
IEG SYNTHESIS REPORT

# World Bank Group Engagement in Upper-Middle-Income Countries

## Evidence from IEG Evaluations

IEG Independent Evaluation Group
WORLD BANK GROUP
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WHAT WORKS

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# World Bank Group Engagement in Upper-Middle-Income Countries:

# Evidence from IEG Evaluations

An IEG Synthesis Report

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# Contents



## Appendixes

# Abbreviations

| | |
|---|---|
| ASA | Advisory Services and Analytics |
| CAS | country assistance strategy |
| CCT | conditional cash transfer |
| CPE | country program evaluation |
| CPIA | Country Policy and Institutional Assessment |
| CPS | country partnership strategy |
| CSA | civil service and administration |
| DDO | deferred drawdown option |
| DPL | development policy loan |
| EU | European Union |
| FCV | fragility, conflict, and violence |
| FSAP | Financial Sector Assessment Program |
| GEF | Global Environment Facility |
| GNI | gross national income |
| HIC | high-income country |
| IBRD | International Bank for Reconstruction and Development |
| ICR | Implementation Completion and Results Report |
| ICT | information and communication technology |
| IDA | International Development Association |
| IEG | Independent Evaluation Group |
| IFC | International Finance Corporation |
| IFI | international financial institution |
| IMF | International Monetary Fund |
| JERP | Joint Economic Research Program |
| LIC | low-income country |
| MIC | middle-income country |
| MIGA | Multilateral Investment Guarantee Agency |
| OECD | Organisation for Economic Co-Operation and Development |
| PFM | public financial management |
| PISA | Programme for International Student Assessment |
| PPP | public-private partnership |
| PSR | public sector reform |
| RAP | Results and Performance Report |
| RAS | Reimbursable Advisory Service |
| SHF | Sociedad Hipotecaria Federal |
| SSN | social safety net |
| UMIC | upper-middle-income country |
| WGI | Worldwide Governance Indicators |

*All dollar amounts are U.S. dollars unless otherwise indicated.*

# Acknowledgments

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Other team members for this report were Corky de Asis, Lev Freinkman, Yumeka Hirano, Takatoshi Kamezawa, Basil Kavalsky, Pradeep Mitra, Marcelo Selowsky, and Kendra White. IEGKC provided editorial support, and Yasmin Angeles provided administrative support. Indermit Gill (Duke University) was the peer reviewer.

# Overview

Middle-income countries (MICs)—the largest group of World Bank Group clients—are critical drivers of the world economy, but they remain vulnerable to global shocks**.** Of the World Bank Group's 189 member countries, 108 are MICs with a combined population of more than 5.5 billion people and accounting for about one-third of global gross domestic product in 2015. MICs are home to more than 70 percent of the world's poor. They host almost 60 percent of the world's refugees and generate 58 percent of global $CO_2$ emissions. Addressing the development challenges facing MICs can generate positive externalities and transferable knowledge to lower income countries.

According to the 2017 World Bank Group document, "Forward Look: A Vision for the World Bank Group in 2030—Progress and Challenges," to meet its twin goals of eradicating extreme poverty and ensuring shared prosperity in a sustainable manner, the World Bank Group must sustain and evolve its engagement with MICs. Areas identified for World Bank Group engagement with MICs include support in economic transformation, helping identify drivers for growth, promoting policies to reduce inequality, assisting with crises, and addressing Global Public Goods (GPGs). The "Forward Look" also acknowledges that MICs have a high demand for financing, knowledge, and innovation to realize projects that fight poverty and inequality, promote growth and sound macroeconomic policies, address climate change issues, support the provision of basic infrastructure, and build robust institutions. Without such assistance, some MICs are at risk of losing their poverty-reduction gains.

The "Forward Look" calls for a stronger emphasis on determining the best mix of products and services for MICs, including expanding product offer to upper-middle-income countries (UMICs) beyond financing and strengthening management of the World Bank Group's core advantages on knowledge for greater impact. Areas for consideration in UMICs include targets for mobilizing international and domestic resources, including joint efforts with the International Finance Corporation (IFC) on mobilizing domestic institutional capital and accelerating deployment of emerging technologies. The "Forward Look" emphasizes that the World Bank Group envisages a more systematic effort to secure private participation in helping to meet the rapidly growing infrastructure investment needs in UMICs—through the Cascade approach, to help to create markets and leverage more private financing. To maximize the impact of scarce public resources, the Cascade first seeks to mobilize commercial finance, enabled by upstream reforms to address constraints to private sector investment. Where risks remain high, the priority will be to apply guarantees and risk-sharing instruments, and only where market solutions are not possible would official and public resources be applied. The World Bank Group also aims to increase joint financing with other multilateral development banks, achieve stronger global public goods content and more use of guarantees, and tailor financing instruments. Regarding knowledge services, the World Bank Group aims to maintain leadership on global policy issues, address data gaps (especially for the Sustainable Development Goals agenda), and tailor the value proposition for middle-income countries—especially upper-middle-

income—on key development areas. Reimbursable Advisory Services (RAS) are expected to account for a growing proportion of the World Bank's analytical work.

Many MICs have unfinished development agendas and risk being "trapped" in middle-income status if they do not further accelerate their own economic, social, and structural transformation through a set of "second-generation" reforms, that address the challenges that reflect the more advanced stage of their development. These second-generation challenges are much more evident and vividly reflected in UMICs, the upper-tier subset of MICs, as measured by income. UMICs—currently 56 countries with gross national income per capita ranging from $4,036 to $12,475—are extremely diverse and have differing development needs. The World Bank Group can have a valuable role in responding to UMICs' demand to address these second-generation challenges. The World Bank Group continues to have substantial lending programs in some UMICs, while in others lending is decreasing along with a simultaneous increase in demand for knowledge and advisory services. Furthermore, the World Bank Group experience in UMICs has strong potential for a powerful demonstration effect in other lower-income client countries that strive to achieve MIC or UMIC status. Furthermore, the UMICs play a critical role in helping to address the full range of GPGs—related to environmental challenges, climate change, macroeconomic shocks, pandemics, global displacement, and more.

With this in mind, the Independent Evaluation Group (IEG) undertook a synthesis review of existing evaluative evidence on the outcomes and lessons learned from the World Bank Group's partnership with UMICs. This review covered mainly IEG evaluations and reports produced in 2007-16 (including relevant thematic, corporate, and country evaluations), along with select project evaluations. The report is organized along the World Bank Group's "three ways" approach to achieving its twin goals: working to accelerate inclusive and sustainable economic growth; helping countries invest more effectively in people; and fostering resilience to global shocks and threats. The report is not comprehensive in its coverage, inasmuch as it does not cover all areas of World Bank Group engagement in UMICs, but only those where sufficient and relevant evaluative information is available.

Considering the broad nature of the "three ways" and the World Bank Group's ongoing efforts to identify priority areas and instruments for engaging with UMICs, this report focuses on a selected set of second-generation developmental challenges facing most UMICs. The report does not attempt to cover all possible areas of World Bank Group engagement in UMICs across the three ways, but rather concentrates on selected development challenges for which evaluative evidence is available and on which the World Bank Group has significant scope for contributions and learning in UMICs. For each of the three ways and the cross-cutting knowledge agenda, the report summarizes available evidence on the World Bank Group's performance in facing development challenges in the following specific areas:

- Inclusive and sustainable economic growth
    - Fiscal and financial sector resilience
    - Public financial management, civil service reform, and anticorruption

    - Industrial competitiveness, innovation, and investment climate reforms
    - Public-private partnerships in infrastructure

- Investing more effectively in people

    - Social safety nets
    - Quality of education and health, and pandemic response
    - Employment creation programs
    - Access to urban services
    - Gender issues

- Fostering resilience to global shocks and threats

    - Environmental sustainability, natural disaster risk reduction, and climate change mitigation and adaptation
    - Fragility, conflict, violence, and forced displacement

- Knowledge agenda

    - Building capacity for second-generation reforms.
    - RAS
    - Promoting South-South knowledge exchange

Overall, this review concludes that the World Bank Group engagement with UMICs and its support to them remains highly relevant from two perspectives: helping these countries address their specific developmental challenges, and potentially having a valuable demonstration effect for other lower-income groups of World Bank Group clients. Regarding inclusive and sustainable growth, the World Bank Group had a positive role in helping UMICs cope with various crises, such as financial, economic, and humanitarian. It also helped address large remaining gaps in the quality of UMICs' public sector institutions, accelerate growth in private sector productivity and innovation, and increase private financing of infrastructure. Similarly, in support for investments in people, the World Bank Group focused on supporting UMICs' increasing shift from focusing primarily on access to ensuring improved quality of basic health, education, and urban services. The World Bank was also instrumental in building safety net systems, including the highly successful experience with conditional cash transfers. Its support for enhanced resilience to environmental and security shocks was highly relevant because UMICs have an increasingly important role in addressing global threats in these areas.

Despite the high relevance of the World Bank Group's engagements in UMICs, important challenges remain in fully addressing some of the structural issues that underlie UMICs' vulnerability to various shocks and in making progress that is more significant and sustained in several important development areas. Although the World Bank Group provided effective support to UMICs after various crises, in many cases external shocks only exacerbated already existing and well-known fundamental problems, such as unsustainable public sector expenditures or high youth unemployment. Furthermore, individual interventions to improve public sector institutions and private sector competitiveness had positive results, but broad systemic improvements were less common, and UMICs still exhibit very large gaps in those areas compared with their higher-income peers. Similarly, despite noticeable individual project and country achievements, significant challenges persist for achieving large and sustained

improvements in the quality of basic public services and for strengthening national natural resource management institutions.

The volume of World Bank Group financing does not often carry critical mass for most UMICs (except during crises). However, it has proven to be important for sending positive signals to markets during crisis, providing credible incentives to private investors in relatively underdeveloped markets, helping launch innovative and catalytic public and private sector initiatives, and fine-tuning existing national programs to enhance their effectiveness. The World Bank Group significantly increased lending commitments to the UMICs during the period under review, mainly during the global financial crisis and because of it. However, the trend reversed after 2010, and lending is currently close to pre-crisis levels. Many IEG evaluations have highlighted lending's importance for leveraging the impact of the World Bank Group's contributions through other instruments, notably analytical work, policy dialogue, and partnerships. IEG also recognized the importance of safeguarding lending space at the country level to allow for credible responses to future crises. Going forward, continuing to expand the set of financial instruments available to UMICs will be important to increasing the World Bank Group's ability to respond flexibly to this client country group's evolving financing needs and using World Bank Group financing to complement and enhance the effectiveness of other types of World Bank Group services.

A high potential for South-South knowledge transfer between UMICs and lower income countries has often been underused, including in limited scaling up and replication of successful projects across countries. This suggests the World Bank Group needs to explore new mechanisms to facilitate knowledge transfer and exchange to fully reap the learning benefits of its UMICs engagements.

World Bank Group portfolio performance in UMICs at the country and project levels during the review period exceeded that of other income groups. However, effectiveness across various sectors (Global Practices) showed significant variation, even within the same countries. Recent IEG Results and Performance Reports show mixed results at the same time as the performance gap between UMICs and other groups is becoming less evident.

## Accelerating Inclusive and Sustainable Economic Growth

### ECONOMIC MANAGEMENT AND INSTITUTIONS

The World Bank Group helped UMICs build resilience and cope with the global economic crisis, especially through fostering countercyclical policies and, to a lesser extent, strengthening public sector institutions. This report finds that although UMICs made significant progress on policy reform, a significant gap remains between UMICs as a group and Organisation for Economic Co-operation and Development (OECD) countries on quality of institutions and governance. The size of the institutional challenges that UMICs continue to face underscores the need for World Bank Group long-term engagement. This is particularly relevant because of evidence that most UMICs with active public sector reform programs saw performance improvements, particularly in the public financial management area, which along with tax administration proved to be important points of World Bank entry in strengthening public sector institutions.

The 2007–08 global economic crisis was a major test of fiscal and financial sector resilience in UMICs, and World Bank

support through development policy loans (DPLs) focused on fiscal management attenuated a more contractionary response than would otherwise have occurred. Financing countercyclical programs was much more effective in countries with low or moderate fiscal stress. DPLs in countries with adequate fiscal space more often included measures to protect or scale up social expenditures, and priorities were reset for public investment programs to maintain key growth-promoting investments. However, several countries that received fiscal management–focused DPLs emerged from the crisis with weaker fiscal positions. IEG evaluations show that some DPLs paid insufficient attention to the available space for fiscal stimulus, the reversibility of stimulus measures, and forward-looking measures to attain fiscal sustainability.

In contrast to the IBRD, IFC support to numerous UMICs before and during the financial crisis happened to be largely procyclical. IEG's 2012 evaluation, *The World Bank Group Response to the Global Economic Crisis: Phase II,* showed IFC reduced its investments in larger UMICs during the crisis, intending to lessen portfolio losses and focus on short-term trade financing. Furthermore, the catalytic effects and additionality of IFC's crisis response initiatives were below expectations. However, the IEG evaluations also recognized IFC and the Multilateral Investment Guarantee Agency's (MIGA) positive contribution to broad international rescue consortium efforts, particularly through the Joint International Financial Institution Action Plan for the Europe and Central Asia Region, known as the Vienna Initiative. IEG found that IFC's response was relevant and its initiatives showed creativity and strategic positioning in asking for funds from external partners. MIGA also made significant contributions to crisis response efforts by supporting several key financial institutions in Eastern Europe through guarantees.

### COMPETITIVENESS AND PRODUCTIVITY

Improving global competitiveness and creating new jobs are among the core challenges facing many UMICs, associated with a need to shift to a new developmental model that would rely on a different set of growth drivers. Many UMICs have seen their competitiveness space squeezed by rising productivity in the lower-income countries and their inability to compete with the developed economies in markets that largely rely on higher skills and product innovation. This report concludes that broad trends in cross-country comparative competitiveness performance show significant gaps in average competitiveness indicators between high-income countries (HICs) and MICs, especially for technological readiness and innovation.

World Bank Group support to improve competitiveness and innovation was largely relevant, but the design and implementation of its interventions were often at the sector level, failing to address the systemic weaknesses of innovation ecosystems that hinder competitiveness at the country level. Furthermore, World Bank Group lending to support innovation and entrepreneurship has been heavily concentrated in two sectors—education and agriculture—and gave much less attention to highly relevant areas such as manufacturing and management capacity.

World Bank Group support for investment climate reforms has been comprehensive, but measuring its effectiveness and attributing impact on investment, jobs, business formation, and growth has often been challenging. Several IEG evaluations show that the World Bank Group has had difficulties in helping its higher-income clients alleviate binding constraints in

business environments, often because of political economy constraints. This is especially relevant to IFC's experience in UMICs, which partly reflects the prevailing IFC business model of implementing its investment climate projects through stand-alone advisory services. Consequently, the emphasis in many instances was on streamlining administrative procedures, but not addressing the core underlying policy issues. IEG evaluation of Investment Climate Reforms noted evidence of a division of labor between IFC and the World Bank. The World Bank focuses more on higher-level reforms (such as revising and harmonizing laws and codes, reforming institutions, and developing strategies), while IFC focuses mostly on streamlining and simplifying procedures and processes. However, the current division of labor rarely generates synergy and enhances effectiveness.

