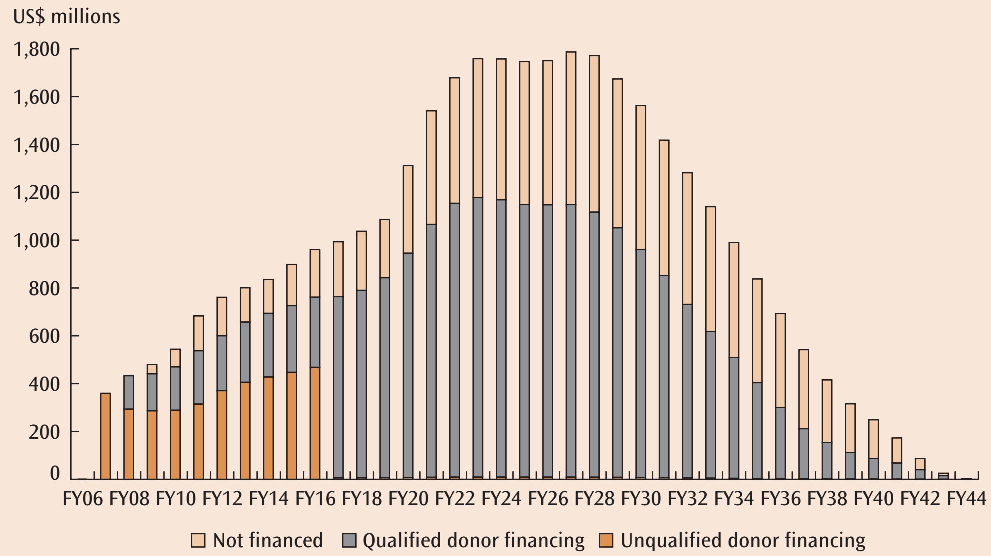


Source: Staff of the big five multilateral development banks.

Selectivity of Financial Resources in Support of the Development Agenda

As part of the Monterrey compact, MDBs committed themselves to using more transparent and incentive-improving resource allocation systems aimed at maximizing aid effectiveness and encouraging stronger policies and institutions in recipient countries. At present, the foundation of each of these systems is a formula that calculates the share of the resources that will be allocated to individual countries on the basis of their financial need (proxied by population and income per capita) and performance. Each MDB combines these factors somewhat differently in its performance allocation formula and uses different methods to

FIGURE 5.5 Donor financing commitments to IDA under the Multilateral Debt Relief Initiative, as of December 31, 2006 ($ million equivalent)



Source: World Bank 2007. "MDRI: Update on Debt Relief by IDA and Donor Financing to Date."

accommodate exceptional circumstances, such as countries in postconflict situations. In the past, however, MDBs have taken significant steps to harmonize their performance-based allocation (PBA) systems and country performance and institutional assessment (CPIA) questionnaires. Because of their performance-based allocation formula and the use of per capita income ceilings to determine countries' eligibility for MDBs' concessional resources, MDBs continue to exhibit higher policy and poverty selectivity than bilateral aid agencies (See figure 5.6.).[12]

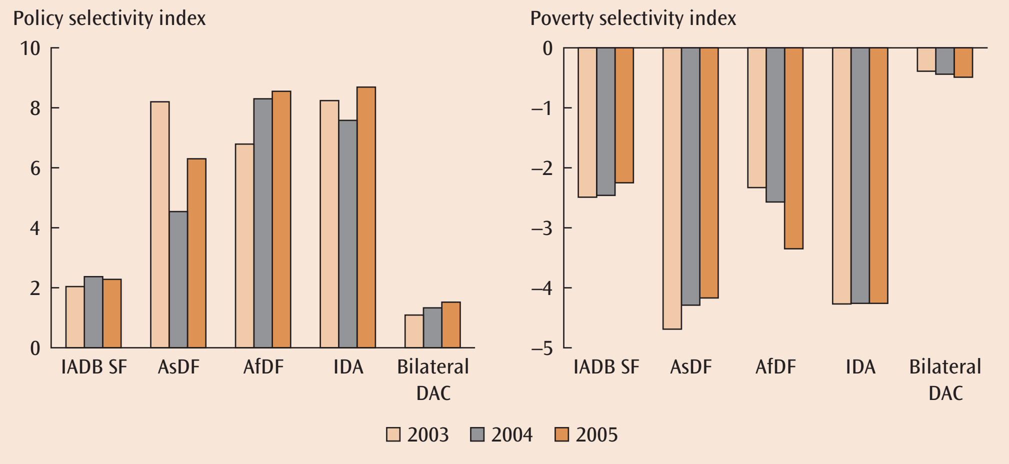
As described in the final section of this chapter, the MDBs recognize fragile states' special needs and circumstances and their difficulties in making investments that promise sufficient returns to enable repayment even of concessional loans. In response, MDBs have increasingly offered support in the form of grants, which now make up a much larger percentage of disbursements to them (31 percent) than among other low-income countries (9 percent; figure 5.7). Also, both the AfDB and the World Bank have developed exceptional allocation frameworks for postconflict countries to allow countries to benefit from additional resources over and above their performance-based allocation for a limited period.

