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OED IDA REVIEW

PROCEEDINGS NOTE IDA REVIEW EXIT WORKSHOP

**Sponsored by the Operations Evaluation Department
November 28–29, 2000
World Bank Headquarters, Washington, D.C.**



February 14, 2001

Operations Evaluation Department

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Director-General, Operations Evaluation	:	Mr. Robert Picciotto
Director, Operations Evaluation Department	:	Mr. Gregory Ingram
Operations Adviser, OEDDR	:	Mr. Nils Fostvedt
Task Manager, IDA Review	:	Ms. Catherine Gwin

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This paper was prepared by William Hurlbut (Writer/Editor, OED) under the direction of Catherine Gwin (Task Manager, IDA Review).

This is one of the series of background papers prepared for the OED IDA Review.

In the IDA12 Replenishment Report IDA Deputies requested OED to undertake an independent review of the IDA program during the IDA10-11 period and an interim review of IDA12. The Review concentrates on IDA's development contribution in six *thematic development priorities*: (i) poverty reduction; (ii) social development; (iii) private sector development; (iv) governance; (v) environmentally sustainable development; and (vi) gender. It also addresses four priority *process reform objectives*: (i) performance based allocations; (ii) enhanced CAS design and implementation; (iii) improved aid coordination; and (iv) participation.

The findings, interpretations, and conclusions expressed in this paper are entirely those of the authors. They do not necessarily represent the views of the Operations Evaluation Department or any other unit of the World Bank, its Executive Directors, the IDA Deputies or the countries they represent.

Acronyms and Abbreviations

CAS	County Assistance Strategy
CDF	Comprehensive Development Framework
CODE	Committee on Development Effectiveness
CPIA	Country Policy and Institutional Assessment
ESW	Economic and sector work
IDA	International Development Association
IFI	International financial institution
IMF	International Monetary Fund
LACI	Loan Administration Change Initiative
NGO	Nongovernmental organization
OED	Operations Evaluation Department
PBA	Performance-based allocation
PER	Public Expenditure Review
PRSP	Poverty Reduction Strategy Paper
PSD	Private sector development
SME	Small and medium-sized enterprises

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INTRODUCTION

The IDA Review Exit Workshop brought together the Operations Evaluation Department study team, the IDA Review Advisory Committee, additional international external experts, and key Bank staff for two purposes.¹ The first was to obtain the views of the participants on a subset of issues being addressed by the IDA Review: poverty reduction, governance, and private sector development. The second was to discuss more generally IDA's policies and products, its performance in partnership with borrowers and other development agencies, and the IDA replenishment process.

In adopting this focus, the workshop dealt selectively with the background studies of the IDA Review.² Hence, this document does not purport to present a comprehensive overview of IDA issues. Nor is it intended to provide a full account of workshop discussions. Instead it provides highlights regarding three key issues, draws together key themes of workshop deliberations, and presents a set of potential implications for IDA13 from the perspective of workshop participants.

Origins and Mandate of the IDA Review

In the IDA12 Replenishment report, the Deputies recommended that the Operations Evaluation Department (OED) "undertake by March 2001 a review of the IDA program during the IDA10-11 period and an interim review of IDA12, including performance in implementing the recommendations of the Deputies set out in each of these Replenishment reports." The Committee on Development Effectiveness (CODE) of the Board of Executive Directors subsequently authorized the IDA Review in January 1999.

The IDA Review was charged with examining IDA compliance with recommendations made by the Deputies in the IDA10, IDA11, and IDA12 Replenishment reports (1994-present). It was then to assess the effectiveness of that compliance and use the evidence to draw conclusions that would lead to recommendations for the IDA13 replenishment process, which will begin in the first quarter of 2001.

The final report of the IDA Review will be completed and presented to CODE and the IDA Deputies by the end of March 2001.

¹ The workshop agenda and participant list are in Attachment A.

² The IDA Review has completed or nearly completed 10 major background studies covering the entire scope of recommendations made in IDA10 through 12: poverty, social sectors, private sector development, gender, environment, governance, Country Assistance Strategies, performance-based allocation, aid coordination, and participation.

KEY ISSUES FOR THE IDA REVIEW

The IDA10, IDA11, and IDA12 Replenishment reports endorsed poverty reduction as IDA's overarching goal. To help achieve that goal, they called for:

- Sharpening the poverty focus in Country Assistance Strategies (CASs), economic and sector work (ESW), and lending;
- Concentrating assistance on social sectors, broad-based growth, gender, environment, and governance;
- Increasing development effectiveness through greater selectivity and more effective development partnerships.

The IDA Review has studied virtually all the items on this broad agenda and weighed program and process compliance with the 170 related recommendations made by the IDA Deputies. The Exit Workshop chose to focus discussion on poverty reduction, governance, and private sector development. Its status as the overarching goal made poverty reduction an obvious choice for discussion. Recent Bank work in developing the Comprehensive Development Framework (CDF) and elsewhere has elevated good governance to a priority position in the campaign to achieve poverty reduction, hence the importance of discussing it at the workshop. Private sector development was selected because it is a vehicle for the promotion of broad-based growth, and because it is an area that lags in many IDA assistance programs. Following are summaries of presentations made at the workshop based on completed or ongoing IDA Review studies of these three issues.