World Bank Group support in UMICs often created a market for public-private partnerships (PPPs) through their demonstration effects and helped shape the regulatory environment for PPPs, though data on their effects on the poor are scarce. IFC investments added value to PPPs during due diligence and implementation stages, along with providing finance and catalyzing other financiers. IFC's potentially unique value proposition to its clients' lies in its capacity to provide support along the entire PPP cycle. IEG's evaluation of PPPs noted that IFC's financial support for PPP projects too often reached already-developed PPP countries and suggested that IFC should identify avenues to invest increasingly in PPPs in countries and markets that still do not have a well-developed enabling environment.

Regarding more traditional infrastructure investment projects, the World Bank Group portfolio in UMICs contains many examples of triggering critical policy reforms and achieving significant sector-wide impact even with modest financing. Additionality from IFC's participation in infrastructure projects, including in information and communication technology, was associated more strongly with its perceived capacity to mitigate political and regulatory risks instead of its financial contributions. IFC transport investments and MIGA guarantees tended to support projects in UMICs, while the World Bank's support spread more evenly across the income groups.

The World Bank Group provided considerable and multiproduct support to several UMICs to address the most critical vulnerabilities of the countries' financial sectors, though in some cases making projects beneficial to the poor remained a challenge. The World Bank Group's role in the development of new capital markets instruments was influential, but also constrained in many cases by the existing development level of client countries' markets.

## Investing in People and Quality of Life

Overall, the evaluative evidence suggests that World Bank Group engagement in investing in people and quality of life (education, health, social protection, urban sectors, and employment creation programs) added value in the UMICs. It helped countries adopt new or innovative programs and adapt and fine-tune existing programs to enhance their effectiveness, and enabled knowledge transfer. The World Bank's strategic assessment of where progress was slow and needed to accelerating drove the program in some UMICs, but it mostly reflected the areas in which governments wanted World Bank support.

Conditional cash transfers seem to be among the most successful and transformative programs the World Bank supported, including in UMICs. Social safety nets were important in mitigating the impact of crises on the most vulnerable. UMICs had strong demand for World Bank support in this area, which evolved from project support to a focus on building social safety net systems and institutions. This helped the countries respond more effectively to poverty, risk, and vulnerability. World Bank support for education in UMICs focused on second-generation issues such as early childhood education and enhanced quality outcomes. Health financing was a major focus of World Bank support in UMICs, including support for risk pooling to increase the poor's participation and concurrent steps to subsidize their enrollment. IFC involvement was crucial for some important examples of PPPs in the health sector, providing international expertise in project finance, assisting in promoting private sector financing, and helping set performance standards. The World Bank supported a wide range of interventions designed to improve the quality of life in urban areas, including support for core urban services (electricity, water and sanitation, and transport), housing for lower-income groups, and even urban amenities and crime prevention in some cases. IFC contributed in this area through its investment in PPPs or privately owned urban service providers. Evaluative evidence on results in employment and job creation programs is limited. The design of only a few World Bank Group interventions specifically addressed job creation, and those that IEG evaluated reportedly have limited effectiveness.

## Fostering Resilience to Global Shocks and Threats

The environment is a major World Bank Group engagement area in UMICs because many of these countries have experienced rapid growth that creates pressures on the physical environment. UMICs turned to the World Bank Group to take a catalytic role in mobilizing the necessary funds and helping build institutional capacity. The evaluative evidence also suggests that the World Bank was instrumental in supporting countries in addressing their commitments under various international agreements. However, IEG ratings for the achievement of outcomes in this pillar were lower than for other Global Practices, often highlighting systemic issues in the weak design and monitoring of results frameworks in the environment sector.

The development community has often linked fragility and conflict to lack of development progress. However, the number of violent conflicts in MICs (including many UMICs) has recently exceeded those in low-income countries (LICs), suggesting that conflict and violence are no longer primarily a LIC problem. The World Bank often had a positive role in addressing the most urgent issues, but IEG evaluations have emphasized that the World Bank Group strategic comparative advantage in situations of fragility, conflict, and violence remains in helping countries address essential, longer-term developmental challenges, such as chronic youth unemployment, rapid urbanization, and the like. An important lesson from experiences in Lebanon and Jordan (both UMICs) is that the World Bank urgently needs to develop financial mechanisms or fast-response facilities to use in similar situations in UMICs.

## Knowledge Agenda

World Bank Group programs in UMICs have shifted since the early 2000s toward more intensive delivery of knowledge services related to lending. IEG evaluations consistently emphasized the key role of the World Bank Group's advisory and analytic work in supporting reforms in UMICs and the high value that country stakeholders in UMICs assigned to it. One of the most robust conclusions emerging from several evaluations is the importance of World Bank Group Advisory Services and Analytics in shaping the quality of the overall assistance, particularly in quality at entry of development policy financing—one of the main engagement instruments with the UMIC group. Maintaining a strong knowledge base through a steady flow of diagnostic work was an essential condition for effective support, particularly during crises. However, several IEG evaluations concluded that monitoring of World Bank knowledge services results in UMICs was weak for both individual activities and country programs. The World Bank's analytical work often lacked explicit results frameworks, which diluted the focus on the most relevant development challenges.

IEG evaluations emphasized RAS as an important mechanism to expand World Bank services, ensure the sustainability of the World Bank's business model in UMICs, and generate new knowledge that the World Bank can then transfer to LICs. However, several IEG evaluations noted a tension between the World Bank's mandate as a global development agency and the consultant firm model that it increasingly applies to deliver knowledge services through RAS. This tension often manifests itself in lack of coverage of sensitive but important areas, such as poverty diagnostics in UMICs or various aspects of governance.

Several IEG evaluations referred to the need to strengthen knowledge transfer and noted that although there are good examples in which World Bank knowledge activities facilitated South-South exchanges, excessive geographic, thematic, and organizational fragmentation prevents realizing the full potential of such exchanges. The World Bank could enhance knowledge exchanges through communities of practice, networks of practitioners, or knowledge hubs. The frequency of full dissemination of World Bank knowledge services was relatively low, conducted in slightly more than half of the knowledge activities reviewed. IEG evaluations noted that the World Bank could do more to ease the confidentiality of many knowledge activities conducted through RAS and leverage the technical capacity developed by UMICs to other countries.

The lack of analytic material on World Bank Group activities in UMICs was a visible constraint for this report—many World Bank Group reports often do not distinguish between categories of client countries by income levels. Going forward, scope exists for further work on analyzing World Bank Group performance across various groups and subgroups of clients and identifying narrower technical areas in which assessment of World Bank Group performance in UMICs is possible.

# 1. Introduction

Middle-income countries (MICs) are critical drivers of the world economy and have important knowledge and other resources to share. Inclusive and sustainable growth and development in MICs would provide positive spillover effects to the rest of the world, including by showcasing successful approaches to addressing poverty reduction, shared prosperity, international financial stability, and cross-border global issues. MICs are the largest group of World Bank Group clients—108 countries divided almost evenly into two large subgroups: lower-middle income countries with a gross national income (GNI) per capita of $1,026–$4,035 (52 countries) and upper-middle-income countries (UMICs) with a GNI per capita of $4,036–$12,475 (56 countries).

According to the 2017 "Forward Look: A Vision for the World Bank Group in 2030—Progress and Challenges," the World Bank Group must sustain and evolve its engagement with MICs in order to meet its twin goals of eradicating extreme poverty and ensuring shared prosperity sustainably. Areas identified for WBG engagement with MICs include support in economic transformation, helping identify drivers for growth, promoting policies to reduce inequality, assisting with crises, and addressing global public goods. The "Forward Look" also acknowledges that MICs have a high demand for financing, knowledge, and innovation in support of projects that fight poverty and inequality, promote growth and sound macroeconomic policies, address climate change issues, support the provision of basic infrastructure, and build robust institutions. Without such assistance, some MICs are at risk of losing their poverty-reduction gains.

The "Forward Look" emphasizes that the World Bank Group envisages a more systematic effort to secure private participation in helping to meet the rapidly growing infrastructure investment needs in UMICs—through the Cascade approach, to help to create markets and leverage more private financing. To maximize the impact of scarce public resources, the Cascade first seeks to mobilize commercial finance, enabled by upstream reforms to address constraints to private sector investment. Where risks remain high, the priority will be to apply guarantees and risk-sharing instruments, and only where market solutions are not possible would official and public resources be applied.

Many MICs have unfinished development agendas and risk remaining in middle-income status if they do not further their own economic, social, and structural transformation. As countries reach middle-income status, they encounter second-generation or frontier reform challenges that reflect the more advanced stage of their

development. Typical challenges include social inequality, lifestyle diseases, aging populations, pension reform, improving quality of tertiary education, reforming inadequate trade and tax policies, low financial literacy, the need for more attention to green growth, and unplanned urbanization. These second-generation challenges are much more evident and vividly reflected in the UMICs, which are the upper-tier subset of MICs (as measured by income). Furthermore, UMICs play a critical role in helping to address the full range of GPGs – related to environmental challenges, climate change, macroeconomic shocks, pandemics, global displacement, and more.

UMICs are extremely diverse and have differing development needs. The World Bank Group continues to have a substantial lending program in some UMICs supporting the countries' development goals, while in others lending is decreasing along with simultaneous increase in demand for knowledge and advisory services. Some UMICs have stopped borrowing from the World Bank Group altogether and access only the World Bank Group's knowledge and advisory services (on a reimbursable basis in many instances) to meet ongoing challenges and to support implementation of their own-financed programs.

This report synthesizes existing evaluative evidence on the outcomes and lessons learned from the World Bank Group's partnership with UMICs. The report focuses mainly on Independent Evaluation Group (IEG) evaluations produced in 2007-16 (including relevant thematic, corporate, and country evaluations), along with select project evaluations. The motivation for focusing on UMICs is the importance the World Bank Group attributes to its continued engagement with this group of countries in learning, ensuring financial sustainability and income generation, and advancing on global issues. It is notable that the broader MIC group includes many former and current International Development Association (IDA) borrowers and recent arrivals to the MIC group, and the UMICs express MIC-specific issues much more clearly.

## Coverage and Methodology

This review of World Bank Group engagement with UMICs is based mainly on available evaluative evidence combined with additional independent portfolio review and meta-analysis, gearing evaluation questions toward UMIC-specific characteristics and challenges. The report is organized along the World Bank Group's "three ways" approach to achieving its twin goals: working to accelerate inclusive and sustainable economic growth; helping countries invest more effectively in people; and fostering resilience to global shocks and threats. Considering the broad nature of the "three ways" and their relevance to all

segments of World Bank Group client countries, this report focused on a select group of second-generation developmental challenges facing most UMICs. The report does not attempt to cover all possible areas of World Bank Group engagement in UMICs across the three ways, but rather concentrates on selected development challenges for which there is available evaluative evidence and on which the World Bank Group has significant scope for contributions and learning in UMICs. The report is not comprehensive in its coverage, inasmuch as it does not cover all areas of World Bank Group engagement in UMICs, but only those where sufficient and relevant evaluative information is available.[1] For each of the three ways and the cross-cutting knowledge agenda, the report summarizes available evidence on the World Bank Group's performance in facing development challenges in the following specific areas:

- Inclusive and sustainable economic growth
    - Fiscal and financial sector resilience
    - Public financial management, civil service reform, and anticorruption
    - Industrial competitiveness, innovation, and investment climate reforms
- Public-private partnerships in infrastructure
    - Social safety nets
    - Quality of education and health, and pandemic response
    - Employment creation programs
    - Access to urban services
    - Gender issues
- Fostering resilience to global shocks and threats
    - Environmental sustainability, natural disaster risk reduction, and climate change mitigation and adaptation
    - Fragility, conflict, violence, and forced displacement
- Knowledge agenda
    - Building capacity for second-generation reforms.
    - Reimbursable Advisory Services
    - Promoting South-South knowledge exchange

The review team collected and classified all available recent (2007–16) evaluative information using these thematic areas as the main organizing principles. The review covers relevant thematic, corporate, and country evaluations; learning

products; select project evaluations; and other sources, including World Bank Group and external reports. IEG reviewed 78 major evaluations and learning products (appendix C lists all evaluations).[2] Of the 43 major evaluations, 20 evaluations were categorized as highly relevant. Most of the highly relevant major evaluations (16 out of 20) were produced after 2012. Coverage of each major evaluation varied – from 1–2 to 8–10 years prior to the respective report.

For the purpose of in-depth review of country and project evaluations, the report focused on a sample of 14 UMICs. The sample comprises countries that belonged in the UMIC category for the last 6–8 years, with the majority of portfolio originating in IBRD; and current high-income countries (HICs) that switched from UMIC to HIC status within the last 6–8 years, and where the World Bank Group maintains presence and/or continues dialogue. This resulting group of 30 countries is identified as sample UMICs in the report. The evaluation team then selected 14 core countries from the target group for in-depth review at the country and project levels, accounting for regional representation (appendix B).

## Report Structure

This report consists of six chapters, including chapter 1**.** Chapter 2 covers inclusive and sustainable growth; chapter 3 covers human capital; chapter 4 includes resilience (environment, fragility, and violence); chapter 5 covers the knowledge agenda; and chapter 6 summarizes the main conclusions. The main appendices cover methodology, the World Bank Group portfolio performance review (by income groups across sectors and regions over time), and project-level evaluative material.

[1] For example, the report does not cover whole sectors (agriculture) and is selective in its coverage of various sub-sectors within larger sectors (primary education, health). In some cases, the available evaluative material was related to lower middle-income countries (Honduras and urban crime) and also omitted from the report.

[2] A total of 78 major evaluations and learning products were reviewed. This included 43 major evaluations delivered between 2008 and present, 28 learning products, six Results and Performance Reports (RAPs), and one (external) Asian Development Bank evaluation of middle-income countries (2016). Of the 43 major evaluations, 20 evaluations were categorized as highly relevant from the upper middle-income countries angle.

# 2. Inclusive and Sustainable Growth

***Highlights***

- Upper-middle-income countries (UMICs) made significant progress on economic policy reform, but a significant gap still exists between UMICs and Organisation for Economic Co-Operation and Development (OECD) countries, particularly on quality of institutions and governance, and on technological readiness and innovation.
- The size of the institutional challenges that UMICs continue to face underscores the need for World Bank Group long-term engagement in those areas.
- Most UMICs with active public sector reform programs saw performance improvements, particularly evident in the public financial management area.
- Maintaining a strong knowledge base through a steady flow of diagnostic work was an essential condition for effective support during crises.
- World Bank Group support to improve competitiveness and innovation in UMICs was largely relevant, but its strong sectoral alignment often did not address systemic weaknesses at the country level.
- World Bank Group support for innovation in UMICs was heavily concentrated in the education and agriculture sectors, with limited coverage of manufacturing and supporting management capacity.
- World Bank Group support for investment climate reforms was relevant, but measuring its effectiveness and impact was often challenging. A division of labor between the World Bank and IFC in this area rarely generated synergies.
- World Bank Group engagement helped create a market and shape the regulatory environment for public-private partnerships in UMICs, often through demonstration effects.
- The World Bank Group infrastructure portfolio in UMICs triggered critical policy reforms and achieved sector-wide impact even with a modest amount of financing, but broad success across different infrastructure sectors remained relatively rare.

## Economic Management and Institutions

Among the distinctive features of upper-middle-income countries (UMICs) since the 1990s have been their rapid opening to international trade and capital flows, while governments and financial sectors saw the emergence of new opportunities of financing. Concurrently, recurring upswings in public spending and downturns in economic activity revealed second-generation challenges in economic management, particularly those related to enhancing fiscal and financial sector resilience.[1]

Success in implementing policies that address second-generation challenges requires a concomitant strengthening of institutions that translate policies into outcomes. However, progress in institutional development typically lags the pace of policy reform. The Worldwide Governance Indicators (WGI) illustrate this most strikingly, showing a substantial difference between established Organisation for Economic Co-Operation and Development (OECD) member countries and UMICs as a group for all indicators (appendix F, figure F.1). The WGI also shows that institutional reform generally occurs slowly. During the observed period (2006–14), the World Bank helped UMICs strengthen economic management and build resilience to crises by moderating output fluctuations both directly and indirectly (directly through its assistance and indirectly through improving the institutional underpinnings of resilience) and by strengthening public sector institutions for better governance.