Progress in Results Management

The Third Roundtable on Managing for Development, held in Hanoi in February 2007, built on the findings of the 2004 Marrakech Roundtable. It provided a venue and format for each of the 43 country delegations to summarize their experiences and to initiate a country action planning process, with targets for steps to be completed in advance of the Ghana High-Level Forum on Aid Effectiveness to be held in September 2008. The Hanoi Roundtable provided compelling evidence that country partners are keenly interested in improving the effectiveness of development assistance and domestic resources by strengthening systems that enable information on expected and actual results to be used in decision making.

The agenda for the Hanoi meeting was based on the recommendations of country practitioners and development partners made through an 18-month Mutual Learning Initiative supported by the Joint Venture on Manag-

FIGURE 5.6 Policy and poverty selectivity of concessional assistance by MDBs



Source: World Bank staff calculation based on Dollar and Levin (2004).

ing for Results (one of four subgroups working on behalf of the Working Party on Aid Effectiveness of the OECD-DAC). Representatives of 22 countries and bilateral and multilateral agencies met in a series of workshops (in Burkina Faso, Singapore, Uganda, and Uruguay) leading up to the Roundtable.[13]

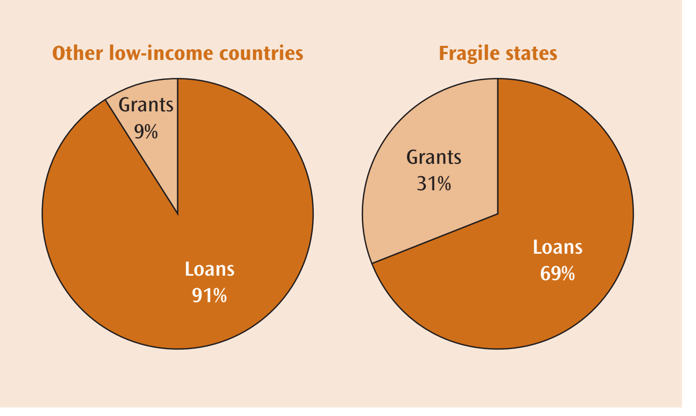
This process, as well as country experience with poverty monitoring, suggests that building country capacity to manage for development results needs to focus on five thematic areas:[14]

- Leadership and political will
- Strong links from results to planning and budgeting processes, to strengthen incentives to use information on expected and actual results in decision making
- Evaluation and monitoring tools necessary to generate feedback on the performance of policies and programs
- Mechanisms established by donors and country partners that encourage mutual accountability
- Statistical capacity in developing countries and systems for applied data use in government, both to supply and help generate greater demand for managing for development results in developing countries (box 5.6).[15]

Several observations that emerged from the Roundtable relate to the progress that country and donor partners are making as they work to achieve greater development effectiveness through managing for results:

- *Progress and opportunities at the country level*. A key achievement of the Roundtable is that each of the country delegations worked to initiate a country action planning process, to identify ways that they could work to strengthen their own capacity to manage for results, applying lessons learned along each of the five thematic elements of capacity. Many countries recognized that, despite real progress toward articulating a poverty-monitoring framework at the national level, its implementation is constrained by fragmentation at the line ministry and agency level. Country partners are thus keen to develop results frameworks at the sectoral level. These frameworks could then serve as a basis for harmonizing donor efforts to monitor and evaluate specific interventions and overcome the obstacles presented by the presence of multiple, partial and donor-driven, monitoring systems. Countries also expressed an interest in exploring the use of performance-based management tools, including output- and outcome-based disbursement principles, and they identified the need to engage key stakeholders such as legislators in both defining and monitoring the achievement of results. A particularly strong common theme running through the planning discussions was the importance of grounding results-based management systems in stronger accountability to citizens. Many country action plans proposed to strengthen participatory approaches and to ensure that results were communicated transparently to the public. Many countries were keen to explore better methods for assessing and tracking citizen satisfaction. All of the country delegations stressed the need to strengthen statistical capacity to ensure that the information nec-

FIGURE 5.7 Grants and loans as shares of MBD concessional disbursements in 2006



Source: Staff of four MDBs: World Bank, AfDB, IADB, and ADB.