Poverty Reduction

The IDA10 Replenishment report made specific recommendations regarding the need for poverty assessments, increasing the share of lending to social sectors and poverty-targeted interventions, and relating the entire portfolio to poverty reduction. IDA11 went on to recommend that CASs be centered on poverty reduction, that poverty assessments be participatory, that the gender dimension of poverty receive attention, and that poverty monitoring be enhanced. It also recommended that public expenditure reviews assess the overall pattern of spending in terms of the development needs of the poor. IDA12 presented four components of policy for poverty reduction: investment in people, promoting broad-based growth, supporting good governance, and protecting the environment.

Compliance. IDA efforts have generally complied with the recommendations to sharpen their poverty focus. IDA lending and non-lending work has clearly focused on poverty reduction: it has generated a huge volume of data and analysis about poverty in borrowing countries, ESW has evolved to strengthen poverty issues in country policy dialogue, participation has increased in poverty assessments, and the composition of the entire portfolio has shifted toward more social sector lending and poverty-targeted interventions. The institution has come a considerable distance since 1994 in terms of the focus on poverty reduction.

The shortcomings in IDA's efforts have mainly been in the implementation of the strategic approach to poverty reduction. While assistance strategies have considerably enhanced their focus on poverty reduction, they exhibit inadequate strategic prioritization of interventions for poverty reduction purposes. This weakness carries through to the lending program, which similarly lacks

strong strategic prioritization. Another difficulty has been in moving beyond macroeconomic adjustment to the second-generation reforms needed to extend and sustain pro-poor growth. Although adjustment lending has served to lay the foundation for broad-based growth, efforts conducive to private sector development have lagged and the share of investment in other priorities, for example, in agriculture and rural development, shows a worrying downward trend. Poverty monitoring generally has lagged behind IDA recommendations, although project-level monitoring is gradually improving. Overall, support for monitoring and evaluation internally and within borrowing countries, which is a critical input, has been fragmented and inadequately resourced.

Effectiveness. The poverty reduction-related performance of IDA at the country level has been promising, especially in laying the foundations for a return to growth and in supporting significant improvements in social sector investment. Sustaining this growth and encouraging the participation of the poor is a more complex task. Even in countries where there has been success, such as Vietnam and Uganda, contradictory trends are now emerging. In Vietnam, for example, the trend toward increasing poverty reduction has now slowed, as more deep-seated structural changes are required. In Uganda, a large percentage of the population has not yet benefited from the past several years of renewed growth.

Behind these contradictions lie several factors. First, countries themselves have equivocated in their commitment to reform programs. Conditionality, some now argue, has not been used effectively to secure genuine commitment. Second, it has been difficult to come up with a practical policy mix that supports broad-based growth. The proper sequencing of macroeconomic adjustment with other necessary and fundamental changes in such areas as property rights, tax reform, and rule of law remains elusive. Third, the decline in lending to rural development and agriculture, particularly in Africa, is inconsistent with the broad-based rural growth mandated in many assistance strategies. Fourth, private sector development does not yet have clearly articulated connections to the Bank's poverty reduction mission and governance has only recently come to center stage in that mission.

Future Directions. The Poverty Reduction Strategy Paper (PRSP) process is similar to what the IDA Deputies have called for in the IDA recommendations to mainstream poverty reduction. The underlying principle is a results-oriented strategy that is country-driven. It remains to be seen whether this instrument will add value in the form of selectivity, prioritization, and consolidating lessons and experiences. It can serve either to consolidate effort or to complicate without effect. Ownership, not just compliance, will clearly be important. But the challenge is for PRSPs to solve the effectiveness shortcomings noted.

Governance

Governance issues have figured in the Deputies' recommendations in all three replenishments covered by the IDA Review. IDA10 made recommendations about strengthening the rule of law and public accountability systems, as well as the promotion of transparency and participation. It also made recommendations about building governments' ownership of reform, and building their capacity and institutions. It instituted the use of public expenditure reviews (PERs) and promoted coverage of governance issues in CASs. IDA11 included recommendations about strengthening tax administration and addressing public expenditure management in PERs to examine whether military expenditure or state subsidies are consistent with the borrower's development objectives. IDA12 presented a full menu of governance areas for attention: judicial reform, corruption,

promoting transparency, public accountability, and stakeholder participation in governance reform. It also specified that governance was to be explicitly and systematically addressed in the CAS and in country dialogue.

Compliance. Compliance with the recommendations of the IDA Deputies has grown since 1994. During fiscal 1994–96 compliance was only partial as senior management support for the mandates was weak, methodologies were undeveloped, and there were few specialist staff to carry out the recommendations. Since fiscal 1997, however, the momentum for dealing with governance issues has been growing. Policies have been clarified and research has been initiated. Toolkits and indicators are being developed, specialists have been hired, and governance concerns have been mainstreamed in IDA projects.