### EVALUATION FINDINGS

#### *Economic Management: Building Fiscal and Financial Sector Resilience*

**Fiscal management**. The World Bank Group's support to UMICs during the global economic crisis attenuated a more contractionary response that would otherwise have occurred. The World Bank, through its fiscal management–focused development policy loans (DPLs),[2] intervened mostly in countries characterized by moderate or low fiscal stress (two-thirds of commitments),[3] and provided nearly 90 percent of financing to International Bank for Reconstruction and Development (IBRD) borrowers (World Bank 2012). Although budget support allowed a less contractionary response to the crisis everywhere, financing of countercyclical programs was possible in countries with low or moderate fiscal stress either through the action of automatic stabilizers in the budget (as in Mexico and Uruguay) or through proactive stimulus packages (as in Mauritius and Peru). DPLs in countries with adequate fiscal space more frequently included measures to protect or scale up social expenditures, and priorities were reset for public investment programs to maintain key growth-promoting investments.

Several client countries that received fiscal management–focused DPLs emerged from the crisis with weaker fiscal positions. The 2012 IEG evaluation of the World Bank's response to the global crisis shows some DPLs paid insufficient attention to the available space for fiscal stimulus, the reversibility of stimulus measures, and forward-looking measures to attain fiscal sustainability. Where such weaknesses were present in the DPLs' design, the deterioration in fiscal positions after the crisis was noticeable.[4] In some cases, this partly reflected insufficient measures of fiscal consolidation and underestimation of the fiscal impact of the crisis or a combination of these factors, as illustrated by UMICs such as Poland, Romania, and Serbia. In some UMICs that did not face high fiscal stress (Mauritius, Peru, and Uruguay), the World Bank designed instruments for precautionary purposes, such as development policy loans with a contingent component (deferred drawdown option, DDO), providing useful flexibility and a signal to markets. The modifications introduced to DDOs in 2007 allowed significant flexibility at a time of volatility in global capital markets and contagion.

In contrast to IBRD, IFC support to numerous UMICs before and during the financial crisis happened to be largely procyclical. IEG's evaluation of the World Bank's response to the global crisis showed that IFC's new business increased in low-income countries (LICs), but decreased in UMICs and in middle-income countries (MICs) in general. Although IFC's response to the crisis was relevant and its crisis initiatives showed creativity and strategic positioning in asking for funds from external partners, its catalytic effects and additionality were lower than expected. IFC reduced its investments in larger UMICs, such as the Russian Federation and Turkey, intending to lessen portfolio losses and focus on short-term trade financing. IFC loan pricing rose substantially because of the crisis as perceived country risk increased, often working against efforts to help first-tier companies in distress. However, the IEG evaluations also acknowledged IFC and MIGA's positive contributions to broad international rescue consortium efforts, particularly through the Joint International Financial Institution (IFI) Action Plan for the Europe and Central Asia Region, known as the Vienna Initiative. MIGA, in particular, supported several key financial institutions in Eastern Europe through guarantees.

The World Bank's knowledge base in public finance was generally weaker in countries where lending had declined before the crisis. IEG evaluations emphasized that maintaining a strong knowledge base in public finance through a steady flow of diagnostic work is a condition for effective support, especially in countries with fiscal positions vulnerable to crises.

The 2014 evaluation of the World Bank Group's engagement in resource-rich developing countries emphasized that gradually developing strong fiscal and

structural deficit rules that allow saving out of commodity booms or other windfalls from trade gains can be highly effective in controlling procyclical behavior. The report examined the management of revenues from nonrenewable natural resources in a group of countries, including two UMICs (Chile and Kazakhstan). It drew lessons from Chile and assessed World Bank support to Kazakhstan in developing mechanisms and setting rules to immunize fiscal policy against fluctuations in commodity prices. The evaluation highlighted the importance of work that strengthens institutions that foster fiscal resilience, for the World Bank to help countries respond to external shocks effectively, and noted the clear comparative advantages the World Bank has in this area.

**Financial systems**. IEG evaluations of World Bank Group Response to the Global Crisis noted that structural weaknesses in financial sector institutions contributed to procyclical borrowing during the boom years in UMICs affected most acutely by the global economic crisis, such as Latvia and Ukraine.[5] Credit growth recovered by 2010 in most UMICs, but recessions were deeper and more protracted in countries where the crisis was transmitted through the capital account, and it took longer for credit growth to recover. Except for the most-affected UMICs (Ukraine) and some recent graduates in Europe and Central Asia (Hungary and Latvia), most countries did not experience a banking crisis, and manifestations of the crisis varied.[6,7] The World Bank Group provided considerable and multiproduct support to several UMICs (such as Kazakhstan and Mexico) to address the most critical vulnerabilities of the countries' financial sector, including those related to access to finance and regulatory weaknesses.[8] In most cases, it helped to mitigate the crisis impact and facilitate post-crisis recovery in the sector.

The World Bank response was channeled through DPLs (often as part of a larger international rescue consortium) targeting specific measures related to bank restructuring, stress testing, and major regulatory measures. In most cases, DPLs were small elements of the overall aid package, but the World Bank Group participation provided positive signals to markets. However, according to the 2012 IEG evaluation of the World Bank's response to the global crisis, sustainability issues persisted in the sector.[9] The evaluation, *The World Bank Group's Response to the Global Economic Crisis: Phase II*, recognized IFC's and MIGA's positive contribution, particularly for the Joint (IFI) Action Plan for Europe and Central Asia, known as the "Vienna Initiative."

World Bank Group support to more severely financially stressed countries emphasized short-term issues, especially related to liquidity and credit shortages.[10] The World Bank Group program in countries with lower stress levels (Mexico and Turkey) addressed longer-term financial sector issues and was balanced

appropriately across sectors.[11] World Bank Group support to countries' financial sectors during the crisis also depended on the quality of its engagement, especially through advisory services before the crisis. Much of it took the form of Financial Sector Assessment Programs (FSAPs) undertaken as joint exercises with the International Monetary Fund (IMF).[12] Overall, several IEG evaluations—the World Bank's response to the global crisis, FSAP, and country program evaluations (CPEs)—stressed that FSAPs helped many countries work on shortcomings and thus develop more resilient financial systems.[13]

According to the 2016 IEG evaluation, *The World Bank Group's Support to Capital Market Development*, the World Bank Group had a pioneering role in facilitating capital market upgrades in several UMICs by reforming market regulations, promoting modernization of payment systems, and providing innovative support to development of local currency government bond markets.[14] IFC was pivotal in the development of mortgage-backed securities and establishing a secondary mortgage market in several UMICs, including Colombia and Russia, according to the IEG learning product, *World Bank Group Support for Housing Finance*. Support for capital markets reforms in Colombia is often seen as best practice reflecting sustained World Bank Group effort over an extended period, good integration of IFC and World Bank programs, and effective alignment of World Bank Advisory Services and Analytics (ASA) and lending programs.

The World Bank Group's role in the development of new capital markets instruments was constrained by the existing level of development of client countries' markets. Therefore, the World Bank Group's interventions in this area were heavily concentrated in UMICs. Even there, sometimes these interventions were ahead of their time and were not consistent with the achieved level of macroeconomic stability and available national regulatory capability. This was one of the key lessons from the evaluation of IFC support to the Sofoles (Sociedad Financiera de Objeto Limitado), or specialized private financial intermediaries in Mexico, in the period leading to the global financial crisis of 2008–09.[15]

The 2014 evaluation of World Bank Group's experience with targeted support to small and medium-size businesses identified several challenges in terms of the relevance of the support provided to MICs. The World Bank Group portfolio of small and medium enterprise support was unnecessarily concentrated in MICs (in clients) and in credit lines (in products), raising concerns about the program's relevance. Support through credit lines is considered less relevant in MICs compared with LICs because on average, the MICs' banking sectors are more developed.

A special challenge for World Bank Group support to the financial sector in UMICs relates to the difficulty in making its projects beneficial to the poor during times of crisis. For example, the World Bank helped prevent the slowdown of the Mexican housing market in the aftermath of the crisis, but the expansion of products toward lower-income segments was modest because market stabilization and strengthening the financial position of the housing development bank—Sociedad Hipotecaria Federal (SHF)—was the priority.[16] However, the World Bank met this challenge successfully in several rural finance operations.[17]

*Strengthening Public Sector Institutions*

Improving public sector institutions enhances the quality and impact of economic policies, including the capacity to address second-generation challenges and quality of governance. The Worldwide Governance Indicators show a substantial difference between high-income countries (HICs) and UMICs for all indicators (appendix F, figure F.1).[18, 19] This is a consequence of the lag between the pace of policy reform and institutional reform. It also highlights the size of the institutional challenges that UMICs continue to face as they aspire to high-income status and the need for World Bank long-term engagement and support to UMICs in this area.

Major evaluations of the World Bank's role in helping countries strengthen public sector institutions are scarce, and none focused on public sector reform (PSR) specifically in UMICs.[20] The 2008 evaluation, *Public Sector Reform: What Works and Why,* measures changes in public sector governance in countries that received PSR lending during 1999–2006 compared with those that did not by examining the change in the average of Country Policy and Institutional Assessment (CPIA) indicators 13–16 (the governance CPIA).[21] The analysis of PSR in the aggregate found that four-fifths of IBRD countries with PSR projects saw improvements in the governance CPIA measure compared with a little more than half in countries that did not.[22] Across World Bank regions, Europe and Central Asia (a predominantly middle-income region) had the highest rate of improvement for countries receiving PSR lending (90 percent).[23]

While countries with relatively high governance CPIA ratings had few World Bank PSR projects, they continued to demand World Bank support on analytical work. Countries with initial governance CPIA ratings of 4.0 or above (11 countries including several UMICs) had only three projects in the PSR area. However, all but one had at least some ASA activities. This shows that even when UMICs no longer perceive much need for World Bank PSR lending, the governments still place at least some value on the World Bank's advice on PSR through analytics. The evaluation's

case studies verified this (four of the studies were in UMICs), and the case studies found that analytical work was largely demand-driven.

**Public financial management.** Public financial managemetn (PFM) and tax administration proved to be convenient points of entry in strengthening public sector institutions in UMICs—for example, helping countries to meet the required standards for European Union (EU) membership (Bulgaria) or coping with the aftermath of a fiscal crisis (Argentina, Colombia, and Russia).[24] Case studies conducted for IEG evaluations support the desirability of starting with the basic aspects of PFM (such as introducing a unique taxpayer identification system and a one-year budgeting framework, as in Bulgaria) before moving to more complex aspects of PFM. The 2008 evaluation of public sector reform found that 60–70 percent of all countries with PFM projects saw improvements in their CPIA scores for criteria 13 (quality of budget and financial management) and that the scores were similar for IBRD and IDA borrowers.[25]

PFM reforms were a key focus area of World Bank DPLs provided as part of the response to the global economic crisis.[26] Although some PFM reforms would not have an immediate impact from a countercyclical perspective, strengthened PFM and revenue administration had potential to improve fiscal outcomes for any given fiscal measures in place. The 2012 evaluation of the World Bank's response to the global crisis noted that stand-alone crisis response operations were not the most effective design to support these structural reform agendas because PFM reforms typically require follow-up actions over an extended period to attain the expected results.[27]

Working with other partners such as the IMF was essential in many of the tax administration reform cases studied. However, the World Bank's expertise was particularly crucial in helping to design and manage the actual projects. A pilot approach to tax administration proved successful in several cases.[28] The 2012 evaluation found that two-thirds of IBRD countries that received tax administration projects saw improvements in CPIA scores for criteria 14 (efficiency of resource mobilization) compared with 46 percent that did not receive such projects.

The 2013 Country Program Evaluation for Brazil provided lessons in the context of a federal state. Select subnational governments received a large part of World Bank assistance in Brazil. The report noted that subnational DPLs were ideal vehicles to address major fiscal-institution reforms that cut across sectors, particularly those requiring difficult actions and consensus across agencies. The World Bank's convening role in providing a platform for cross-sectoral discussions was widely

acknowledged, but replication and demonstration activities across states was a major challenge.

Civil service and administrative (CSA) reforms are still a relatively difficult and often unsuccessful area of World Bank assistance. The World Bank used to emphasize retrenchment and salary decompression among CSA reforms despite scant evidence on how this would affect performance and accountability, and it had little success. The 2008 IEG public sector reform evaluation noted that the overall track record on CSA is disappointing. Using CPIA criteria 15 (quality of public administration), the evaluation found that 44 percent of IBRD countries that received CSA reform projects experienced improvements in their CPIA scores compared with 41 percent that did not have such projects. This implies that whether an IBRD country had a CSA reform project had only a marginal impact on its governance ratings. Despite these challenges, the evaluation found several examples of well-received diagnostic pilots and successfully implemented World Bank–supported CSA reforms in UMICs (Albania, Bulgaria, and Russia).[29]

**Anti-corruption and transparency**. Reducing opportunities for "petty" or bureaucratic corruption by simplifying procedures and regulations and getting incentives right were systemic approaches that have been incorporated in Bank support to PFM, tax administration, and civil service reform. According to the PSR evaluation, over 60 percent of IBRD countries receiving PSR lending showed improvement in CPIA (16)—corruption, transparency and accountability—compared to 38 percent of countries that did not - almost as good as for PFM. Thus, many of the previously mentioned reforms were important indirect ways to improve transparency and target bureaucratic corruption. The evaluation noted that the World Bank's country strategies and major operations addressed grand corruption (also known as state capture) quite infrequently, and direct attempts to address corruption through anticorruption laws and commissions rarely succeeded. The available evidence suggests that corruption can be substantially reduced only when supply-side reforms (PFM legislation, public procurement systems, and CSA) are complemented by demand-side approaches, such as systematic efforts to increase citizens' capability to monitor and challenge abuses of the system and to inform citizens about their rights and entitlements.

### CONCLUSIONS

World Bank lending in the UMICs was especially important in fostering countercyclical policies and strengthening public sector institutions, particularly in the area of public finance. Several evaluations recognized the need to keep lending space at the country level to respond credibly to future crises.[30] The magnitude of the institutional challenges that UMICs continue to face as they aspire to high-

income status underscores the need for World Bank long-term engagement and support in this area.

The World Bank's analytical work is highly valued and needs protection even when lending volumes are comparatively modest. One of the most robust conclusions emerging from the IEG 2012 *World Bank Response to the Global Crisis* evaluations is the importance of ASA in shaping the quality of the overall assistance, particularly quality at entry of DPLs. The evaluation cautioned that the World Bank needs to guard against the risk of ASA being crowded out going forward.

## Competitiveness and Productivity

Broad trends in cross-country comparative competitiveness performance show significant gaps in average competitiveness indicators between HICs and UMICs, especially for technological readiness and innovation. These gaps have been rather stable during the period reviewed, 2006–14 (appendix G). The core challenge facing many UMICs in competitiveness and productivity is associated with a need to shift to a new developmental model that would rely on a different set of growth drivers. As soon as countries reach middle-income levels, the pool of underemployed rural workers drains and wages begin to rise, thus eroding their earlier competitive advantages (Agénor and Canuto 2012).