BOX 5.6 The Marrakech Action Plan for Statistics and the Accelerated Data Program

To address short-term data needs, a pilot Accelerated Data Program (ADP) was launched in 2006. Its goal is to produce relevant data for policy design, monitoring, and evaluation by implementing a coordinated program of data collection, analysis, and dissemination. The program focuses on sample household surveys, because they provide estimates of many indicators relating to the MDGs and other key outcomes, as well as data needed for research and impact evaluation.

The pilot ADP is being implemented in selected countries in Africa, Asia, and Latin America by the World Bank and the PARIS21 Secretariat of the OECD, in cooperation with multiple partners (UN agencies and others). Two million dollars a year has been allocated for the pilot ADP through the Development Grant Facility for the Marrakech Action Plan for Statistics (MAPS) for 2006–08.

The MAPS and the ADP provide robust frameworks, but a stronger commitment from donor agencies is still needed. The PARIS21 Secretariat estimates that development partners are spending about $70 million a year on statistical capacity improvement in Sub-Saharan Africa. Implementation of the MAPS in IDA countries in Sub-Saharan Africa, including the scaling up of the pilot ADP, is estimated to require an additional $60 million a year.

Source: World Bank. "Better Data for Better Results: An Action Plan for Improving Development Statistics."

essary for an effective results management system is made available. Countries put a high priority on finding ways to learn from countries that have done more to build up their systems (Chile, China, Thailand, Vietnam, and others). They recognized the value of peer learning between countries and were keen to participate in the communities of practice that are developing to facilitate country-country learning. The Roundtable included a meeting of a community of practice in the Asia region (supported initially by the ADB, in which practitioners among 11 Asian countries are networking with each other to share practices and experience), and the launching of a similar community of practice in the Africa region.

- *Progress and opportunities at the donor level*. Donors recognized that managing for results should not be seen mainly as a set of measuring and monitoring tools, although statistics and monitoring and evaluation are essential components. Donors as well as country partners agreed that it was useful to unpack the notion of capacity to manage for results along the five themes of the Roundtable so as to think of results management as a country system, which, along with those for procurement and financial management, permits greater accountability and more credible feedback on performance. The issue of donor agency effectiveness was also prominent in the discussions. In particular, the question was raised of how to strengthen the focus on managing for results, bearing in mind the Paris Declaration provisions on results-based frameworks and mutual accountability. Donors will be pursuing ways to support country-to-country learning and the further development of communities of practice, as well as finding ways to follow up on the action planning process in individual countries. The strongest conclusion to emerge from the donor discussions, however, was the urgent need to scale up resources to support stronger statistical systems at the country level, through finding ways to support, financially and with technical know-how, the further development of statistical capacity. This should serve the need for monitoring sectoral performance as well as that of central agencies, while accelerating the progress made through the Marrakech Action Plan on Statistics.

The Common Performance Assessment System

The Common Performance Assessment System (COMPAS) is an interagency effort to develop a common system that all MDBs can use to monitor their results orientation. COMPAS focuses on processes and results within the control of the institutions themselves. Its intent is not to compare performance across different MDBs—such comparisons are exceedingly difficult, given that the institutions themselves are so diverse—but rather to provide baseline data against which each institution can measure its own progress over time.

The three pillars of COMPAS—actions to support country capacity for managing for development results, actions to improve the results orientation of internal systems, and actions to improve interagency cooperation for results—are described in *Global Monitoring Report 2006*. In 2006 a new COMPAS report was prepared under the leadership of the IADB (chairmanship of the COMPAS group rotates among members).[16] The report examines the seven performance categories developed for the 2005 report, adjusted to reflect the feedback received on the first COMPAS report. Broadly speaking, the changes give greater specificity to the indicators used, reduce the room for discretion in the provision of answers, and increase the objectivity and credibility of the COMPAS itself.[17] As a result of these changes, few comparisons are possible between this year's and last year's COMPAS, but this year's COMPAS should provide a sound basis for tracking future progress (Box 5.7).

The 2006 COMPAS report illustrates the MDBs' commitment to self-assessment. It also indicates their willingness to disclose information about the way they conduct business and the way they organize themselves to meet their strategic development objectives. The annual *Global Monitoring Report* provides a vehicle for communicating these results to the broad development community, but greater effort is needed in communicating and sharing the results of this exercise within each institution. Review and discussion by both management and staff are critical to ensure that the findings permeate the institutions and do not simply gather dust in institutional files.

The 2006 COMPAS identifies two new opportunities. First, the similarities between the private sector windows of the four MDBs and the EBRD may militate in favor of their merging their efforts under a more coherent performance assessment reporting format. Second, other multilateral organizations have expressed an interest in joining the COMPAS effort. In particular, the MDB Working Group on Managing for Results will be discussing proposals from International Fund for Agricultural Development and the Islamic Development Bank (IsDB) in the COMPAS in the spring of 2007.