Policy guidance on governance has been developed through a number of documents, including the *World Development Report 1997* and several recent reports, including *Helping Countries Combat Corruption* (1997 and a progress report in 2000) and *Reforming Public Sector Institutions and Strengthening Governance* (2000). Other reports have developed indicators for governance and analyzed the cost of corruption. CASs now include governance as a core issue. PERs are giving greater attention to institutional and management aspects in their analysis, but they avoid the military expenditure issue. Other shortcomings in compliance have consisted of faltering civil service reform projects, limited initiatives in tax administration reform, and a weak approach to judicial system reform. Public financial accountability has been particularly weak; no IDA country has a fully credible system of public financial accountability. The only attempt on this front, LACI (Loan Administration Change Initiative), is a very limited project-focused approach that does not address systemic weaknesses. IDA has also only recently started doing basic diagnostic work. The next step is to persuade borrowers to establish and start implementing reform.

Effectiveness. It is still early, but the efforts to date have raised awareness and elevated governance issues to a higher priority. The problems involved are complex and deeply rooted in the political, social, and cultural systems of borrower countries. There are no quick fixes to these problems, and it is clear that success will depend on working to help build institutional capacity and accountability systems over the very long term. Solving the problem will call for a learning approach that will require patience and persistence. Technocratic solutions will have to come second to addressing the political obstacles to reform. The weak outcomes achieved to date point to a need for a more multi-disciplinary approach to institutional development. Effectiveness is impeded by a shortage of staff specialized in institutional reform and change management.

Future Directions. On the policy front, IDA needs to resolve the conflict between increased government ownership and political obstruction of a reform agenda. It is also critical that public financial accountability be seen as a sine qua non for IDA credits. To help ensure that IDA resources are not misdirected, governance should be given greater weight in the allocation of IDA resources. Success will depend in part on having all the donors on the same page; that will mean much more rigorous donor coordination from the top down.

Improving compliance with the recommendations of the IDA Deputies will require more budget resources and a buildup of public sector reform expertise in the Bank. Institutional development work will require a more integrated multi-sectoral, multi-disciplinary approach. This might be achieved through developing country institutional development assistance strategies. Finally, a

much-expanded small grants program could be used to help nurture a civil society voice in borrowing countries.

Private Sector Development

Private sector development (PSD) is important for job-creating, broad-based growth, but IDA's efforts in this area have not been systematically linked to its poverty reduction effort and there are conflicting views on its comparative advantage and appropriate role in PSD. The PSD-related recommendations of the IDA Deputies have shifted gradually from creating an enabling environment for PSD toward tighter linkage with poverty reduction and the development of a PSD strategy for the Bank Group in IDA11 and 12. IDA10 introduced private sector assessments and recommended helping borrowers to develop a legal, regulatory, and incentive framework for PSD. IDA11 added a recommendation to address in the CAS the expansion of the borrower's export base. It also recommended that IDA promote the private provision of infrastructure and it stressed the importance of small and medium enterprises (SMEs) to create jobs for women. IDA12 mandated a private sector development strategy for the World Bank Group. It also recommended deepening of the financial sector in borrower countries and directed particular attention to privatization.

The PSD work of the IDA Review is ongoing and findings were not presented at the workshop. Rather, using background data on aspects of IDA's efforts, experts presented their views on what has worked and what more is needed. Three specific questions were addressed: Why is the private sector so slow to develop in IDA countries? What is or could be IDA's role in PSD? What does IDA do well and not do well in PSD? The answers revealed significant differences of opinion in three areas: how well IDA's efforts have worked to date; whether future efforts should be focused on specific segments of the private sector (e.g., small and medium-sized enterprises) or more broadly on conditions for encouraging a competitive business environment; and how the impact of PSD on environmental sustainability should be built into IDA's overall PSD strategy.

Compliance. Compliance with IDA recommendations related to increasing the efficiency of the private sector, participants said, has been limited. IDA has done too little on improving the flow of information to markets, building a technological base, and improving access to credit. The one area where it has shown some progress is in microfinance, but this is still in its infancy. IDA should do more, especially in helping to promote SME, some said. To make improvements in this area, participants suggested that IDA should take on the development of clusters and networking between small and large enterprises.

Privatization has been a major IDA focus, especially recently, but participants viewed the emphasis as misplaced and too ideological. In its privatization activities, IDA has applied a common view: that the private sector is always better than the public sector. This is not always relevant, participants argued. In Bolivia, where a strong constituency was developed, privatization succeeded. The success was essentially "purchased" by linking privatization to receipts and pension payments for which there was strong public support. Privatization failed in Bangladesh, however, for lack of political support. Success with privatization not only depends on political support but also on the quality of existing institutions. For example, the weak policy systems of transition countries hinder privatization—though Bank support has helped the process.

There are many necessary preconditions for encouraging the private sector to enter new areas: macroeconomic stability, continuity in public policy, supportive legal and regulatory frameworks, the will to develop financial and knowledge markets, human resources, physical infrastructure, good law and order. Among IDA's main borrowers, however, only China and India were said to have these conditions currently.