Many established UMICs have seen their competitiveness space squeezed. UMICs have been challenged by rising productivity in dynamic lower-income countries and by their inability to compete with the developed economies in new market niches that largely rely on higher skills and product innovation (Lin and Treichel 2012). The switch from product imitation to broad-based product innovation represents a significant development challenge, mainly because it requires improvements in the functioning of key markets and enhanced internal competition (Agénor and Dinh 2013).

### EVALUATION FINDINGS

During the reviewed period (2004–16), UMICs as a group attracted a significant part of World Bank Group project support for improving competitiveness through furthering innovation, improving the investment climate, promoting public-private partnerships, and other related activities (appendix E, table E.3). Instruments used to promote competitiveness in UMICs were highly country-specific and reflected the client governments' priorities. For example, the World Bank Group program in Mauritius relied primarily on a development policy loan series to enhance competitiveness, and a similar program in South Africa included a large IFC

program and broad advisory support through RAS (but very limited World Bank lending). Development outcomes of similarly designed projects implemented in different countries (for example, in the housing finance area), varied significantly mainly because of the differences in client ownership.

*Industrial Competitiveness and Innovation*

World Bank Group support for innovation was broad in coverage and helped address various bottlenecks in the countries' innovation ecosystems, including in the UMICs. The 2013 IEG evaluation, *World Bank Group Support for Innovation and Entrepreneurship,* concludes (based on an analysis of economic growth sources) that the biggest differences between developed and developing economies are in innovation performances. However, the World Bank often designed and implemented interventions at the sector level with strong alignment to local institutional experiences. These efforts usually failed to address the systemic weaknesses of innovation ecosystems that hinder competitiveness at the country level. Furthermore, the evaluation suggested that World Bank lending to support innovation and entrepreneurship was heavily concentrated in the education and agriculture sectors, which are not usually the main source of product and process innovations.

The World Bank Group's industry-specific interventions to enhance competitiveness in UMICs focused on introducing new products or systems, or new ways of processing. Overall, World Bank Group support was relevant, according to the 2016 IEG evaluation, *Industry Competitiveness and Jobs: An Evaluation of World Bank Group Industry-Specific Support to Promote Industrial Competitiveness and its Implications for Jobs*. The evaluation also noted that the World Bank Group's long-term engagement made significant contributions to successful transformation in several HICs and UMICs, including countries such as Chile, China, Korea, Peru, and Poland.[31] However, the evaluation noted that World Bank Group support underemphasized developing management capacity and manufacturing, despite the importance of manufacturing as an innovation and employment driver. Instead, the share of agricultural projects in the portfolio remained high regardless of the client countries' development stage. Evaluations find that the majority of World Bank Group support to manufacturing is through IFC's firm-level projects, and most of these are in the MICs, but the overall level of IFC investments in the manufacturing sector has been declining recently.

*Investment Climate Reforms*

Nearly all country partnership strategies in UMICs see investment climate reforms as a policy priority, and the World Bank Group portfolio contains many

interventions aimed at easing new entry and strengthening competition. The 2015 IEG evaluation of investment climate reforms noted that World Bank Group support was highly relevant and comprehensive. However, measuring the effectiveness of World Bank Group interventions and attributing the impact on investment, jobs, business formation, and growth to World Bank Group support was somewhat challenging. Furthermore, typical investment climate interventions have focused mainly on cutting business costs and have not well reflected the social consequences of proposed reforms.

The portfolio analysis suggests that the share of successful World Bank Group investment climate projects increases with the level of a client country's income. However, it is difficult to make firm conclusions regarding UMICs because the 2015 evaluation of investment climate reforms did not systemically analyze the differences in program effectiveness by country income level, and the sample of 25 country case studies vastly underrepresented UMICs. However, individual UMICs' CPEs and case studies seem to show that the World Bank Group has faced difficulties in helping its higher-income clients alleviate binding constraints in business environments, often because of political economy constraints. This is especially relevant to the IFC experience in UMICs, which partly reflects the prevailing IFC business model of implementing its investment climate projects through stand-alone advisory services. Consequently, in many instances the emphasis was on streamlining administrative procedures, but not addressing the core underlying policy issues.[32]

Investment climate reform is an area in which close cooperation across the World Bank Group might generate particular development benefits. The 2015 IEG investment climate evaluation noted evidence of a division of labor between IFC and the World Bank. The World Bank focuses more on higher-level reforms (such as revising and harmonizing laws and codes, reforming institutions, and developing strategies) while IFC focuses mostly on streamlining and simplifying procedures and processes. However, the current division of labor rarely generates synergy and enhances effectiveness. Available evidence shows some positive examples of successful collaboration across the World Bank Group in UMICs in this area, but not many.[33]

### *Public-Private Partnerships and Infrastructure*

The 2014 IEG Evaluation of public-private partnerships (PPPs) found that countries must be sufficiently mature to apply the PPP concept successfully. It is unsurprising that MICs have captured much of the recent growth in PPP projects and mainly in two regions: Latin America and the Caribbean and East Asia and Pacific. The

concentration of PPP investments is also quite evident at the country level. The top five countries combined (Brazil, China, India, Malaysia, and Mexico) represent 60 percent of the World Bank Group's PPP investment portfolio during 2002–11.

World Bank Group–supported transactions in UMICs often created a market for PPPs through their demonstration effects and, at times, helped shape the regulatory environment for PPPs. Demonstration and replication effects of individual PPP projects were often considered as important as the actual transaction. IFC investments added value to PPPs during due diligence and implementation stages, along with providing finance and catalyzing other financiers. IFC's potentially unique value proposition to its clients' lies in its capacity to provide support along the entire PPP cycle.

World Bank Group–supported PPPs in the UMICs were largely successful in achieving their development outcomes, though data are scarce on their effects on the poor. PPP projects' development outcome ratings tend to be better in countries with a higher level of readiness in handling PPPs—that is, those countries with better established frameworks for preparing and approving PPPs and a longer track record of executing actual transactions. Therefore, UMICs on average tend to overperform lower-income groups. The 2014 evaluation of PPPs also noted that IFC's financial support for actual PPP projects too often reached already-developed PPP countries and suggested that IFC should identify avenues to invest increasingly in PPPs in countries and markets that do not yet have a well-developed enabling environment.[34] Similarly, the 2013 Brazil CPE encouraged expanding IFC work on PPPs in the country.[35]

Regarding more traditional infrastructure investment projects, evaluations of the World Bank Group portfolio in UMICs contain many examples of triggering critical policy reforms and achieving significant sector-wide impact even with modest financing.[36] For example, World Bank Group support in the transport sector for performance-based road maintenance contracts helped the governments strengthen the policy and institutional environment for managing their entire road network.[37] The 2013 IEG evaluation *Improving Institutional Capability and Financial Viability to Sustain Transport: An Evaluation of World Bank Group Support since 2002* concluded that World Bank Group engagement in transport is more likely sustained in UMICs than in other income groups. It also concluded that two subsectors—intercity highways and ports—more likely sustain engagement in transport than other subsectors. The same evaluation also noted that IFC transport investments and MIGA guarantees tend to support projects in UMICs, while the World Bank's support is spread more evenly across income groups.[38] Outside the transport sector, the World Bank was successful in accelerating critical infrastructure reforms in the

information and communication technology (ICT) and power sectors (in Mauritius and Romania for ICT and in Brazil for power, for example). In the new EU member countries in the Europe and Central Asia Region, the World Bank Group's interventions were instrumental in helping to improve the use of EU structural funds that expanded the pool of public funding for infrastructure upgrades. In the telecommunications sector (which the private sector dominates globally), the World Bank Group's careful selection of its interventions led to achievement of a considerable demonstration effect, according to the 2011 IEG evaluation, *World Bank Group Activities in Information and Communication Technologies, Volume 1*.[39] Additionality from IFC's participation in infrastructure projects, including in ICT, was associated more strongly with its perceived capacity to mitigate political and regulatory risks than with its financial contributions.[40] The evaluation noted that IFC investments in the ICT sector were concentrated in IDA-eligible countries and IFC additionality was more limited in UMICs.[41]

Overall, broad success across different infrastructure sectors has remained relatively rare in the World Bank Group's operational experience in UMICs. More often than not, the degree of success varied within a single country depending on the specific circumstances of particular infrastructure segments.[42]

### CONCLUSIONS

A comprehensive set of market reforms in UMICs backed by World Bank Group assistance can provide credible incentives to private investors. In this context, World Bank Group support to improve UMICs' competitiveness was largely relevant, and its comparative advantage in the UMIC context is as a knowledge provider, an independent broker, and a regulatory risk mitigator. The World Bank Group helped identify key growth bottlenecks and shape the governments' policy response. In several cases, World Bank Group interventions were innovative and had a catalytic role in helping client countries to establish new sectoral markets. However, IEG evaluations noted that more efforts could have been made in scaling up, including more effective replication of successful projects across the countries and encouraging more South-South learning and exchange.

The UMICs lending portfolio shows significant variation in effectiveness across various sectors within the same country, which might reflect the World Bank Group's limited ability to address political economy constraints in countries that do not rely on its funding. The World Bank Group provided high quality advisory support in this area, but its effectiveness is often unclear because of a need for more systematic efforts to evaluate ASA products' impact on changes in government policies.

The effectiveness of integrating programs to support competitiveness in UMICs across the World Bank Group showed mixed results—complementarity in industry-specific support was broadly satisfactory, but it was less so in other areas. A de facto division of labor between IFC and the World Bank in the investment climate area did not produce much synergy in the UMICs this review covered.

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[1] Fiscal resilience includes prevention of unsustainable public spending increases and excessive borrowing during boom times and adaptation—the ability to conduct countercyclical fiscal policy while preserving debt sustainability—in the face of negative exogenous shocks. Financial sector resilience includes prevention of procyclical behavior during upswings and adaptation—the ability to maintain financial intermediation during systemic bank distress and declining external flows.

[2] The three most prominent subthemes in these development policy loans were measures to strengthen macroeconomic management and ensure fiscal sustainability; structural reforms aimed at improving the cost-effectiveness of public expenditures; and public financial management reforms.

[3] The indicator of fiscal stress is the average of two rankings of recipient countries by the level of fiscal deficit-to-gross domestic product (GDP) and the level of gross public debt-to-GDP in 2007–08, reflecting the countries' precrisis situation. Countries were divided into three zones: low, moderate, or high fiscal stress.

[4] This discussion applies to countries in which the deterioration in the fiscal position was noticeable. This is because the analysis in the 2012 IEG evaluation of Crisis Response acknowledges that it does not rely on cyclically adjusted fiscal deficits, which are available for only a few emerging economies, thus precluding an assessment of whether the deterioration of fiscal positions was commensurate with the growth contraction that resulted from the crisis or reflected some lingering effect of fiscal stimulus.

[5] Credit growth exceeded 50 percent per year in Ukraine, leading to high leverage (more than 140 percent in Ukraine to more than 240 percent in Latvia) and dependence on foreign currency funding to finance the credit expansion, with problems of mismatch of duration and currency. This led to sharp liquidity withdrawals that precipitated runs on banks, the threat of systemic banking sector collapse, or collapse of other financial institutions. The banking sector of upper-middle-income countries in the Europe and Central Asia Region (such as Latvia and Ukraine) was dominated by subsidiaries of major western European financial institutions, which brought substantial benefits, including in products and best practices. However, these subsidiaries, which had enhanced access to cross-border funding (and were also supported by the World Bank Group and other international financial institutions), also contributed to the very rapid and procyclical credit growth, which in turn helped fuel very large current account deficits and a build-up of substantial balance of payment risks.

[6] A banking crisis is defined as experiencing a threat of bank failure or systemic financial system failure.

[7] For example, Peru was not particularly credit-constrained, but the country experienced stock market volatility. However, the opposite was true of Mexico and Venezuela.

[8] In Kazakhstan, the World Bank's development policy loans (DPLs) supported reforms in the financial sector through DPLs that allowed the government to restructure and capitalize the troubled banks. It also provided technical assistance and policy advice to design and implement the financial sector reform programs. World Bank policy advice was sound, but the problem of nonperforming loans continues to linger.

[9] IFC's response to the crisis was global initiatives, for example, the Global Trade Finance Program, the Global Trade Liquidity Program, the Bank Recapitalization Fund, the Debt and Asset Recovery Program, and the Microfinance Enhancement Fund. MIGA's crisis response was concentrated in Europe and Central Asia.

[10] The indicator of composite financial sector stress is defined as an average of indicators on deposit decline, credit contraction, and stock market declines, and an increase in Emerging Market Bond Index spreads. Ranking countries by financial sector stress, 70 percent of financial sector lending went to countries in the middle tier of financial stress and 23 percent went to countries facing high financial stress. Sixteen of 43 recipient countries had high levels of financial stress and received about one-third of commitments; another 27 had moderate to low levels of stress and received about two-thirds of commitments.

[11] In Mexico and Turkey, which faced moderate financial stress, a slowdown in credit and market volatility and difficulties in some loan markets were the main manifestations of the crisis. Both countries received large development policy loans providing fiscal resources, which were accompanied by reforms to improve supervision. Directly relevant to the crisis in Mexico was the World Bank's investment loan to a second-tier development bank, promoting the development of the residential mortgage market together with reforms of housing finance. In Croatia and Turkey, the authorities preferred financial intermediation loans—lines of credit from financial intermediaries to private borrowers through participating financial institutions. In Colombia (a moderate-stress country) and Uruguay (a low-stress country), where reforms had been taken in the sector during previous years with World Bank assistance, DPLs focused on supervisory issues and further reforms in the overall capital markets.

[12] The 12 Financial Sector Assessment Programs (FSAPs) completed no more than three years before the onset of the crisis (2005 and later) in 18 reviewed country cases were fairly successful in identifying strengths and weaknesses and provided a good basis for later interventions. More recent FSAPs in countries facing high financial stress (Croatia, Latvia, and Ukraine) focused more on liquidity risks, external funding, and crisis preparedness and identified the vulnerabilities. In moderate- and low-stress UMICs (Colombia, Mexico, Turkey, Uruguay), FSAPs identified macroeconomic and structural vulnerabilities.

[13] A joint World Bank–IMF review found that about 60 percent of FSAP recommendations are typically implemented.

[14] Examples of successful regulatory reforms include support to Morocco and Turkey to create mortgage laws and facilitate securitization.

[15] Mexico's banking and securities regulator did not regulate the Sofoles as it was believed that the market could regulate them given their dependence on capital market finance. The

lack of prudential regulation was an important factor in the demise of the Sofoles. IFC missed the warning signs, such as the fast growth and increasingly risky lending of the Sofoles it supported in Mexico. The Sofoles collapsed when the capital markets closed during the global crisis, leading to losses in several IFC investments.

[16] Before the financial crisis in 2008, the World Bank had been supporting the transformation and funding of Sociedad Hipotecaria Federal (SHF), the housing development bank. SHF supported many nonbank financial institutions that provided mortgage lending, a significant majority of which targeted the low-income population segment (such as Su Casita, one of the two largest nonbank financial institutions before the crisis). Most Su Casita mortgage finance customers were from the low-income housing sector. Before the crisis, Su Casita was considered a highly successful model for low-income housing finance. An IEG Learning Product *on Housing Finance (World Bank 2016d)* cites Morocco as one of the successful examples: "In Morocco, appropriate World Bank–supported institutional consolidation support led to the rise of a strong government counterpart that was key to the sustained success of the low-income program."

[17] For example, Romania provided funds to microfinance institutions that stimulated the delivery of financial services to smallholders while transforming these intermediaries from informal entities into profitable, regulated firms under central bank supervision.