Improving Harmonization and Alignment: MDBs and the Paris Declaration

All the MDBs (together with the OECD DAC and the UNDP) cosponsored the 2005 High-Level Forum, which adopted the Paris Declaration on Aid Effectiveness. The cosponsorship by the MDBs reflects their commitment to improving the effectiveness with which aid is planned, delivered, and managed.

Country-level monitoring of the implementation of the mutual commitments in that declaration, including through 12 quantitative indicators of actions, took place for the first time in 2006 (table 5.1). Along with bilateral and other donors, the ADB, the African Development Bank (AfDB), the IADB, and the World Bank participated in exercises to measure performance in 34 countries in which partner country and donor performance had been surveyed. Results of this 2006 monitoring round will serve as a baseline for reviewing progress in 2008 and against the agreed 2010 targets

BOX 5.7 Are the MDBs focusing on results?

Several important findings emerge from the 2006 COMPAS report.

Support for country capacity to manage for development results is increasing. MDBs use various approaches to assess country capacity to manage for results. The ADB and the AfDB produce diagnoses for a growing number of countries as part of their country strategy formulation. The IADB carries out capacity diagnostics through a specific program (PRODEV) that covers 69 percent of countries in the region. MDBs also support the strengthening of capacity through a variety of means, including World Bank–funded broad public sector management projects. Eighteen of 29 EBRD member countries received technical assistance through its Legal Transition program.

Country Strategies are being put in place, but implementation weaknesses remain. Guidelines for preparing country strategies require sound results frameworks—clearly defined monitoring indicators, with baseline data and targets to be reached at the end of the strategy implementation period. There is significant room for improving the results focus of country strategies against these criteria.

Concessional resources are being allocated on the basis of performance. All of the MDBs (except the EBRD, which does not provide concessional financing) allocate concessional resources on the basis of performance, as reflected in policies, institutions, and portfolio performance, among other criteria. Allocation criteria also typically include a "needs" factor.

Project performance could be improved. More than half of all projects reviewed received overall quality-at-entry ratings of satisfactory or better. However, there is significant room for improvement in terms of monitoring frameworks and implementation: 3–25 percent of projects suffered from unsatisfactory implementation progress, were unlikely to achieve their development objectives, or both. Moreover, implementation delays affected 34–69 percent of operations. Completion reports prepared as a percentage of number due ranged from 57 to 100 percent across the MDBs. Some 51–94 percent of reports indicated satisfactory or better use of outcome indicators. Development objectives were achieved in 61–78 percent of projects. EBRD disbursed 55 percent of its commitments annually; the disbursement ratios at other MDBs were just 20–30 percent.

Application of institutional learning from operational experience is not sufficiently systematic. All of the MDBs have formal devices for drawing lessons from operational experience and disseminating them to staff members and member countries. It is not clear how well the lessons are applied, however. Independent evaluation offices in all MDBs help promote the learning of lessons and accountability through evaluations of individual operations, sectors, themes, and country strategies and programs. On the whole their recommendations appear to influence the way MDBs conduct their business, but only the World Bank has a formal mechanism to keep track of and measure management's adoption of independent evaluation recommendations.

Salary increases are related to results. All of the MDBs have programs in place to strengthen the results-related skills of their operational staff; in recent years they have provided training on such topics as results-oriented planning, budgeting and monitoring, and evaluation. Although specific approaches vary across institutions, all MDBs link salary increases to the accomplishment of agreed upon objectives.

Sources: AfDB, ADB, EBRD, IADB, and World Bank. *2006 COMPAS: Multilateral Development Banks Common Performance Assessment System: Steering for Results.* January 26, 2007.

for collective action. Preliminary results of the survey were presented in the 2006 Asian Regional Forum on Aid Effectiveness held at ADB to discuss best practices, and measures to enhance implementation of the Paris Declaration in the Asia and the Pacific region.