Effectiveness. Participants held that IDA's record in promoting PSD has been poor for three reasons. First, IDA has given too little attention to SMEs, which account for 65-80% of the workforce. Second, IDA has not concentrated enough on analyzing country capacity and on understanding country situations. IDA's strength lies in its ability to do serious country analytic work, but this strength has eroded. Third, it has proved difficult to incorporate the goals of poverty reduction and environmental sustainability into PSD activities. One reason for this is that all three are cross-cutting issues. The approach to poverty reduction generally has been based primarily on stimulating GDP growth. PSD activities, while contributing to overall growth have not been used as a way to greatly increase employment, which would be a more direct route to poverty alleviation. Another way to increase the impact of PSD on poverty would be to shift private investment toward poorer countries.

Environmental sustainability, one participant said, has been incorporated in IDA's PSD projects and in its global strategy, but has not yet been fully addressed at the country level, where there has been a focus on precautionary "do no harm" approaches rather than on the active promotion of positive reforms. IDA has done too little to promote a business environment that would tilt the playing field in favor of businesses that promote environmental sustainability. IDA also lacks sufficient mechanisms to address regional environmental planning issues. Although most environmental issues are transboundary in nature, IDA has done little in this area.

Future Directions. Correcting the perceived shortcomings in IDA's PSD approach will require increased attention to country analysis, participants said. IDA should also do more to finance (or mobilize finance) for PSD projects aimed at reaching the poor. IDA's investment choices in PSD will require a careful and selective approach.

DISCUSSION HIGHLIGHTS

This section summarizes the major themes covered during the two-day workshop. It is based on a summary presented at the wrap-up session, supplemented with material from the various discussion sessions throughout the workshop. *The views presented are those of the workshop participants and not necessarily those of OED or of the IDA Review Team.* The views expressed will be taken into consideration in the revision of the current draft of the report.

IDA's Role and Comparative Advantage

Most of the development community considers IDA the linchpin of the development system. It has been in the forefront not only of the issues presented in this workshop but also in many other important areas of development. The effective exercise of its leadership, however, presents difficult challenges for IDA. How can it assume a global public policy role without dominating the development agenda? How does it manage the tensions between its corporate priorities and the priorities of its country clients? The current solution—putting the country in the driver's seat through the Comprehensive Development Framework and the Poverty Reduction Strategy

Papers—offers a hopeful direction, but it is not yet fully operational and issues remain for the evolution of IDA to accommodate this country-driven vision.

To paraphrase the view of some workshop participants, IDA should not be the “lender of last resort,” but rather the “lender of first resort for the things that it can do best.” IDA’s role in the development community, participants noted, is largely defined by its global vantage point, analytic strength, and convening power, but it has made incomplete use of these assets. For example, one participant pointed out that IDA has so far not been very assertive about bringing other donors into a shared vision and dividing the labor along the lines of comparative advantage. The workshop participants expressed consensus on three areas where IDA has comparative advantage: financing, knowledge, and aid coordination. These, combined with its strength in working with central governments, give it a unique perspective from which to help establish a framework for analysis and to assist in policy design.

The workshop raised questions about the Bank’s comparative advantage in broad-based judicial reform or tackling corruption beyond the scope of the Bank’s own operations. The risk of inequities implicit in governance discounts was mentioned as an area requiring care. Kenya and Uganda were offered as examples; lending to Kenya was stopped on the basis of governance issues, while Uganda continued to receive funding despite similar problems.

Performance

The workshop participants discussed not only IDA’s performance, but also the performance of other donor agencies and of borrowing countries.

Compliance with recommendations. The IDA Review finds that compliance with the recommendations of IDA10, 11, and 12 has generally been high, though it has been uneven in the issue areas discussed at the workshop. IDA’s performance has also been strong relative to that of other development actors. The findings of the review and the discussions in the workshop, however, raise issues regarding IDA’s performance, policies, products, pricing, and partnerships, and concerns about the way in which IDA goes about setting its development agenda.

While compliance with the recommendations of the IDA Deputies may be a raw measure of one sort of performance, it is not a measure of development effectiveness. The number of recommendations in IDA10–12—170 of them—and the highly challenging nature of those recommendations, participants said, are cause for concern, especially as many of the recommendations have unrealistic objectives or timetables. The mandates suggest a preoccupation among the IDA Deputies with instruments such as poverty assessments and private sector strategy at the expense of broader strategy (such as global public goods) and the achievement of results. This “mandate madness,” as one speaker called it, is contrary to the results-based management orientation of the “new Bank.” In this regard, IDA13 could make a major advance by undertaking the replacement of input-based funding with an outcome-based approach.

Accountability and aid quality. IDA does not act in isolation, however; its performance depends on both donor and country performance. Yet the accountability requirements placed on IDA seem disproportionate to those placed on other sources of development finance. IDA provides only 20% of global concessional financing and is extensively evaluated. Meanwhile, 80% of bilateral and other flows may not be evaluated to the same degree.

The playing field should be level when it comes to assessing results. Joint evaluations are not simply a fad of OED. If IDA and the broader development community are trying to figure who does what and where in assessing the total impact of aid on a client country, they need to work much faster, and in a much more coordinated manner, than they have been doing.