[18] The Worldwide Governance Indicators cover voice and accountability, political stability and the absence of violence or terrorism, government effectiveness, regulatory quality, rule of law, and control of corruption.

[19] The charts in figure F.1 (appendix F) use established Organisation for Economic Co-Operation and Development member countries (western Europe, the United States, Canada, Japan, and Australasia) and UMICs as they are defined in this study.

[20] The lack of major evaluations in these areas could be because lending for public sector reform (PSR) is more frequent in IDA countries due to a greater need for PSR and stronger pressure to conduct it. For example, IEG's 2012 evaluation *World Bank Country-Level Engagement on Governance and Anticorruption* does not include any case studies of UMICs.

[21] The 2008 evaluation of Public Sector Reform covered World Bank support on PSR to all countries in four subsectors: public financial management, civil service and administrative reform, tax administration, and anticorruption and transparency.

[22] This finding needs cautious interpretation. A higher degree of self-selection by IBRD borrowers that had PSR lending programs probably contributed to the difference, implying that IBRD countries that are more enthusiastic about PSR and would have improved somewhat anyway were more likely to get World Bank support. In IBRD countries, the government usually has more financial freedom and in-house technical capacity to decide whether it will borrow for a PSR project, when to borrow, and for what purpose. World Bank strategy then tends to be more tailored to country circumstances compared with IDA Poverty Reduction Support Credit countries, where the World Bank and donors more often insist on a full array of public sector reforms.

[23] The rate of improvement for nonborrowers—86 percent—was almost as high. This is partly because nearly all the countries in Europe and Central Asia that did not borrow for PSR in 1999–2006 were among the first from Central and Eastern Europe to join the EU and

had already implemented a lot of reforms with World Bank support before 1999. However, the momentum of public sector reform was not confined to EU accession countries because much of the region was engaged in an historic move from a command economy to a market economy—a task that called for comprehensive institutional reform.

[24] Public financial management (PFM) systems are budget institutions that include budget formulation, preparation, approval, execution, and evaluation.

[25] However, the public sector reform evaluation does not distinguish upper- and lower-middle-income IBRD borrowers, thus precluding a more granular assessment.

[26] Reforms were part of an integrated approach to strengthening PFM systems and institutions in Poland and Serbia. The World Bank supported the rollout of medium-term expenditure frameworks in Georgia (for the public investment program), Mexico, Poland, Romania, and Serbia, but progress in this direction varied across countries. It also supported the introduction or implementation of fiscal rules limiting the increase in public spending or the level of the fiscal deficit in some countries, notably Peru and Poland.

[27] The implementation of public expenditure evaluation systems in Mexico is an example of such stand-alone crisis response operation. By contrast, the World Bank initiated a crisis response operation in Romania in 2009 as part of a programmatic DPL series, knowing that it would take time to implement structural fiscal reforms to bring the fiscal position to a sustainable footing.

[28] Implementation of a value added tax was used as a pilot to introduce a modern taxpayer identification system and tax collection in Albania. The establishment of large taxpayer units served the same purpose in Bulgaria and Russia.

[29] To help the political leadership identify tangible benefits of civil service administration reform, the World Bank supported the development of measurable progress indicators in Albania, such as the percentage of recruitment by merit (which reportedly the government regularly tracks). Russia is an example of achieving positive results by designing reform measures that tried to shift existing practice instead of advocating for a complete change. Bulgaria made little progress with downsizing, but it successfully implemented compensation reform and human resource management reform.

[30] Countries such as Mexico were able to borrow from the World Bank during the global economic crisis because their effective fiscal and debt management in better times before the crisis had allowed them to prepay the World Bank. In other cases, such as Ukraine, World Bank exposure was increased even when private capital flows were abundant.

[31] In several advanced economies in the Europe and Central Asia Region, the World Bank is credited with making critical initial contributions to the formulation of countries' developmental strategies through research and technical assistance to introduce basic economic reforms, modern management practices, and the like. It later shifted its assistance to facilitate institutional reforms and knowledge transfer. In China, World Bank Group financing represents a small share of China's total financing needs, but it is significant in bringing ideas, knowledge, and best-practice experience to help the country improve firm and sector competitiveness. In Chile, the World Bank Group contributed to enhancing the innovation system's effectiveness through two highly innovative investment projects to stimulate cross-sector cooperation between research and industry. In Peru, the World Bank

Group was instrumental in a major economic transformation related to improvements in country competitiveness, diversification, and sustainable growth. IFC investments in agribusiness and tourism were catalytic to building a momentum in these sectors when they were considered too risky. In Mauritius, reforms to enhance competitiveness were the core of the World Bank Group's partnership strategy. It provided support largely through DPLs complemented by analytics and technical assistance for capacity building. However, this effort was only moderately successful. World Bank Group interventions helped to increase foreign direct investment inflows and enhance export diversification, but the country's competitiveness is still constrained by skilled labor shortages and inadequate quality of infrastructure services.

[32] The investment climate program in Peru is typical in this respect. The World Bank Group undertook a relevant set of diagnostic work, but the program intended to address only a narrow set of investment climate constraints. It succeeded in catalyzing some reforms to reduce regulatory obstacles (including simplifying business registration), but it did not engage in more critical and politically sensitive areas, such as high tax rates and a restrictive labor code. Compared with this type of average UMIC experience, the World Bank's investment climate program in Mauritius was unusually ambitious and successful. Along with streamlining business registration, it made a crucial contribution to liberalizing the labor market (including hiring skilled foreign labor) and accelerating the business liquidation process. However, the government's lack of interest in further reforms since 2011 put the sustainability of some of these achievements at risk. The World Bank Group's more positive experience with similar investment climate reforms in transition economies in Europe and Central Asia could be linked largely to strong government ownership that reflected the political consensus regarding longer-term national priorities aimed at EU membership. This helped maintain the reform momentum even when national governments were replaced. The World Bank support in countries such as Bulgaria, Poland, and Romania (though significantly varied) helped the governments identify binding investment climate constraints and make the right choices regarding setting priorities for necessary reforms. This group of clients especially appreciate the good quality analytical and advisory products. By contrast, the World Bank Group was unable to make a significant impact in reducing the costs of doing business in Brazil, where local political interests are more fragmented, and this area is still a critical constraint to the country's growth. Brazil's tax burden has been high, nontransparent, and complex, and the trade regime was quite distortive. The World Bank did not give either of these areas enough attention. A pilot IFC *Doing Business in Brazil* report (2006) highlighted large differences in the costs of doing business across the states and thus established an important set of benchmarks. However, the report had limited follow-up (beyond the state of São Paulo).

[33] One of the most profound success stories is in Serbia, where IFC, the World Bank, and the World Bank Institute collaborated on the Regulatory Impact Analysis Project. The project had a clear division of tasks and continuous communication between task team leaders, especially before endorsing any action and requirement with the client. Another example is in the Latin America and the Caribbean Region, where the World Bank and IFC have jointly managed the investment climate work. Joint management helped improve client management and ensure that project development was more collaborative, though at a high administrative cost.

[34] IFC's public-private partnership (PPP) portfolio has been overconcentrated in the select group of UMICs, which creates at least two problems. It limits the demonstration effect of IFC operations, and it reduces business opportunities for IFC Investment Services because commercial banks increasingly become more prominent financiers of PPPs, especially in the established sectors of UMICs.

[35] One of the Brazil country program evaluation's recommendations is to expand more IFC work on PPPs in the country. The evaluation states, "IFC has added significant value in its support for PPP project structuring, and demand remains high for innovative projects that can be replicated and scaled up elsewhere in Brazil. Further expansion of the PPP collaboration with the National Bank for Economic and Social Development should be pursued. As the expansion of PPP projects in Brazil depends critically on the enabling regulatory environment and its predictability, this is an area for close collaboration between the IFC and the World Bank, as noted earlier. IFC should also increase direct investments in infrastructure projects and project sponsors that have the potential to transfer IFC's knowledge on project financing as well as social and environmental standards

[36] Peru is a best-practice example of the World Bank's support for infrastructure development in the UMIC's context and cooperation across the World Bank Group. IBRD helped introduce best practices in sustainable infrastructure development and financed highly relevant projects to expand rural and urban infrastructure, while IFC and MIGA supported several PPPs that helped relieve the investment burden on the public sector. IFC and MIGA helped arrange several private concessions in Peru—some were highly visible (such as private management of Lima's international airport) and had an important signaling role. IEG rated the outcome of this infrastructure support program as highly satisfactory.

[37] In Chile, Kazakhstan, and Poland, World Bank projects helped set new road-management standards. Resource-rich Kazakhstan decided to proceed with World Bank loans of $3 billion to ensure sound investment planning and execution of the program to expand its road network. World Bank involvement helped introduce stronger fiduciary and governance standards, upgrade local contractors' capacity, and launch modern contract-outsourcing practices.

[38] According to IEG 2013 Transport evaluation, projects supported by IDA and IBRD are evenly divided between upper-middle-income and lower-middle-income countries) about 35–38 percent each), and low-income countries receive 22 percent of the total projects. The majority of IFC projects are in upper-middle-income countries (62 percent), followed by lower-middle-income (22 percent) and low-income (8 percent) countries. Upper-middle-income countries dominate MIGA's transport guarantees (a pattern similar to IFC's), receiving 80 percent of total guarantees, followed by lower-middle-income (13 percent) and low-income (7 percent) countries (IEG 2013).

[39] Examples include Bulgaria Revenue Administration Reform Projects, which promoted information and communication technology (ICT) applications in the public sector, and the Russia E-Learning Support Project, which provided support for ICT skills development. World Bank projects also helped expand access to ICT services for the poor in several UMICs, such as Chile and Romania.

[40] Other prominent examples of UMIC where the World Bank infrastructure interventions had a catalytic role include Turkey (power), where the World Bank was successful in supporting policy reforms to encourage private sector investment in power generation and integrating principles of environmental sustainability in the key sectoral policies; Mauritius (ICT), where the World Bank Group combined support for regulatory reforms in ICT with investments in critical infrastructure to improve broadband connectivity—as a result, the prices of ICT services fell, the sector expanded strongly, and the share of ICT services in total services exports more than doubled between 2007 and 2013; and Russia (airports), where the World Bank, through Reimbursable Advisory Services, successfully supported arrangements for a public-private partnership for Pulkovo Airport in St. Petersburg—one of the first PPPs of such scale in Russia.

[41] IDA-eligible countries represented 61 percent of total ICT investments out of a total commitment of $2.7 billion with 100 approved projects during FY03–10.

[42] The notable example is Tunisia, where a failure to improve cost recovery in railway services was accompanied by a major breakthrough in seaport commercialization. In Mauritius, the success of World Bank–supported reforms in ICT and IFC's failure to improve port operations contrasted greatly and was a critical development constraint for the island's economy.

# 3. Investing in People

***Highlights***

- The evaluative evidence suggests that World Bank Group engagement in projects that support investments in people added value in upper-middle-income countries (UMICs).
- World Bank support for education in UMICs focused on second-generation issues such as early childhood education and enhanced quality outcomes.
- Health financing was a major focus of World Bank support for the health sector in UMICs.
- Support to improve the quality of life in urban areas included core urban services such as electricity, water and sanitation, transport, and housing for the poor.
- Conditional cash transfers to enhance the quality of life of the poor and vulnerable seem to be among the most successful and transformative programs supported by the World Bank.
- Social safety nets (SSNs) were important in mitigating the impact of crises on the poor and most vulnerable strata of population, and middle-income countries showed strong demand for World Bank support in this area.
- World Bank lending for social protection increased during the global financial crisis to nearly four times its pre-crisis levels, and the largest increase was for poverty-targeted SSN programs.
- Outcomes in social sectors in UMICs were generally positive, but the urban sector had mixed outcomes, reflecting both the complexity of the multisectoral operations and capacity issues at the local level.

Interventions aimed at investing in people include the social sectors (education, health, and social protection) and enhancements in urban living conditions. The World Bank's strategic assessment of where progress was slow and needed to be accelerated drove the program in some upper-middle-income countries (UMICs), but it mostly reflected the areas in which governments wanted World Bank support. In those areas, countries in the Latin America and the Caribbean Region dominated World Bank support to UMICs (appendix E, figure E.11). Human capital and quality of life issues featured strongly in these countries' internal political dialogue, and governments saw the World Bank as able to contribute to and validate government-sponsored programs. The World Bank had little or no lending in this area in UMICs in Sub-Saharan Africa and Asia.[1] It provided some support to Europe and Central Asia (Bulgaria, Poland, and Romania), but these countries had relatively well-

developed health and education sectors, so support tended to be in niche areas, such as helping with the needs of the Roma community.[2] Tunisia and Turkey were the only countries with significant programs in this area outside of Latin America.

## Evaluation Findings

The World Bank Group had a substantial portfolio in quality of life–related issues in the UMICs during the period under review. Countries with more limited access to resources are often reluctant to borrow from international financial institutions for the social sectors because these sectors do not generate the financial returns needed to service the loans. However, this is a lesser issue for some UMICs where the borrowing is likely to be a smaller proportion of overall financing. The issue for UMICs tends to be whether to borrow at all (South Africa and Thailand) instead of whether to borrow for the social sectors.

Most of reviewed IEG project evaluations of health and education in UMICs reflected generally positive outcomes. Evaluations suggest that these countries decision to borrow represents a judgment that such borrowing adds value to their own programs in these areas. However, the urban sector had mixed outcomes, reflecting both the complexity of the multisectoral operations supported and capacity issues of city and regional client governments.

### SOCIAL SAFETY NETS

Social safety nets (SSNs) were important in mitigating the impact of crises on the poor and most vulnerable strata of the population, particularly in the aftermath of economic contractions in UMICs such as Colombia, Mexico, and Turkey. IEG 2011 evaluation, *Social Safety Nets: An Evaluation of World Bank Support*, shows that stronger demand for SSN support in MICs led to significantly stronger engagement than in low-income countries. Both country demand for SSN support and the supply of World Bank support drove the stronger engagement in middle-income countries (MICs). On the demand side, MICs have a higher capacity to borrow and spend and can invest in more costly institutional development and scale-up programs rather than short-term relief programs and pilots, which low-income countries typically use. Furthermore, the capacity to do so could be expected a fortiori to be stronger on average in UMICs. On the supply side, the World Bank (during the evaluation period) moved from a project-level approach that emphasized delivery of social assistance benefits to an approach focused on helping countries build SSN systems and institutions—particularly concentrated in MICs—to respond more effectively to poverty, risk, and vulnerability.

### CONDITIONAL CASH TRANSFERS

Conditional cash transfers (CCTs) to enhance the quality of life of the poor and vulnerable seem to be among the most successful and transformative programs the World Bank supported. Many IEG project level evaluations emphasize that these programs tend to take a holistic view of coverage of health, education, and SSNs. In Brazil and Mexico, governments saw a comparative advantage for the World Bank in its ability to support programs that required coordination across ministries and to support the core ministries in managing these projects.[3] In particular:

- The World Bank sought to increase capacities in health, nutrition, and education of poor families in Mexico through human capital investment by promoting regular health checkups, improving health status, and raising school enrollment and attendance fees.
- Brazil's Bolsa Familia CCT program transformed the country's social assistance program by providing adequate incentives for desired changes in behavior among targeted beneficiaries (for example, vaccinations and school attendance). The World Bank has supported the program from early in its inception, and the authorities credit it with contributing to the design and implementation and providing a sounding board for the officials in charge.