For the Paris Declaration to achieve results at the country level, MDBs and other donors will need to bolster the capacity of partner

TABLE 5.1 Indicators pertaining to MDB implementation of the Paris Declaration
(preliminary data based on 2006 Round of Monitoring)

Indicator	MDBs	Other donors	2010 Target
4: Strengthen capacity by coordinated support	47%	47%	50%
5a: Percentage of aid that is disbursed using country public financial management systems	44%	36%	Reduction of aid not using country PFM systems by a third or more
5b: Percentage of aid that is disbursed using country procurement systems	40%	38%	Target under development
6: Number of Parallel Implementation Units (PIUs)	444	1,323	Reduction by 2/3
7: Percentage of aid that is disbursed on time	72%	62%	Reduction by 50% of aid not disbursed on time
9: Percentage of aid that is disbursed through program-based approaches	52%	40%	66%
10a: Percentage of missions that is done jointly with other donors	21%	26%	40%
10b: Percentage of country analytic work donors that is done jointly with other donors and/or partner government	52%	55%	66%

Source: Preliminary results from the 2006 Survey on Monitoring the Paris Declaration, OECD/DAC (March 1, 2007).
Note: The data reflect implementation as of 2005 for donors that provided a grand total of more than $100 million for the government sector. The data are undergoing final review by the OECD/DAC. More reliable data will be presented in OECD/DAC reporting in April 2007.

countries to lead the effort, take action in their own programs, and push for greater collective implementation throughout the donor community. Substantial actions are being taken. The MDBs are continuing to harmonize their procedures, to strengthen country systems, and to align their own activities with these systems where possible. Country financial management systems are currently being used for 44 percent of all lending by MDBs.

One key commitment in the Paris Declaration is to increase the proportion of aid delivered through program-based approaches that are closely aligned with a country's sector or subsector priorities and strategies, using country systems and procedures to the extent possible, harmonized among donors, with close attention paid to capacity building (indicator 9 of the Paris Declaration). Such program-based approaches are typically delivered through sectorwide approaches, development policy operations, and projects with joint financing—all key means of encouraging collaboration among financing institutions and promoting the alignment of programs with country priorities, strategies, and systems.

Joint analytic work can lever a more harmonized delivery of aid. Not only does joint analytic work lay a cost effective basis for forging a common understanding of issues and providing more consistent advice on strategy, it also provides the basis for future collaboration and donors on projects and programs, drawing on common performance assessment frameworks and conditionality. Data from the monitoring survey show that the MDBs now undertake 52 percent of their analytic work jointly, and further attention will be needed to meet the target of 66 percent for this indicator by 2010.

Decreasing reliance on use of project implementation units (PIUs) that are parallel to government administrative structures and institutions and in many cases undermine capacity building is a common challenge facing all donors. The monitoring data indicate that MDB-supported programs account for one quarter of all these parallel PIUs. To meet the ambitious 2010 Paris target of a two-thirds reduction of these units will require a substantial change in how MDBs organize for project management and implementation, and work more closely with integrated PIUs.

MDBs are finding new ways to help achieve the objectives of the Paris Declaration. Of particular note has been the increasing use of joint or collaborative country assistance strategies to harmonize country diagnostics, align efforts with country priorities, and prepare a coordinated portfolio of activities. Such exercises have recently been completed in Bangladesh and Cambodia (by the ADB and the World Bank), Nigeria (the World Bank), and Uganda (the AfDB and the World Bank) and are virtually complete in Tanzania (the AfDB and the World Bank). Similar work is under way or planned in Ghana, the Kyrgyz Republic, Malawi, Mozambique, Nicaragua, Vietnam, and Zambia and is being discussed in a number of other countries.

MDBs also have a role to play in helping ensure the integration of vertical programs into sector strategies by drawing them into strategy development and planning their own programs to ensure complementarity. They have begun to discuss the coordination of governance and anticorruption actions, and planning is under way to better harmonize legal documentation.

Special Topics for IFIs

This section describes actions by the IFIs in the two areas highlighted by this year's *Global Monitoring Report:* gender equality and fragile states.

Promoting Gender Equality

Following the 1995 United Nations World Conference on Women in Beijing, the IFIs realigned their commitment to gender equality and women's advancement by mainstreaming gender policies and strengthening institutional arrangements to achieve gender-related objectives. In 1998 the ADB adopted a policy on gender and development that marked a shift from targeted interventions in the social sectors to identification of gender equity as a cross-cutting issue in all areas of operation. The AfDB adopted a gender policy in 2002. The IADB expanded the scope of its Women in Development Policy (1987) to pursue a dual strategy of mainstreaming gender equality in its lending portfolio and addressing critical themes of women's empowerment. Acting on a commitment made in Beijing to address domestic violence, the IADB mainstreamed its initiative to reduce domestic violence against women into a broader initiative to enhance citizen security throughout Latin America and the Caribbean.[18] The World Bank had already adopted a gender policy in 1990, but its emphasis on mainstreaming increased markedly after Beijing. Its Board of Executive Directors adopted a gender mainstreaming strategy in 2001.[19]

Progress toward mainstreaming gender policies has been modest but steady. The share of gender-responsive loans at the ADB increased from 15 percent in 1998 to 38 percent in 2004.[20] At the IADB, lending operations that mainstreamed equal opportunities for women and men represented 37 percent of the total investment of the loan portfolio between 2002 and 2005, up from just 24 percent in 1998–2001.[21] The World Bank increased its share of projects incorporating gender issues in the design stage from 68 percent in 2001 to 87 percent in 2004–05.[22]