The workshop participants identified the quality of aid as an important concern for IDA13. Several participants pointed particularly to what one called “the scandal of technical assistance.” Technical assistance needs to become less a means of employing foreign consultants with sometimes-dubious expertise and more a vehicle for a country-based program. Yet the quality of aid has had less attention than the quality of policy in developing countries. David Dollar’s work has been very influential on this point, but more joint assessment is needed.

The transaction costs and administrative burdens imposed on poor countries by uncoordinated aid and unharmonized procedures are cause for concern regarding aid performance in general. Aid bombardment and high transaction costs are real problems for IDA’s borrowers (see Partnerships, below, for more on this issue).

Performance-based allocation. On the issue of country performance, workshop participants generally supported continuation of the Bank’s performance-based allocation (PBA) system, but they also expressed strong support for greater transparency in the design and use of the Country Policy and Institutional Assessment (CPIA) and other benchmarks used in PBA. On this issue participants also pointed out that it is important to avoid too tight a link between performance and budget allocations without reference to institutional weaknesses, decentralization concerns, or efficiency of resource use. Reference was also made to a recent OED study, which said that public expenditure reviews should be much more results-based than expenditure-based. There was interest in having the IDA Review cover in more detail how performance selectivity takes place at the disbursement level, not just at the commitment level, and checking whether other donors are similarly selective.

More attention is warranted to public enterprise reform, especially for utilities, heavy industry, and marketing boards and some banking systems. The fiscal drag of dysfunction in these areas is as high as the aid provided to poor countries. The foregoing raises questions about the validity of quantitative lending targets in the replenishment mandates—including the 40% target for social sector lending.

Selectivity. The need for flexibility in making allocations and disbursements, especially for post-conflict and potential turnaround countries, clearly argues for a PBA system that is not excessively rigid. On the other hand, some participants noted that strategic selectivity—letting other partners assume a greater share of the task—needed much more focus. Instrument selectivity and country selectivity were also considered important—several participants commented that IDA should not lend in poor policy environments. Selectivity, some said, should be driven not only by per capita income and policy reform but also by institutional quality. Others said that budget should not be driven by lending, and that non-lending services should be funded to nurture policy reform and capacity building in weak policy environments. One participant emphasized that another aspect of selectivity has to do with both IDA blends and graduation. Criteria for graduation and blending, it was suggested, need work before IDA13 is launched.

Policy

Poverty reduction has strong public appeal and is a useful device for rallying IDA contributions, but it does not readily translate into unambiguous policy prescriptions. Furthermore, poverty reduction scorecards show a variety of unintended results from efforts to date: misplaced targeting of interventions, failure to focus on critical country-specific constraints, excessive expectations in the public regarding social spending, neglect of agriculture, and so on. Of concern too are the interfaces between PRSP processes and governance or public policy and public expenditure management processes, especially in democratic settings.

Growth and poverty reduction. Some workshop participants found that background work for the IDA Review seemed excessively ambivalent regarding growth. In their view, broad-based growth is the best way to reduce poverty and inadequate growth is the main explanation behind the disappointing poverty reduction record of the past decade. Other participants disagreed, noting that there is more to poverty than income poverty. They highlighted the risk of an exclusive focus on growth given the widely different distributive and environmental consequences of different strategies and, therefore, they argued for taking account of the quality of growth along with its quantity. Still, on balance, both quantity and quality of growth may be relevant intermediate goals for IDA interventions. However, too little is known still about the linkages between growth policies and poverty reduction strategies, microeconomics and macroeconomics, and policy adjustment and institutional reform, and about the impact of globalization on the development strategies of individual countries. Policy research, therefore, should be a high priority for IDA13.

In setting goals for poverty reduction, workshop participants said, the IDA Deputies should take a more transparent approach and “be more humble.” At the same time, they need to encourage a consistent approach. The PRSP needs to be tightly connected to domestic policymaking procedures and poverty reduction needs clear linkages to key strategic areas. For example, one participant argued that private sector development had not been properly embedded in poverty reduction policy because it focused on GDP growth to indirectly benefit the poor rather than offering a clear link to employment generation that would directly benefit them.

Partnerships

Workshop participants discussed partnerships at both the country level and the global level.

Country ownership. Creating appropriate space for country ownership, it was generally agreed, is a priority of IDA13. This should include better use of the domestic capacities for policy design and policy implementation.

While country ownership of policy reform is important, nurturing ownership of the right kind of reform was also considered an important responsibility for IDA. In this regard, conditionality-induced reform has limitations that need to be recognized. One participant suggested that borrowers tend to see conditionality as “a set of hoops that must be jumped through to get resources.” It is important to avoid misplaced concreteness, for example, focusing on compliance with symbolic deadline-driven goals at the expense of substantive focus on policy reform. So an important focus for IDA13 could be defining new forms of conditionality and testing new ways of dealing with reform that are based on shared objectives and mutual responsibility for outcome, but that also include distinct accountabilities and reciprocal obligations.