According to the 2012 IEG evaluation of *The World Bank Group's Response to the Global Economic Crisis: Phase 2* and the portfolio review conducted for this synthesis, World Bank lending for social protection increased during the crisis to nearly four times its pre-crisis levels. Although social protection includes SSNs, active labor market programs, and social insurance and pensions, the evaluation reported that the largest increase was for poverty-targeted SSN programs. Most lending was concentrated in the Europe and Central Asia and Latin America and the Caribbean Regions in a handful of UMICs that experienced contractions in the formal and informal labor markets, jobs, and earnings.[4] This sharp increase was possible partly due to the World Bank's longer-term engagement in this area through both analytical work and lending.[5]

### EDUCATION

World Bank support for education in UMICs focused on second-generation issues, such as early childhood education[6] and enhanced quality outcomes,[7] because many UMICs made major progress in resolving the first-generation education issues of access for all and gender equality.[8] World Bank support for the quality of primary and secondary education covered three main program areas: increasing community participation in decisions affecting education, improving pedagogy, and reducing dropouts and increasing school completion rates. Some specific examples are:

- In Mexico, the World Bank provided support intended to improve the learning outcomes of children in the most marginalized municipalities. The Programa Escuelas de Calidad, established in 2001, has been successful in introducing school autonomy and improving local participation in education. The World Bank supported Turkey in its efforts to enhance the quality of education through projects and analytics on secondary education and vocational training. However, supporting better quality education generally had mixed outcomes.
- In Colombia, IEG project evaluation noted that although indicators on student enrollment for the education objective were all nearly achieved, the challenge is not only to increase enrollments but to focus on improving education quality. The Programme for International Student Assessment (PISA) results in Colombia show that the percentage of students who test at the lowest levels in math, reading, and science has increased recently.
- In Argentina, the World Bank focused on education inequalities and sought to improve completion rates for students in lower secondary rural education. However, the IEG project evaluation notes that this should be seen against an apparent stagnation in educational attainments, according to the 2013 PISA showing Argentina ranked as 59 out of 65 nations and with no apparent improvement since the year 2000.

### HEALTH

The World Bank's support for the health sector focused on enabling the poor to access health services, improving the quality of health services, and pandemic response. Health financing was a major focus of World Bank support in the UMICs, including support for risk pooling to increase the poor's participation and concurrent steps to subsidize their enrollment.[9, 10, 11] Furthermore, progress in addressing communicable diseases in most UMICs and rising life expectancy shifted the focus to noncommunicable diseases. Instead of supporting programs focused on addressing particular disease vectors, the World Bank supported building the quality of the health care system to address noncommunicable diseases.

The World Bank tended toward a broad view of upgrading health services in UMICs through better facilities and institutional restructuring, often in support of a comprehensive, government-led reform effort. The World Bank also provided support to UMICs in coping with pandemics, particularly avian influenza. The 2013 Brazil country program evaluation (CPE) noted IFC's involvement as crucial in structuring the *Hospital do Subúrbio* project, the first public-private partnership (PPP) hospital transaction in Brazil. IFC provided international expertise in project finance,

assisted in promoting private sector financing, and helped set performance standards for the hospital.[12]

### SUPPORT FOR EMPLOYMENT CREATION

Evaluative evidence to assess the effectiveness of World Bank support to MICs for job creation is insufficient. A 2009 IEG evaluation, *Earnings Growth and Employment Creation: An Assessment of World Bank Support in Three Middle-Income Countries,* concluded that despite notable progress in economic growth, earnings, and poverty reduction, unemployment rates remained high in these countries. This is at least partly attributable to the lack of sufficient focus on the binding constraints on the functioning of labor markets and lack of attention to related political economy issues. The employment-related objectives were not always formulated and unbundled into more proximate objectives. However, the experience of these three countries shows how ASA can be the main instrument of support in the areas where reform progress is difficult and the need for consensus building is critical (labor regulations, for example). Although delivered ASA products were relevant and technically competent, the actual impact was unclear. Labor rigidity and labor taxes remained a constraint to employment in all three countries and particularly to formal employment, and there are persistent difficulties for setting up unemployment insurance systems.

There is limited evidence on the impact of World Bank Group support on youth employment. The conclusions of the 2012 IEG evaluation *Youth Employment Programs: An Evaluation of World Bank and International Finance Corporation Support* are broadly consistent with the 2009 report on earnings growth and employment creation. The evaluation recognized that high youth unemployment is an important issue for many MICs. World Bank support to youth employment between 2001 and 2011 was mainly to MICs with large lending programs, and most of the actual lending went to the Europe and Central Asia region for vocational training, school-to-work transition, and investment climate. The evaluation found that the impact of World Bank Group support on youth employment (for example, wage subsidies, public works programs, vocational training, and the like) remains largely unknown. Youth employment is not a strategic issue in World Bank Group country strategies. The majority of World Bank projects provide no information on youth as a beneficiary group. The scarcity of project data severely constrains the ability to assess the impact of the World Bank Group's support on labor market outcomes. The 2012 evaluation of youth employment programs recommended taking a strategic approach to youth employment in country programs by addressing the issue comprehensively, working across sectors and with other donors.

### URBAN SERVICES

The pace of urbanization in most UMICs is rapid. The World Bank supported a wide range of interventions designed to improve the quality of life in urban areas. These included support for core urban services such as electricity, water and sanitation, and transport; housing for the poor and lower-middle-income groups; and even urban amenities and crime prevention in some cases. A key issue for the World Bank was whether to use a vertical approach based on support (often multi-sectoral) for particular cities or adopt a horizontal approach to support better water and sanitation. IFC also contributed in this area through its investment in PPPs or privately owned urban service providers.

Case study evidence on UMICs suggest that the World Bank has achieved positive results in the water sector. The Tunisia CPE noted that the World Bank contributed to articulating and supporting sectoral reform issues. Six World Bank–financed water projects were active during the review period and covered a wide range of activities. Water and sanitation infrastructure improved because of these projects, which helped expand the reach of these services in rural and urban areas. World Bank support in Argentina aimed to improve the quality of basic municipal services through the provision of water supply and sanitation, urban drainage, and roads infrastructure in an equitable and fiscally sustainable way. IEG found that the project objective was substantially achieved because the infrastructure investments improved the quality of life through access to safe water and reliable water resources, sanitation services, reduced losses and travel time through improved road networks, and reduced costs from floods.

### GENDER

There is considerable scope to examine gender-related issues further in MICs and UMICs. A review of IEG's evaluative evidence on the World Bank's gender-related work in MICs found a lack of specific discussion of its performance in MICs or UMICs as income categories. However, the review found several interesting findings at the country level, though they are limited to the Latin America and Caribbean Region (Brazil, Chile, Mexico, and Colombia).

Many MICs incorporated gender into country strategies, but outcomes were not assessed. The Results and Performance Report (RAP) 2015 highlights gender integration in World Bank Group operations and country strategies as a key theme. The report reviews all 58 country strategies that closed in FY12–14 (including many for MICs) to assess whether gender issues are integrated into country strategies. The report noted IDA and IBRD projects do not identify gender relevance or articulate a

results chain but it does not discuss the difference between IDA and IBRD. The previous RAPs mainly discuss gender issues in IDA countries.

Analytical work conducted by the World Bank was highly valued and provided a strong foundation for partnerships. Perhaps the strongest explicit statement of this for UMICs—which are among the most demanding of the World Bank's clients—appears in the 2011 evaluation of *Social Safety Nets*, which states that UMICs found the World Bank's ASA highly relevant and sought to borrow from the World Bank to secure its support. Through its analytic work, the World Bank maintained a policy dialogue with governments that contributed to informing health financing reforms in countries such as Mexico, Poland, and Turkey. The World Bank has consistently warned against excessive fragmentation of risk pooling arrangements that can lead to systems being financially unsustainable (Mexico, Poland, and Turkey).[13] Analytical work also informed World Bank advice on managing or protecting public revenues for health.[14] Technical assistance and lending helped governments develop new laws and administration to strengthen social insurance management, mainly in middle-income countries.

Good analytic work is a necessary, but not sufficient condition for effective support for better policies. The 2014 Tunisia CPE reports that although the country continued to make good progress on health outcomes overall, the World Bank's role in the health sector was modest during the evaluation period. Its contribution was through analytical work on health sector issues and technical assistance to strengthen institutional capacities and hospital accreditation. The World Bank's ASA was relevant and of good quality, but it had very little impact on actual policies. A good example of how the World Bank can use its analytic work to produce a significant impact is seen it its support for improved pedagogy and learning outcomes in Brazil. Major works on the interaction between students and teachers observed at the classroom level have been written and disseminated across Brazil. This work helped to identify incentives and bonus systems to improve students' outcomes.

## Conclusions

The evaluative evidence suggests that World Bank engagement in investing in people has added value to UMICs. In some cases, the World Bank helped countries adopt new or innovative programs that might not be in place without World Bank support (for example, the use of conditional cash transfers in Turkey for supporting education and health programs). The World Bank also helped countries to adapt and fine-tune existing programs to enhance their effectiveness. Furthermore, it enabled

knowledge transfer in this area, bringing teams from countries on study tours, organizing workshops and seminars, and producing relevant publications. The evaluative evidence is particularly strong on the finding that the World Bank's participation in these programs helped countries provide access and benefits to more of the poor and vulnerable than would have received them without such participation.

The evaluations are consistent in highlighting the key role of the World Bank's analytic work in supporting reforms in the MICs. This is particularly the case where there is commitment to reforms and interest in what the World Bank can offer to the program's technical soundness. However, evidence suggests that the World Bank's analytic work also helped build the constituency and support for the reforms.

The more successful programs the World Bank supported were generally long in duration and went well beyond the scope of a single project. The World Bank's willingness to sustain its engagement and build close relationships at the technical level contributed to successful outcomes.

While there are many reforms that can be implemented at a micro-level, the most impressive programs tended to be national in scale. Even when programs are undertaken in particular places, anchoring them in broader national efforts has value. This can leverage the program that the World Bank is supporting and contribute to its sustainability.

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[1] In Malaysia, South Africa, and Thailand, the World Bank had very limited lending programs. In Mauritius, the government was reluctant to borrow for health and education.

[2] World Bank support for the Roma community in Romania was a major part of its activities in that country. Approaches that the World Bank supported have had considerable impact on what was often regarded as an intractable problem. In Romania, the Social Inclusion Project (FY06) helped build and rehabilitate kindergartens in 27 Roma communities, and develop an early childhood education curriculum and train staff. It also experimented with alternative community-based solutions for early childhood education. The project contained subcomponents aimed at improved access to rural infrastructure, roads, and water supply in targeted Roma communities. The gap in the living conditions index between targeted Roma settlements and neighboring communities was reduced by more than 40 percent between 2008 and 2013. The World Bank continues to support the government with advice on developing national policies and identifying cost-effective programs to integrate the Roma.

[3] In Mexico, the World Bank sought to increase capacities in health, nutrition and education of poor families through human capital investment by promoting regular health checkups, improving health status, and raising school enrollment and attendance fees. With the World Bank's support to the Oportunidades conditional cash transfer (CCT) program and

additional financing (FY09 and FY11), the number of families participating increased from 5.2 million to 5.8 million in December 2012 (three years later), and the target of 3 million more children participating in the program was surpassed. Brazil's Bolsa Familia CCT program transformed the country's social assistance program by providing adequate incentives for desired changes in behavior among targeted beneficiaries (for example, vaccinations and school attendance). The program is addressing the poor's significant gap in access to education and health services compared with the national average. The World Bank has supported the program from early in its inception and is credited by the authorities with contributing to the design and implementation and providing a sounding board for the officials in charge. The program was designed to cover 32 percent of the population, including the poor and extremely poor. The program has been key to the reduction in poverty and equity, accounting for about one-fifth of the reduction in the Gini coefficient. It ensures that beneficiaries understand the expectations for changes in behavior. The conditions under which cash transfers will be made have been widely publicized in Brazil.

[4] Mexico received the largest share, and other important recipients were Brazil, Colombia, the Dominican Republic, Poland, and Uruguay.

[5] In Bulgaria, Latvia, and Romania, World Bank support allowed an expansion of either temporary public works programs or guaranteed minimum income programs. These programs Where programs could be scaled up quickly where they were well structured and where sufficient information was available (Brazil, Bulgaria, Colombia, and Mexico.) Targeting groups specifically affected by the crisis was implemented better if updated household surveys existed and impact studies were in place, as in Latvia, Mexico, and Poland. In countries with weak systems, the World Bank focused more on consolidation of programs and longer-term reforms.

[6] Mexico was a pioneer in early childhood education. In 2014, nearly 70 percent of 3-year-olds and 100 percent of 4-year-olds were in some form of preschooling. Cash transfers were an important part of enabling the participation of the poor. The World Bank supported this program at the Mexican government's request to help insure that the resources devoted to the program were having the intended impact. World Bank support helped strengthen parental involvement in the program and build stronger links with health and nutrition programs. Although the World Bank made a positive contribution, its participation might have been even more important in enabling the World Bank Group to gain a firsthand understanding of the potentials and pitfalls of programs in this area.

[7] The World Bank Group supported Turkey in its efforts to enhance the quality of education through the Basic Education Adaptable Program Loan, the Secondary Education Project, and Advisory Services and Analytics activities on secondary education and vocational training. The 2012 completion and learning report review (CLRR) notes that secondary enrollment increased from 57 percent to 69 percent during the country partnership strategy period, and graduation rates increased from 45 to 51 percent. Furthermore, educational quality improved according to the Programme for International Student Assessment scores (the average reading score rose from 447 in 2006 to 464 in 2009—the latest available year; math scores rose from 424 to 445, and science scores increased from 424 to 454).

[8] During the evaluation period, a few UMICs still had access issues to address.

[9] Interventions in the UMICs were in six countries: Argentina, Colombia, Mexico, Poland, Romania, and Turkey (appendix I).

[10] The share of poor included in risk pools increased in countries where the World Bank helped governments subsidize their enrollment. In Turkey, insurance coverage for the poorest increased more than fourfold between 2003 and 2011, generating a coverage rate of 85 percent for the poorest. The public health insurance has recently incorporated the Green Card Program, which subsidizes health care for the poorest income group and is funded by general government revenues. World Bank–supported insurance reform in Turkey contributed to improved equity in health financing across income groups and substantially reduced catastrophic expenditures for the poor while increasing their service use. Similarly, the World Bank's development policy operation in Colombia helped increase the enrollment of low-income groups in government-subsidized insurance from 10.7 million in 2002 to 18.2 million in 2007. By March 2014, about 43 million people (90 percent of the population) was insured in Colombia. Colombia's health insurance for the poor lowers the mean inpatient spending for patients and is associated with the use of preventive series and health gains for children.

[11] World Bank support strengthened management and information systems in Poland, where the case-based payment (supported by World Bank policy lending) contributes to transparency and improved data availability in the social health insurance fund. Similarly, in Argentina (among others), supervision of health facilities, information and reporting systems, and routine data validity improved. The World Bank also helped increase revenues for health by subsidizing contributions to various insurance institutions for low-income groups. This type of World Bank support was implemented through lending and policy dialogue in countries such as Mexico and Turkey. The World Bank supported the explicit targeting of subsidies to finance contributions for low-income groups through means testing in Turkey. IEG's review of project completion reports found that in Colombia, the World Bank's Public Sector and Health teams (mainly through development policy operations) supported improvements in tax collection from employers and employees, which increased revenue transfers from the tax authority to social health insurance. In Eastern Europe (including Turkey), the World Bank recommended budgetary caps on spending to manage spending growth. In Argentina, World Bank lending and policy advice ensured that the government financed and protected basic and cost-effective health programs, including the availability of reproductive health care services for low-income groups in public facilities. The World Bank, through development policy operations, recommended introducing copayments with exemptions for lower-income groups in Romania.