The AfDB, the IADB, and the World Bank all recently adopted gender action plans to make their gender mainstreaming policies more strategic and operationally effective. The ADB, which adopted a focus on gender as an important cross-cutting theme in the 1990s, has been effectively using project-level gender action plans for some years.[23] It is also developing an institutionwide three-year plan of action.[24] The AfDB adopted a gender plan of action in 2004 and included gender among 14 key indicators of development effectiveness.[25] The gender mainstreaming action plan at the IADB, adopted in 2003, has helped target activities, develop sounder actions, and monitor these actions more effectively.[26] "Gender Equality as Smart Economics," the World Bank's gender action plan crafted in 2006, focuses on previously neglected economic sectors. It highlights key upstream and downstream actions, linking them to outcomes and indicators of success.[27]

Despite these improvements, significant gaps remain, particularly in the areas of economic growth, agriculture, competitiveness, infrastructure, and private sector development, where progress has been slower than in the health and education sectors. Greater attention has been paid to gender in project design than in implementation; very little has been paid in monitoring and evaluation. Institutions have generally been slow to develop and adopt measurable indicators of progress in gender equality. The IFIs' internal rating systems have primarily measured good intentions (whether gender has been incorporated into project design) rather than results or financial commitments to gender issues.[28] Regarding the latter, an inherent problem arises in assessing the amount of resources allocated to an objective that by definition is fully mainstreamed. Since budget tracking is an important tool for accountability, the more the IFIs mainstream gender, the harder it is to hold them accountable.

The IFIs should use their comparative advantages to significantly scale up the MDG3 agenda. Specifically, they could:

- Invest dedicated resources in including gender equality and women's empowerment in results frameworks and the results agenda, and the associated impact evaluation work, to both strengthen gender equality interventions and increase accountability for their own performance
- Play a leadership role in strengthening the monitoring of MDG3 at the international level
- Assist client countries in significantly scaling up MDG3 interventions by using analytical, policy, and research instruments to help them assess the advantages of investing in gender equality; translating gender objectives into specific actions that can have a measurable impact on women's lives; budgeting adequate financial and technical resources to implement projects at scale and measure results; and aligning investments on gender equality with needed policy and institutional changes.

Supporting Fragile States

IFIs have been working closely together toward strengthening their support to fragile states by harmonizing their approaches along four main areas of specialized response: strategy, policy, and procedural frameworks; exceptional financial instruments; customized organizational and staffing approaches; and partnership work. Progress varies among international organizations, but all are committed to more effective and rapid responses to fragility (table 5.2).[29] At their meeting in London in March 2007, the heads of MDBs agreed to set up a working group on fragile states to identify common operating principles for engagement in fragile situations, enhance partnerships, and coordinate the division of labor within the MDBs and other partner agencies.

Strategies. The ADB's strategy for engaging weakly performing countries is designed to increase the effectiveness of existing and planned operations in countries characterized by weak governance, ineffective public administration, and civil unrest. Its framework for guiding operational planning and implementation includes a methodology for classifying such countries and alternative interventions that may be modified depending on the country context. The ADB emphasizes country ownership, bolstered by systematic capacity development.

The AfDB identifies 25 countries in its region as fragile. Of those, 16 have been designated "core fragile states." The AfDB is in the process of enhancing its assistance to these countries by strengthening its operational response and enhancing resource

TABLE 5.2 IFI reforms to strengthen response in fragile states

	IMF	WB	ADB	AfDB	IADB
Strategy	Under way	Yes	Under way	Under way	Yes
Business Procedures	No	Yes	Under way	Under way	Yes
Financing	Under way	Yes	Under way	Under way	Yes
Staffing	No	Under way	Under way	Under way	Yes
Partnerships	No	Yes	Yes	Yes	Yes

Source: Staff of the of the IMF, WB, ADB, AfDB, and IADB.
Note: Yes = Comprehensive specialized framework adopted and implemented;
Under way = Specialized framework under development or some specialized response implemented;
No = No specialized framework implemented.

mobilization capacity. The AfDB's envisaged strategy focuses on the following categories of engagement: (1) catalytic role; (2) strategic partnership; and (3) areas of minimal engagement. Where the AfDB undertakes a catalytic role, it proposes to engage in rebuilding state capacity and accountability and in rehabilitating and reconstructing basic infrastructure. Where it builds strategic partnerships, the AfDB intends to support economic and structural reforms and economic integration and regional projects. The AfDB will also step up its efforts in generating knowledge with respect to fragile states and situations in Africa. The proposed strategy also identifies a need to streamline and simplify the AfDB's procedures in these states.