Some participants pointed to particular opportunities for improving country-level partnerships. For example, borrowing countries have serious gaps in statistical data and policy analysis, and in monitoring and evaluation systems. While ESW can help fill these gaps, it can only be effective with improved impact. This can be aided by increasing the involvement of developing country governments and think tanks in that work, which would coincidentally help build capacity and facilitate dissemination. The quality of poverty indicators also needs to be improved to ensure that agreed objectives like empowerment and security are captured. Translating the findings of the *World Development Report 2000* into operational approaches will be a very important part of the IDA13 process.

Global partnerships. The workshop participants emphasized the importance of aid coordination and discussed IDA's role in this critical area at length. Some participants complained of the high costs—financial costs, transaction costs, and opportunity costs—developing countries incur to manage their aid flows. Consequently, they have, as one participant put it, “lost control of the agenda-setting, which is dominated by donors and IFIs [international financial institutions].”

Other participants noted that IDA, which is reasonably “well-behaved” itself, cannot control the behavior of other donors. Nor can it or should it seek to dominate the global agenda. What it can do is use its standing in the development community and its convening power to harmonize and streamline processes and to work out mechanisms for shared responsibility for aid coordination. It should also dedicate resources to help countries develop their ability to coordinate aid themselves.

Products

Knowledge is increasingly viewed as a product in itself and is central to IDA's new role. IDA's particular knowledge “niche” seems to be the comprehensive diagnosis of structural and social obstacles to development, that is, what one participant called “the big issues”—strategic constraints and “due diligence ESW.”

The workshop participants endorsed the centrality of governance—the first columns of the CDF, which focus on economic management, accountability, transparency, rule of law, and participation—but they disagreed on how far and how fast IDA should push this agenda. Many participants urged realism in IDA's approach to governance issues, however. Most participants argued for concentrating IDA's efforts on financial management, starting with safeguarding the integrity of the Bank's own portfolio and the integrity of the country's own public resources. Human rights, military expenditures, and other politically sensitive items they considered to be better handled by other partners. Similarly, the capacity of IDA to fill democratic gaps was considered dubious and expectations in some quarters for IDA's influence in this area were considered naïve. While civil society was acknowledged to have an important role in ensuring good governance, direct IDA funding of NGOs was discouraged, as was the provision of grants to civil society since, to quote one participant, “noise should not be mistaken for voice.”

Some participants expressed the opinion that IDA should explore new products for private sector development, giving priority to the creation of an institutional infrastructure for market economy. As one participant noted, an enabling environment for new enterprises consists of good governance, secure property rights, improved regulatory frameworks, open trade, free entry, and easy exit. The creation of space for improved fiscal management that can help create such an environment was viewed as a critical role for IDA. Some suggested that IDA use its “due

diligence ESW” to track fiscal management much as the IMF does with public expenditure management.

To support PSD, foreign direct investment needs to be encouraged in IDA borrowing countries, and although this is not, strictly speaking, an IDA issue, it warrants IDA attention on the grounds that it is a concern of the entire Bank Group. It was pointed out, for example, that less than 10 percent of \$500 billion in foreign direct investment in the past ten years had gone to the two poorest regions of the world, sub-Saharan Africa and South Asia. Concerning this problem, workshop participants floated a variety of imaginative new products for PSD based on guarantees and the use of reflows. While such ideas invite skepticism, they may need to be explored further. Some “outside the box” thinking during IDA13 might lead to creative solutions to meeting the global development agenda.

Pricing

Until recently, the pricing of IDA products has not received broad attention. Workshop participants suggested that a much more explicit IDA policy is needed regarding blends because they allow a continuum of pricing. Consideration should also be given to the percentage of IDA funds disbursed as grants.

An explicit policy is needed regarding graduation. While the Meltzer Commission suggested that countries should be phased on the basis of both per capita income and access to capital markets, one participant argued that using access creates a perverse incentive and that per capita income should be the only criterion. Others argued that institutional capacity weaknesses should also be part of the equation.

Although IDA has always been authorized to make grants, it has made very few of them, usually in emergency situations. Participants variously suggested that grants should become a core product, a mainline product, or even the only product of IDA. It was also suggested by some that IDA grants should be focused toward global public policy and global public goods characteristics. An important issue for IDA13 will be whether grants can be used to take account of these externalities and be dedicated beyond the country focus. If grants are to become major IDA products, then IDA13 will also have to consider what kinds of conditionalities will be appropriate for them.

IMPLICATIONS FOR IDA13

1. **IDA needs a realistic, long-term vision for its future.** Three years is far too short to set strategic objectives for poverty reduction. This short horizon leads to micromanagement, mandated actions, and unintended results of unrealistic goals. Since the replenishment process itself is unlikely to be elongated, IDA13 needs to start the development of this vision with the understanding that it will continue beyond the end of the replenishment process. The vision itself needs to clarify what is meant by a “poverty focus” and needs to take account of the global dimensions of the development strategy.
2. **The recommendations of IDA13 need to be simpler than those of its predecessors—they need to consolidate IDA10-12 undertakings—and the mandates need to be realistically costed.** Open-ended and ambiguous recommendations need to be avoided.