[12] The hospital in Brazil operates more efficiently than public hospitals. It has flexibility and speed in hiring employees and procuring medical equipment, and has maintained the high standards a private hospital operator needs to meet a set of performance standards. *Hospital do Subúrbio* serves the poor community of Salvador in Bahia and provides high-quality care to the community. This innovative PPP hospital project was replicated in at least seven other states and municipalities in Brazil. In 2011, the project was selected as one of KPMG's 100 most innovative projects. IEG's review of this project notes that IFC brought transparency and independence during the project's structuring and financial closure and played the honest broker role for a road show presentation. Furthermore, Brazil's stock exchange oversaw the bidding for higher transparency—another IFC value added.

[13] In Mexico, a World Bank study found that government-subsidized risk pooling among the poor through *Seguro Popular* incentivized informality. Although Seguro Popular improved access to care, it was associated with a 3.1 percentage point fall in the flow of workers into formality. Members could avoid having to contribute to the formal social health insurance program by moving to the informal sector and receiving services under Seguro Popular. However, the government chose not to consolidate Seguro Popular with the formal SHI program to reduce fragmentation.

[14] The World Bank contributed to the process of conceiving, developing, and implementing Turkey's Health Transformation Program through extensive informal brainstorming sessions and timely, targeted technical advice. A key output was a health sector report produced in 2003 that developed the roadmap for reform. Important lending activities included two policy loans in 2004 and 2009, which were vehicles for providing technical support for the Health Transformation Program. The program's outcomes have been positive (out-of-pocket payments fell from 22 percent of total health expenditures to 16 percent, access to care reached 97 percent of the population, and all the major health indicators have improved, for example). In Romania, the World Bank's technical advice sought to rationalize medical service provision. The World Bank diagnostic found that the provision of health services was quite irrational because there were too many hospitals with too many beds, and very few facilities for outpatient services and secondary ambulatory care. It also found that primary care physicians were underused. In the functional review of the Health Ministry (FY11), the World Bank made recommendations to streamline health service delivery and establish health service delivery networks that would optimize the supply of services. These recommendations were reflected in the National Strategy for Hospital and Sanitary System Rationalization, and all hospitals were reclassified according to this strategy by the end of 2011.

# 4. Resilience

***Highlights***

- The environment is a major World Bank Group engagement area in upper-middle-income countries (UMICs).
- The World Bank Group supported countries in addressing their commitments under various international agreements on environment and climate change, often through its convening power.
- The World Bank was instrumental in brokering the trust funding available to the UMICs for environment, natural disasters, and climate change.
- IEG's review of project evaluations shows systemic issues in the weak design and monitoring of results frameworks in environment sector projects undertaken in UMICs.
- Fragility and violence affect development outcomes for almost 2 billion people, of which 37 percent live in UMICs.
- UMICs are typically reluctant to engage in dialogue on subnational conflicts.
- The World Bank Group's comparative advantage in UMICs affected by fragility, conflict, and violence (FCV) is in helping these countries address longer-term developmental challenges.
- Finding appropriate financing instruments was one of the main challenges for the World Bank's engagement on FCV in UMICs.

## Environment

The environment is a major World Bank Group engagement area in upper-middle-income countries (UMICs) because many of these countries have experienced rapid growth that creates pressures on the physical environment. Several countries turned to the World Bank Group to take a catalytic role in mobilizing the necessary funds and helping build institutional capacity. Most World Bank member countries became signatories to international climate change treaties, and many have looked to the World Bank Group to help them to meet those commitments. World Bank Group support to the environment covers three major areas: environmental sustainability, natural disaster risk reduction, and climate change mitigation and adaptation.[1]

The review examined several evaluations conducted by IEG on environmental topics. At the thematic level, a three-phased evaluation examined World Bank

support for climate change. An IEG learning product examined the use of environmental development policy loans that support environmental sustainability, which are sometimes used to provide budgetary support after natural disasters and help build resilience in the medium and longer term (World Bank, 2016b). The learning product drew lessons on how to implement environmental policy lending successfully.[2]

### EVALUATION FINDINGS

The evaluative evidence suggests that the World Bank was instrumental in supporting countries in addressing their commitments under various international agreements that provide much of the framework in this area. However, IEG ratings for the achievement of outcomes in this thematic area were lower than for most other Global Practices (appendix E, figure E.6).[3] IEG's review of project evaluations suggests a systemic issue in the weak design and monitoring of results frameworks in the environment sector and to the efficacy of environmental policy loans, which middle-income countries (MICs) mainly undertake.[4] Several World Bank operations were broadly defined regarding promotion of sustainable development. The evaluative evidence suggests that it is very difficult to develop a meaningful results framework in such situations.

The World Bank provided support for environmental sustainability in every UMIC where it had an active lending program.[5] A considerable part of the World Bank's focus in UMICs has been in trying to create incentives for communities or the private sector to maintain and protect the environment.[6] The selection of priorities in the UMICs generally aligns closely with the government's own priorities, but in some cases, the World Bank assigned more priority to programs in this area than the government did.[7] The following are cases of successful World Bank engagements in UMICs in this area:

- The World Bank supported programs in UMICs with major forest reserves designed to reduce the incentive to cut down forests to expand agricultural production (in Brazil, for example).[8]
- Land and watershed management were also key areas of World Bank support in the UMICs. Experience in Tunisia shows the potential in this area and the difficulties in building institutions and incentives to promote sustainability, even in UMICs.[9]
- The UMIC sample includes only one air pollution project, but the World Bank embedded support for reduced air pollution in several urban projects, for example in Chile.[10]
- Biodiversity was a large part of the World Bank's portfolio of support in the environment pillar in UMICs because of the availability of Global

Environment Facility (GEF) funding. In Mexico, the Indigenous and Community Biodiversity Project succeeded in establishing institutional arrangements at the state level that support communities in conservation planning and sustainable land use activities. It also gave legitimacy to community conservation efforts.

- World Bank support in Colombia helped launch a conservation trust fund that supported the consolidation of the country's National Protected Areas system. At a systemic level, World Bank support was particularly effective in Argentina and South Africa in helping to establish a national framework for biodiversity conservation.[11]

Relatively few UMICs are disaster hotspots, and therefore World Bank involvement in disaster response and risk management is limited compared with its major support programs in many parts of the world.[12] The Disaster Vulnerability Reduction Project Adaptable Program Loan in Colombia was a major support program, and IEG rated the component on disaster risk management capacity strengthening as substantial.

The World Bank provided considerable support for climate change mitigation and adaptation in UMICs. World Bank support covered three broad areas: general systemic support in pursuing climate change adaptation, clean energy (including renewables), and support to UMICs under the Montreal Protocol.[13] The following specific examples are illustrative of the type of support provided by the World Bank in this area:

- An adaptation to climate change project in Mexico was particularly interesting because it examined environmental impacts in the context of their impact on the poor.
- An important and valuable contribution of the World Bank's support for the Integrated National Adaptation Program in Colombia was to institutional collaboration between institutions and various stakeholders within Colombia.
- IEG rated the outcome of renewable energy support to Turkey as highly satisfactory (the only one in the sample that had received this rating), and the approach was adopted by other institutions and international financial institutions.[14]
- In the energy sector, IEG concluded that the Low-Carbon development policy loan in Mexico had a substantial impact through contributing to an increased renewable energy supply and reduced gas flaring, including promotion of energy-efficient housing.[15]
- A large number of UMICs were included under World Bank support for ozone-depleting substances phase-out under the Montreal Protocol, including

Malaysia and Thailand where these were the only financial transfers the World Bank provided (no lending or even GEF funding).

World Bank analytical services in support of lending were often catalytic in promoting important environmental issues in UMICs. The following are illustrative examples.

- In Mexico's Environmental Services Project, the World Bank team provided a forum for exchanging experiences across various interventions the project supported.
- IEG concluded that the Air Pollution project in Chile showed that even in countries with relatively sophisticated institutional set-up, the World Bank could contribute by impartially discussing politically sensitive issues.
- The World Bank's ASA in Tunisia provided the necessary analytical underpinning for reforms and sought to enhance local institutional capacity to mainstream environmental factors and improve implementation of resource management practices. Its contribution was small but useful, largely provided through projects for rural development, and integrated natural resource management in parts of the country that were especially vulnerable to resource degradation.

The World Bank was instrumental in brokering the trust funding available to the UMICs for environment, natural disasters, and climate change. The World Bank also supported UMICs in achieving compliance with the objectives of the various trust funds linked to global environmental targets. The World Bank performs the secretariat functions for the GEF—the most significant of these trust funded sources.

### CONCLUSIONS

The World Bank could consider how it can promote a more systemic approach to all three areas that this review covers—environmental sustainability, natural disaster risk reduction, and climate change mitigation and adaptation. Even in places where a one-off intervention confined to a particular district or catchment area succeeds in the short term, sustainability issues could arise without scaling up and embedding it in a broader administrative framework for effective environmental management.

The World Bank needs to consider carefully how it can support better outcome monitoring in environmental projects. Guidance is necessary on the design of results frameworks for environmental projects, especially on indicators that do not relate directly to the environment and are difficult for environmental agencies to monitor. Monitoring needs to align to the ongoing statistical and data collection activities in the country, but if this is not possible, the World Bank should consider using

geospatial data (as in the Mexico Environmental Services Project) or mobile phone–based surveys to collect proxies for detailed field surveys at lower costs.

The World Bank may need to reconsider its guidance on environmental policy loans. Some of these are one-off loans used as quick response operations in the context of natural disasters or as a way of providing major lending support in the near term. The desire to provide emergency financial support through projects designed and disbursed quickly may not be consistent with the goal of carefully designing policy reform programs that can help support medium- to longer-term environmental sustainability and build resilience. The World Bank may need to explore whether these two objectives require different instruments to achieve them.

## Fragility, Conflict, Violence, and Displacement

The development community has often linked fragility and conflict with a country's lack of development progress. However, instances of conflict in MICs have recently exceeded those in low-income countries (LICs), suggesting that conflict and violence are no longer primarily a LIC problem. According to the 2016 IEG evaluation, *World Bank Group Engagement in Situations of Fragility, Conflict, and Violence,* violence or the imminent threat of violence affect development outcomes for almost 2 billion people, of which 37 percent live in UMICs and 37 percent in lower-MICs. The 2011 *World Development Report on Conflict, Security, and Development* suggests that the high road to peace and prosperity is best approached through a consensual form of politics featuring inclusive political coalitions, credible signals of intent, and the development of accountable institutions—all of which are more applicable in UMICs, which generally have more advanced institutions and higher capacity supported by the middle class.

Many of the conflicts in UMICs are subnational in nature and driven by grievances based on ethnic or religious identity. The governments are typically reluctant to engage in dialogue on these conflicts given their ability to contain subnational violence and to manage the fiscal consequences of such violence. The World Bank Group has little leverage to push such engagement because of its limited lending to these countries, thus placing a greater premium on World Bank Group diplomatic skills, creativity, and appreciation of the local political economy in finding entry points that do not undermine political sensitivities.

### EVALUATION FINDINGS

The 2016 IEG evaluation on World Bank Group engagement in situations of fragility, conflict, and violence focused on middle-income countries, a few of which were

UMICs (Colombia, Jordan, and Lebanon). The evaluation emphasized that the World Bank Group's strategic comparative advantage is in helping these countries address essential, longer-term developmental challenges. Breaking recurrent cycles of violent conflict requires time, patience, and the contributions of multiple actors. The World Bank Group is often not the major player in these efforts (particularly in the UMICs), but even so it can have an important role.

Among the cases reviewed in the 2016 evaluation, Colombia offers an emblematic experience. The country was coping with a decades-long internal conflict deeply intertwined with politics, crime, and the international drug trade. Protracted violence led to widespread population displacement—according to the United Nations High Commissioner for Refugees, the cumulative number of internally displaced people reached about 5 million by 2015, the highest of any country in the world. World Bank interventions generally aimed at mitigating the impact of conflict and violence on households, farmers, and communities, and at addressing some conflict drivers. During the period reviewed, the World Bank started with mitigation activities at the local level (supporting communities under extreme duress) and, as the security situation gradually improved, began working with local institutions (with emphasis on supporting the education sector).[16, 17] Eventually, the World Bank moved to facilitating broader regional or national-level policies with emphasis on land titling and restitution, and expanding social safety nets to cover internally displaced people.[18]

Overall, the 2016 evaluation *World Bank Group Engagement in Situations of Fragility, Conflict, and Violence* concludes that World Bank Group interventions made useful contributions to the Colombian authorities' peace and reconciliation agenda. The World Bank had a successful catalytic role and a consistent vision for many years, and it could build up slowly from small opportunistic interventions to activities that have national impact. The World Bank had an important convening role and was successful in disseminating knowledge. It helped create new partnerships with nongovernmental organizations and donors, and it facilitated government agency involvement. More important, it facilitated and built on existing partnerships with the critical input of the World Bank's national staff in Colombia.

Jordan and Lebanon were not involved in armed conflicts internally or externally, but civil wars in Syria and Iraq (and the consequent influx of refugees) affected both countries, causing immense pressure on state systems and resources. The issue in these cases is not internal fragility by itself, but rather the compounding effects of external pressure and the impossibility of addressing the hosting problem without significant external support. Jordan and Lebanon have the highest proportion of refugees to native population in the world: Lebanon hosts 232 refugees per 1,000 of

its native population and Jordan hosts 87 per 1,000 (World Bank 2016c). Both countries contend that they are providing a global public good by hosting the refugees, and that they may not be able to survive this shock indefinitely if they do not receive more adequate support.

Overall, IEG's evaluation concludes that World Bank emergency assistance to Jordan and Lebanon included relevant, timely analytical work that the governments and partners used extensively, and flexible financial instruments that attracted additional donor financing, though far from the identified needs. The choice of strategic areas was relevant in both countries—helping the stressed and overcrowded health and education systems at the national level, and building capacity and improving resilience of local authorities to face increased demand for services at the municipal level.[19]

However, the World Bank's financial response to the crisis was inadequately small. One of its main challenges in Jordan and Lebanon was finding appropriate financing instruments. IBRD loans were the only readily available instruments, but they were better choices—IBRD loans can take time to prepare and disburse, and the two countries (which are already highly indebted) considered them relatively expensive. This option was exhausted quickly in Jordan by providing a $150 million emergency loan. In Lebanon, an internal political crisis and a stalemate in the parliament and the cabinet (a parliamentary vote is required for loan approval) complicated the situation.

### CONCLUSIONS

The experiences in Lebanon and Jordan show that the World Bank needs to develop financial mechanisms or fast-response facilities to use in similar situations in UMICs. It also needs to use its global convening power more effectively and encourage others to do so.

Another lesson relates to the importance of focusing on long-term developmental challenges. Although the World Bank's emergency assistance was appropriate for the short-term crisis, it is not likely to alter the fragility profile of most UMICs fundamentally. Colombia made important progress on reconciliation (though many questions remain), but in Jordan and Lebanon, it is highly likely that most Syrians will stay for a long time. The refugee inflow exacerbated many already existing and well-known fundamental systemic challenges in both countries, such as unsustainable public sector expenditures and high unemployment. Therefore, the probability of a short-term crisis becoming a serious long-term development challenge is high, which future World Bank strategies should reflect.