Although it has not formally defined fragile states for separate strategic engagement, the Islamic Development Bank (IsDB) has developed policy notes on assistance to regional member countries experiencing fragility.[30] It also utilizes simple and flexible procurement and disbursement procedures for its work in fragile states, in line with procedures proposed for emergency response. Similarly, the IADB utilized special measures for its engagement in Haiti, which included simplified start-up requirements, broader eligible expenditure categories, and elimination of counterpart financing requirements.

The IMF is actively engaged in assisting almost all fragile states, although it also does not define them formally for such purposes. This engagement focuses in the IMF's core macroeconomic and financial areas of responsibility. Assistance takes the form of policy advice on fiscal, monetary, exchange rate, and financial issues; help in identifying gaps in the related institutional and legal frameworks; and technical cooperation to follow up much of this advice—all essential elements of state-building. In cooperation with the World Bank, the IMF assists countries seeking to qualify for debt relief under the enhanced HIPC Initiative and the MDRI, and also seeks to help them avoid the reemergence of debt problems afterward. While the IMF's direct financial assistance is generally not a major element of financing packages, for some countries its lending—most often through postconflict emergency assistance or the Poverty Reduction and Growth Facility (PRGF)—can also be important. IMF staff are currently preparing a report that reviews support to postconflict countries and other fragile states, and examines the adequacy of existing instruments in terms of policy flexibility and their capacity-building component.

Since the inception of the Low-Income Countries under Stress (LICUS) initiative, the World Bank has underlined the importance of supporting efforts that contribute to peace-building and state-building goals, highlighting the need for institutional flexibility and close international coordination. The World Bank has developed specific guidance on assistance strategies and transitional results frameworks in fragile states; they distinguish among countries that are facing deteriorating governance, those in postconflict or political transition, those currently in conflict or crisis, and those transiting from fragility. In February 2007, the World Bank's Board also approved a "New Framework for Rapid Bank Response to Crises and Emergencies," which provides quicker and more effective responses to emergencies and crises through accelerated and streamlined review and implementation procedures; it gives the World Bank the flexibility to respond to a wider range of fragile situations and clarifies the objective of its engagement to include adequate focus on the social aspects of recovery and peace-building.

Financing instruments and allocation. Both the AfDB and the World Bank have developed an exceptional allocation framework for postconflict countries. Like IDA's special postconflict assistance, the African Development Fund's postconflict enhancement factor allows countries to benefit from additional resources over and above their performance-based allocation for a limited period after they are designated postconflict countries. IDA extended the duration of exceptional assistance under the postconflict framework in IDA-14 to correspond with the results of research on the pattern of aid and absorptive capacity for countries emerging from conflict.[31]

Many fragile states face difficulties from the build-up of large and protracted arrears on their debt. The AfDB has established the Post-Conflict Country Facility (PCCF) to help countries emerging from conflict to clear these arrears. The IADB can grant limited grant financing to conflict-affected countries with large overdue debt payments, before arrears clearance. Recognizing the need to maintain positive financial flows, the IADB has introduced innovations in Haiti; ongoing IADB interventions combining investment and policy loans are complemented with a program of nonreimbursable technical assistance and nonfinancial products to underpin program and policy implementation and increase country knowledge. IDA can provide pre-arrears grants to postconflict countries if certain conditions are met. Under IDA-14 it can also provide exceptional support to countries that are re-engaging with IDA after a prolonged period of disengagement.

Organizational capacity. All of the IFIs recognize the importance of increasing their field presence in fragile states, where low capacity and volatile conditions require sustained assistance on the ground and empowerment of staff in the field. Until recently, the AfDB had limited field presence in African fragile states, and two-thirds of the World Bank's field offices in fragile states had no or just one international staff member in 2005. Both institutions are taking steps to increase their field presence. Under its decentralization strategy, which is currently being implemented, the AfDB is strengthening its field presence in fragile states by opening field offices in Chad, the Democratic Republic of Congo, Sierra Leone, and Sudan. The IADB has posted additional staff to Haiti, aligned with areas of portfolio focus, and delegated additional responsibilities to its representative in Port-au-Prince. The World Bank has proposed an increase of at least 50 percent in its field positions in fragile states over the next two years.

Partnerships. The IFIs have worked with one another and participated in wider initiatives to develop international consensus on shared approaches and tools in fragile states. The World Bank co-chairs the Fragile States Group within the OECD DAC; this group includes the ADB and the AfDB. There is a general shift toward joint assistance strategies and cofinancing with other donors: the World Bank has four joint country assistance strategies in place in fragile states and two others under way; the ADB and the AfDB emphasize cofinancing with other partners.