IDA13 needs to focus on country and global results, that is, mandates need to be formulated as monitorable and realistic outcomes. They also need to leave space for country ownership and democratic process. Consolidation means that the current agenda and IDA processes need not be augmented and existing mandates need to be simplified and made consistent with the CDF process. Many participants advocated the elimination of quantitative lending targets.

3. **IDA replenishment processes need to be revisited systematically to improve their connections with the development community and with IDA clients.** IDA processes currently are too isolated from the rest of the development system and from IDA clients. Opening communications channels that allow collaborative interaction and establish feedback loops for aid recipients may help improve outreach and understanding and enhance public support for IDA. IDA13 needs to seek the views of borrowers, governments, civil society, and the private sector—this is simply applying the CDF principles to IDA itself. Furthermore, it needs to consider doing so not only in the design of IDA13 undertakings but perhaps, as some participants suggested, in the monitoring of IDA13 results.
4. **IDA needs an explicit role in harmonizing aid policies, simplifying procedures, and strengthening aid coordination through the CDF/PRSP framework.** IDA, more than any other international agency, has the convening power and the resource capacity to help improve the delivery of aid. This will only happen, however, if IDA's authorizing environment declares IDA's role in this area and devotes resources to it. Harmonizing aid policies and simplifying procedures can help reduce transaction costs for borrowers and increase efficiency in the aid system. Aid coordination will not only require collaboration among donors through the CDF and with clients through the PRSP, it will also require dedicated resources at the country level to increase the ability of countries to coordinate aid themselves. IDA, while it can provide leadership in harmonization and aid coordination, needs to negotiate shared responsibility for achieving these goals.
5. **IDA's mandate for comprehensive development diagnosis needs to be given priority and it needs to be adequately funded.** The IDA Deputies need to clearly endorse not only "due diligence ESW" but also the country-specific sector and thematic analytical work necessary to underpin country assistance programs.
6. **IDA needs to become far more selective in the deployment of its instruments.** It should concentrate on its areas of comparative advantage, which include analytic work and support of macro and sector reforms, improved conditions for private sector development, and improved governance. While this suggests a concentration on programmatic lending, the balance between project investments and programmatic lending will need to be determined country by country in collaboration with regional development banks and other large donors (such as the EU).
7. **Performance-based allocation needs more transparency and participation.** Differences between Bank Group agencies need to be made transparent and contradictory signals to borrowers need to be avoided. Most important, IDA processes need to be applied consistently across countries. For this, full disclosure of the CPIA ratings system, its application, and the actual allocations, is essential. An effort is needed to integrate the initiatives of measuring results with other agencies. Many workshop participants believe the bar needs to be raised for performance-based lending, particularly regarding public financial management. This suggests a higher level of country selectivity. At the same time, however, IDA needs to stay engaged

with poor performers through policy dialogue. While poor performers might also require a “core lending program,” the need for such a program should be determined country by country with the understanding that it would not necessarily be provided by IDA and would not necessarily be channeled through the government.

8. **The PRSP process needs to be implemented in a way that is supportive of domestic processes and it needs to be continually reviewed to ensure its integration with domestic processes as well as with the broader international development effort.** The PRSP process needs to be a mechanism to consolidate other efforts and not simply add to borrowers’ transaction costs. IDA and the International Monetary Fund (IMF) need to avoid conflicting advice in their PRSP dialogue with countries and need to act openly to include coordination of other donors as part of the process. The PRSP process needs to be subjected to an early review by a third party.
9. **IDA lending products and processes, particularly procurement and disbursement processes and safeguard policies, need to be modernized and streamlined to focus on results, to facilitate participation, and to make effective use of information technology and partners’ assets.** Some participants suggested that special efforts are needed to find appropriate products for private sector development.
10. **IDA policies regarding blending, graduation, and use of grants need review.** Although this falls outside the terms of reference for the IDA Review, several participants supported the preparation of IDA13 papers on blends, graduation, and the use of grants (the last is already under way).

Workshop Agenda

DAY 1—NOVEMBER 28, 2000

- 8:30–9:00 **Registration and Continental Breakfast (outside JB1-075)**
- 9:00–9:30 **Welcome and Introduction (JB1-075)**
Robert Picciotto and Catherine Gwin
- 9:30–12:00 **Session I—Strengthening IDA's Contribution to Poverty Reduction: Lessons for the Future (JB1-075)**
Chair: Nancy Birdsall
Presentation: Alison Evans
Comments: Sarfraz Qureshi, Samuel Wangwe, Alan Gelb
- Strategy and implementation—What's worked, what hasn't, and why?
 - Lessons for the PRSP process?
- 12:15–2:00 **Lunch (MC Dining Room)**
- 2:00–4:00 **Simultaneous Break-out Sessions**
- Session Ia: Defining IDA's Role in Promoting Good Governance (JB1-075)
- Chair:* Mohamed Syeduzzaman
Presentation: Pierre Landell-Mills
Comments: Michael Moore, Jalal Abdel Latif, Kathy Sierra
- Is IDA giving the right emphasis and scope of support to the promotion of governance?
 - How should governance performance affect allocations?
 - Should IDA provide grants to NGOs as a means to encourage governance reforms?
- Session Iib: A PSD Strategy for IDA (J6-160)
- Chair:* Kwesi Botchwey
Presentation: S. Javed Burki
Comments: Dominic Mulaisho, Frances Seymour, Richard Frank, Michael Klein
- Has IDA provided enough of the right kind of support for private sector development?
 - How should IDA shape its PSD strategy to advance the core goal of poverty reduction?
 - What should IDA do to link its support for PSD with its objective of environmental sustainability?
- 4:30–5:30 **Plenary (JB1-075)**
Chair: Catherine Gwin
- 5:30–7:00 **Cocktail Reception (outside JB1-075)**

DAY 2—NOVEMBER 29, 2000

8:30–9:00 **Continental Breakfast (outside JB1-075)**

9:00–10:30 **Emerging Issues Regarding the Future of IDA (JB1-075)**

Chair: Gregory Ingram

Panelists: Kwesi Botchwey, Barrie Hudson, John Williamson, and Joanne Salop

- In the evolving development architecture, where does IDA’s comparative advantage lie and what are the strategic options that emerge for IDA13 and beyond? (e.g., balance of country/global focus; relative weight among three core functions of financing, knowledge, aid coordination; engagement with better/poorer performing countries; instruments)
- How can IDA best manage the inevitable **strategic** tension between advancing corporate/IDA priorities and country-led programs and the **operational** tension between strategic selectivity (for enhanced development effectiveness) and program responsiveness to comprehensive country needs and priorities? In particular, how ought IDA policy-making processes and strategic directions evolve to become more consistent with CDF principles?
- Given the above, what ought to be done to enhance the effectiveness of IDA governance, product mix, pricing, and internal management?

11:00–12:30 **Small Group Discussions**

Group 1: *IDA’s comparative advantage and strategic options (JB1-075)*

Group 2: Managing the strategic and operational tensions (J6-160)

Group 3: Making IDA policy-making and governance consistent with the CDF (J8-157)

12:30–2:00 **Working Lunch—Plenary Reporting on Group Discussions (JB1-075)**

Chair: Nils Fostvedt

2:00–4:00 **Wrap-up Plenary Discussion: Suggestions for IDA13 (JB1-075)**

Chair: Catherine Gwin

Closing Remarks

Robert Picciotto

Participants

International Experts

Mr. Shinji Asanuma Professor, Hitotsubashi University, Japan
Ms. Nancy Birdsall (Advisor) Carnegie Endowment, Washington, D.C.
Ambassador Inga Bjork-Klevby (Advisor) Ambassador of Sweden, Nairobi, Kenya
Dr. Kwesi Botchwey (Advisor) Harvard University
Mr. S. Javed Burki CEO, Emerging Markets Partnership, Financial Advisors, Washington, D.C.
Mr. Richard Frank Managing Partner, Darby Overseas Investment Group, Washington, D.C.
Mr. Magdi Iskander Consultant, McLean, VA
Mr. Barrie Hudson Consultant, United Kingdom
Mr. Jalal Abdel Latif Director of Programs, Inter-Africa Group, Ethiopia
Mr. Michael Moore Professor, Institute of Development Studies, Sussex, United Kingdom
Mr. Dominic C. Mulaisho Chairman, Shonga Steel Limited, Zambia
Dr. Sarfraz Khan Qureshi Director, Mahbub ul Haq Human Development Center, Pakistan
Ms. Frances Seymour Director, Institutions and Governance Programs, World Resources Institute, Washington, D.C.
Mr. M. Syeduzzaman (Advisor) BOC, Bangladesh
Mr. Joachim Theis
Mr. Samuel Wangwe Executive Director, Economic and Social Research Foundation, Tanzania
Mr. John Williamson Institute for International Economics, Washington, D.C.
Mr. Bernard Wood (Advisor) Consultant, Canada

World Bank Staff

Mr. Koen M. Davidse (Advisor) Netherlands ED Office
Mr. Alan Gelb Chief Economist & Sector Director, Economic Management, Africa Region
Ms. Cheryl Gray Director, PRMPS
Mr. Sanjivi Rajasingham Manager, Resource Mobilization Department (FRM)
Mr. John Underwood Director, Operations Policy and Strategy (OPS)
Ms. Katherine Sierra Vice President & Head of Network, Operational Core Services (OCS)
Ms. Joanne Salop Vice President, Operations Policy and Strategy (OPS)
Mr. Michael Klein Director, PSADR

OED and IDA Team

Mr. Robert Picciotto Director General, OED
Mr. Gregory Ingram Director, OEDDR
Mr. Nils Fostvedt Operations Adviser, OEDDR
Ms. Catherine Gwin IDA Review Task Manager, OEDCM
Mr. John Eriksson IDA Review Team and OEDCM
Ms. Alison Evans IDA Review Team, UK
Mr. Pierre Landell-Mills IDA Review Team
Mr. Daniel Morrow IDA Review Team and Lead Economist, PRMPR
Mr. John Shilling IDA Review Team
Mr. William Hurlbut Writer/Editor, OEDST
Ms. Alice Galenson OEDCR
Ms. Georgia Wallen IDA Review Team and OEDCM