Future priorities. All the IFIs recognize the need to strengthen approaches to fragile states by focusing on strategy, financing instruments, organization and staffing, and partnerships. Specific priorities going forward include the following:

- Support efforts under the Paris Declaration to implement the Principles for Good International Engagement in Fragile States.
- Strengthen exchanges among the IFIs on strategic assistance models, strengthening and harmonizing business policy and procedures, financing instruments, and organization and staffing issues.
- Strengthen common approaches with other international partners, in particular through efforts to improve both coordination and division of labor with organizations leading peace-building efforts, such as the United Nations and regional institutions.
- Review the types of financial assistance provided to different kinds of fragile states along with the effectiveness of resource use in these countries.

The IFIs have been supportive of strengthening coherence across the diplomatic, security, and development spheres as they engage in fragile states, as demonstrated by their support of the United Nations Peace-Building Commission. A number of other international actors, including the above-mentioned Fragile States Group, now have work under way to consider how to better integrate approaches among diplomatic, security, financial, and development actors in fragile states. The World Bank also coordinates with the UNDG in making postconflict needs assessments: these are joint planning tools that cover the political, security, social, and economic spheres; they are currently undergoing a revision to strengthen their focus on peace building, institution building, and the monitoring of implementation and results. The regional development banks participate in these joint assessment and planning missions for countries in their regions.

Notes

1. IMF (2006).
2. World Bank (2007).
3. World Bank (2006).
4. International Task Force on Global Public Goods (2006).
5. World Bank (2006).
6. MDBs Report (2006).
7. "Report of the External Review Committee on Bank-Fund Collaboration" (2007).
8. The doubling of EBRD lending in USD terms is a combination of actual growth and exchange rate movements. In terms of Euros, growth has been about 15 percent—from €4.3bn to €4.9bn.
9. The full cost to IDA, the AfDF, and the IMF of the MDRI was estimated to be around $50 billion in July 2006. IDA (2006).
10. The other six donors—Hungary, the Republic of Korea, Kuwait, Saudi Arabia, South Africa, and Switzerland—are in the process of securing required approvals to issue their instruments of commitment.
11. Firm financing commitments for the MDRI are backed by necessary legislative and parliamentary approvals in the donor country. Qualified financing commitments are not backed by such approvals and are subject to a donor's future capacity and willingness to provide funding.
12. Dollar and Levin (2004).
13. These workshops and reviews of experience are summarized in the OECD's Sourcebook on Emerging Good Practices in Managing for Development Results (2006).
14. Bedi, Coudouel, Cox, Goldstein, and Thornton (2006).
15. World Bank (2004).
16. AfDB, AsDB, EBRD, IADB, and World Bank (2007).
17. A good example corresponds to the subcategory relating to the timely implementation of projects. The 2006 COMPAS offers a single metric for the disbursement ratio and for actual, versus planned, execution period.
18. Buvinic (2004).
19. World Bank (2001).
20. ADB (2006).
21. IADB (2006).

22. Gender and Development Group, World Bank (2006). Whereas the IADB and the ADB use as a denominator or comparator the totality of projects in the loan portfolio, the World Bank excludes from the exercise roughly 20 percent of projects that potentially have no gender-relevant dimensions.

23. ADB (2006).

24. ADB (2006).

25. Response to informal questionnaire, January 2007.

26. IADB (2006).

27. World Bank (2006).

28. How much is spent on gender issues is difficult to determine, especially as these issues are increasingly mainstreamed.

29. Although the Bank has approved a new policy framework and business procedures for its response in fragile situations and it provides special financing to fragile countries through the LICUS Trust Fund, it continues to work on strengthening its support to this fragile group of countries. The IADB experience is based on the single fragile country in the region (Haiti), for which interim country assistance strategies were formulated and regularly updated. EBRD does not have programs targeted to fragile states, but does have two special programs for their least advanced members (the Early Transition Countries and the Western Balkans countries).

30. Unlike that from other MDBs, the IsDB's assistance to fragile states includes a substantial element of humanitarian assistance. The primary focus is on emergency relief, followed by basic social and economic infrastructure and long-term rehabilitation and reconstruction.

31. The ADB invests in technical assistance and capacity building in fragile states, usually in the form of grants. The AfDB continues to provide emergency relief assistance in the form of grants to affected countries, many of them fragile states. The IsDB has a special assistance account, the Waqf Fund, to provide humanitarian relief to member countries and Muslim communities affected by natural disasters and calamities. The World Bank established the LICUS Trust Fund from a series of grants from the IBRD surplus, to support peace building and capacity building in fragile states, with a focus on countries in nonaccrual status.