Experience with FCV in UMICs points to the importance of maintaining a credible and robust macroeconomic framework to withstand impacts from unforeseen crises. The World Bank will likely be an important institution (along with the IMF) to provide financial support when a crisis occurs. However, without a sustainable macro framework, the World Bank's ability to increase its support will be limited. Jordan and Lebanon will continue to be vulnerable to events like the Syrian crisis without more drastic structural reforms.

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[1] Environmental sustainability includes reducing air and water pollution, protecting watersheds, and dealing with soil erosion, reducing coastal and marine pollution, and protecting biodiversity and natural habitats. A second area of World Bank support relates to managing natural disasters through effective response and building resilience to future disasters. The third area is mitigating climate change through reducing carbon emissions and adapting to its effects, such as rising sea levels. Although the categorization of World Bank support is helpful in clarifying the objectives and approaches it took in the UMICs, World Bank operations cut across these categories in many cases and addressed a range of environmental priorities.

[2] This synthesis conducted a review of IEG Project Performance Assessment Reports and Implementation Completion and Results Report (ICR) Reviews of environmental projects in the UMIC sample and used ICR Reviews for 35 projects in this sample that supported this thematic area.

[3] Of the 36 ICR Reviews in the UMIC sample, 25 were rated in the satisfactory range and 11 were rated in the unsatisfactory range.

[4] IEG lowered the ICR ratings from satisfactory (S) to moderately satisfactory (MS) or from MS to moderately unsatisfactory (MU) in about 40 percent of the cases. In several cases, the reasons for lowering the ratings reflected issues related to the results framework design, in which outcomes were only loosely related to project outputs and the causal links were difficult to establish. In other cases, IEG 's opinion is that the data did not provide an adequate basis for assessing whether outcomes had been achieved or for attributing them to the project. These failures are puzzling given the relatively high capacity levels in the UMICs. Several projects included broad poverty reduction objectives along with the specific environmental objectives, and project implementation units (often housed in the ministry of environment) had no capacity or interest in monitoring general poverty outcomes. Therefore, satisfactory biodiversity protection projects (in South Africa, for example) saw positive results in employment creation because of tourism and conservation activities, but did not include provisions for monitoring poverty, which led IEG to downgrade these projects' ratings from S to MS. In some cases, environmental policy loans are designed as a programmatic series of operations, but in the UMICs, they were designed as one-off instruments to provide general budget support for broad environmental sustainability objectives or in the aftermath of a disaster. However, as one-off instruments, they do not provide the necessary follow-up for the medium- and longer-term measures often included in the prior actions and triggers. IEG noted in several cases that the results framework defined actions that could not be completed within the project time frame.

[5] Several World Bank strategy documents identified a pillar relating to environmental sustainability. For example, the Argentina country assistance strategy (CAS) of 2009–14 identified sustainable use of natural resources as an objective and defined specific medium-term progress benchmarks in this area, such as reduced rates of land degradation, technologies, air and toxic pollution data, and compliance with international environmental treaties and timetables.

[6] Two operations in Bulgaria helped ensure that the environmental damage caused by state-owned enterprises was handled during the privatization process in ways that did not hinder the privatization, but still made sure that the new owners would be responsible for conducting remediation and compliance plans.

[7] For example, in Turkey in environmental management, the FY04 CAS had hoped to engage Turkish authorities in a broader dialogue on investment priorities and move beyond specific interventions at the regional level supported by World Bank lending. The intent was to build on the National Environmental Action Plan prepared before the CAS period and provide a link between the plan and the EU dialogue on environmental standards. IEG's review of the Country Assistance Strategy Completion Report concluded, "In practice, there does not seem to have been much take-up in this area. The World Bank did not undertake major analytic work during the period, and overall the World Bank's instruments do not seem to be very strategic in relation to this objective. This said, the Turkish authorities were engaged in the task of preparing the ground for meeting specific EU directives so that some progress was made against this outcome, though with more limited input by the World Bank than had been intended. Indeed, the Turkish authorities indicated at one point that they were not interested in having the World Bank's involvement in this area, but were advised by the EU that in other cases the World Bank had played a helpful role in this regard."

[8] IEG's 2016 Learning Product *Transformational Engagements: Accelerating Progress to Achieve Development Goals* assessed the pilot program for the Conservation of the Amazon Forests administered largely by the World Bank) as perhaps the most successful environmental program the World Bank has supported. Project interventions helped to successfully reverse the trajectory of Amazon deforestation from an unsustainable trend to sustainable. Data show that the rate of deforestation in Brazil has slowed significantly since the mid-2000s, though this is only partially attributable to the program (1994–2012). The Pilot Program for the Conservation of the Brazilian Rain Forest (PPG-7) supported numerous scientific research activities, strategy studies, capacity building, and pilot and demonstration projects, which prepared the necessary knowledge base for transforming Brazil's policy and institutional framework for forest protection and management. It also helped prepare numerous follow-up projects that helped strengthen Brazil's protected areas framework and consolidate the open agricultural frontier.

[9] Despite decades of government efforts in Tunisia, overexploitation and inadequate land management have led to significant resource degradation—particularly severe in the northwest, central-west, and southern parts of the country—caused by a combination of natural and artificial factors. The World Bank's Advisory Services and Analytics provided the necessary analytical underpinning for reforms and sought to enhance local institutional capacity to mainstream environmental factors and improve implementation of resource management practices.

[10] The World Bank provided a loan of $13 million to Chile (including $7 million of GEF funds) to help reduce greenhouse gas emissions from ground transport in Santiago. IEG found that the project's construction of 40 kilometers of bikeways was successful, and the project had made some progress in reducing harmful emissions.

[11] The Argentina National Forests and Protected Areas Project led to the preparation of the first National Forest Inventory and was instrumental in the passage and implementation of a new Native Forest Law and Fund in 2007. The Biodiversity Conservation Project succeeded in expanding and diversifying the protected areas system to include some of the most threatened and underrepresented ecoregions in the country. A substantial part of the World Bank's program in South Africa was successful in achieving biodiversity goals. However, because of the difficulty in substantiating the biodiversity projects' poverty-reduction impact, the ratings were lower than if the objectives had been limited to biodiversity.

[12] Some Caribbean and Pacific Islands that are disaster hotspots have income levels in the UMIC range, but most receive IDA funding because of their overall vulnerability and were not considered as UMICs for this synthesis.

[13] This section does not cover energy-efficiency projects with a primary objective of increased access to reliable energy supplies on a financially sustainable basis.

[14] The renewable energy support project was designed to increase privately owned and operated power generation from renewable sources without the need for government guarantees and within the market-based framework of the new Turkish Electricity Market Law. The World Bank loaned $200 million for financing a Special Purpose Debt Facility for generation using renewable energy resources. IEG found that the project's objectives were fully achieved.

[15] The $400 million Low-Carbon DPL aimed at increasing renewable energy supply, promoting energy efficiency, reducing gas flaring and venting, improving the efficiency of the vehicle fleet and road transport operations; promoting efficient housing, and sustainable forestry development.

[16] The World Bank supported cohesion of communities under stress through the Magdalena Medio and Peace and Development projects. The community-driven development model, through a series of relatively small and experimental operations, was one of the few possible points of entry for World Bank assistance that could have been scaled-up and replicated. The approach was to help create collective decision making and problem solving–capacity within the communities. In some regions, demand-driven projects had already been initiated by Colombian civil society**.** The World Bank joined and supported those efforts. The definition of community varied widely, often including an entire municipality. The model preserved and stabilized a minimum standard of living and rebuilt social and human capital in a context of no local-level government institutions. The subprojects were particularly successful when incentives were created for participants to invest their own resources, join a productive chain, and achieve some minimum economies of scale. Land titling was crucial because it allowed farmers to borrow using land as collateral for investment.

[17] The World Bank showed significant commitment to supporting education in Colombia under very difficult circumstances. The conflict magnified the limitations of a highly

centralized education system that had limited local-level capacity. Teachers and social leaders were often targets of violent attacks. The flow of internally displaced people put pressure on local education systems, mostly at the basic level. To respond to these challenges, in 1997 the World Bank approved the Pasto Education Project ($7.2 million) and the Antioquia Basic Education Project ($40 million). The goal was to enhance decentralization by improving local education authorities' institutional capacity to continue the education process despite the conflict.

[18] The World Bank provided significant financial and technical assistance to Colombia's main conditional cash transfer program *Familias en Acción* from its inception in 2001. The Second Social Safety Net project ($636 million), approved in 2008 amid the global financial crisis, was disbursed against the expansion of cash transfers. A major development was waiving the means testing requirements for internally displaced people. The coverage of displaced households increased from 40,000 in 2005 to 350,000 in 2010, and to 500,000 in 2013. The share of these households in *Familias en Acción* almost doubled, reaching 20 percent of the total. *Familias en Acción* may now reach about one-third of the total displaced population. An in-depth impact evaluation found positive results on education and health outcomes and empowerment of women.

[19] In both countries, the World Bank does not provide assistance directly to refugees (shelter, food, or jobs), which is a prerogative of the UN agencies and nongovernmental organizations because the governments of Jordan and Lebanon explicitly refuse to borrow funds for humanitarian assistance. Instead, World Bank assistance is directed to mitigate the impact of the refugee inflow on country systems and in the Lebanese and Jordanian communities in which the crisis affected livelihoods.

# 5. Knowledge Agenda

***Highlights***

- Since early 2000s, World Bank Group programs in upper-middle-income countries (UMICs) have shifted toward more intensive delivery of lending-related knowledge services.
- Lending is a powerful driver of results for World Bank Group knowledge services in UMICs. Knowledge services are more likely to succeed when used in the design of lending operations.
- Sectoral focus and client ownership are the main factors in the success of World Bank Group knowledge services.
- The World Bank's main strengths in this area are its ability to fulfill client requests for cutting-edge advice promptly and its role as knowledge connector.
- The World Bank Group could do more to facilitate South-South exchanges and policy dialogue.
- Reimbursable Advisory Services (RAS) is an important mechanism to expand World Bank services, ensure the sustainability of the World Bank's business model in UMICs, and generate new knowledge to transfer to low-income countries.
- A tension exists between the World Bank Group mission as a global development agency and the consultant firm model that it increasingly applies to deliver knowledge services through RAS.
- Monitoring the impact of the World Bank Group ASA remains weak, and only a small share of knowledge activities has at least a partial results framework.

World Bank Group programs in upper-middle-income countries (UMICs) have shifted since the early 2000s toward more intensive delivery of knowledge services relative to lending. Past IEG evaluations of knowledge services in various areas beyond lending operations built on the knowledge services assessment methodology used by the World Bank's Quality Assurance Group. IEG tested this methodology in several thematic evaluations.[1]

## Evaluation Findings

The IEG evaluation of World Bank Group knowledge-based country programs (World Bank 2016a) sought to learn lessons from practices in a group of selected

high-income and upper-middle-income countries that have World Bank Group knowledge-based programs.[2] The evaluation concluded that 47 percent of the knowledge activities reviewed fully achieved or were likely to achieve the intended outcomes, and another 37 percent partly achieved the outcomes. The World Bank Group was more effective when it worked on specific sectors instead of broad topics, designed tasks to address specific client concerns, customized international best practice to local conditions, generated data to support policy making, and formulated actionable recommendations that fit local administrative and political economy constraints. Client participation and good monitoring and evaluation (M&E) systems were key to good results, regardless of the level of government that operated as counterpart (central or local).

Outcomes were more likely achieved when the knowledge services focused on specific sectors, such as agriculture and rural development, education and health, and the financial sector. Reaching outcomes proved more difficult in broader thematic areas, including an ambitious reform agenda or when the achievement of results required multisector efforts (such as private sector development, economic policy, and public sector governance). In such complex areas, results of knowledge services often suffered when new legislation was necessary to implement the recommended reforms.

IEG evaluations noted that knowledge services in UMICs used in the design of lending operations were more likely to succeed than freestanding knowledge services. Although lending was limited in most of the reviewed UMICs, it remained a powerful driver of results for the World Bank's knowledge services—at least partial achievement of expected outcomes was observed more often when knowledge services were used for the design of lending operations. Possible explanations are that the World Bank has more leverage in this instance than with freestanding knowledge services, and that the knowledge services are, by definition, supporting a program that expects to be implemented. Freestanding knowledge services contributed many times to policy discussions where the authorities had not yet taken a position.

Knowledge services requested by the client and designed specifically to achieve client objectives were more likely to achieve outcomes than more generic knowledge services.[3] Furthermore, knowledge services with fully or partly achieved outcomes were more likely to use local expertise. Using local experts and counterpart participation seem to help modify global best practices to fit local conditions, formulate recommendations that account for capacity constraints, and improve stakeholder ownership of findings and suggested actions. Client participation in the various stages of knowledge services was also associated with results achievement.

Knowledge services that achieved results have more often contributed to strengthening institutions and the recipients' analytical and policy formulation capacity.[4]

The evaluation of knowledge-based country programs (World Bank 2016a) found that the outcomes of about 75 percent of World Bank knowledge services and IFC advisory services were likely to be sustained at least partly. That is, knowledge services were likely to have at least partial lasting impacts on policies, capacity, or institutions. The majority of these knowledge products conveyed international best practice and relevant examples, generated new evidence to inform policymaking, and formulated actionable recommendations consistent with the findings. Sustainability of outcomes was observed more often when knowledge services were complemented by other World Bank activities (lending, other economic and sector work, or technical assistance). In most cases where sustainability of outcomes was likely, knowledge services contributed to strengthening institutions or the recipients' analytical and policy formulation capacity. About 60 percent of World Bank knowledge services contributed at least partly to developing or strengthening institutions, but the frequency of IFC advisory services was much lower. Similarly, a majority of World Bank knowledge services and a significant part of IFC advisory services contributed to strengthening recipients' analytical or policy formulation capacity.

The World Bank's main strength was its ability to fulfill client requests for cutting-edge advice promptly—this reflected recommendations from previous IEG knowledge services evaluations. Another key strength was its role as knowledge connector. The World Bank often used its convening power to mobilize top international experts for brainstorming sessions and seminars with high-level government officials or for technical assistance and working sessions with government agencies. Several IEG evaluations noted good examples of where the World Bank's knowledge activities facilitated South-South exchanges and policy dialogue in the focus countries, but the World Bank could do more because the geographic, thematic, and organizational fragmentation prevents realizing the full potential of such exchanges.[5]

The frequency of full dissemination of World Bank knowledge services— conducted in slightly more than half of knowledge activities reviewed—was relatively low. In many cases, disseminating the report internally and externally with the participation of civil society organizations helped promote broader consensus on the reform agenda. A good example is the knowledge activity conducted in Bulgaria.[6] By contrast, broad dissemination has been a weak point of the World Bank's engagement in Kazakhstan, reflecting the authorities' preference to some extent.[7]

The confidentiality often imposed on World Bank knowledge services cofinanced by clients or through Reimbursable Advisory Services (RAS) largely explained the lower dissemination rate of World Bank knowledge services. IEG evaluations noted that monitoring the impact of World Bank ASA remains weak. According to the knowledge-based country programs evaluation (World Bank 2016a), only 17 percent of knowledge activities assessed had at least a partial results framework.

The 2014 IEG Country Program Evaluation (CPE) for Kazakhstan offers an example of the Bank's experience with RAS programs. The CPE emphasized that the RAS program did not use the depth and coverage of the World Bank's analysis to inform the public and to generate more support for necessary reforms. The wider disclosure of the World Bank Group and Kazakhstan government's Joint Economic Research Program (JERP) products could have had a positive impact on the program's overall effectiveness, reform ownership, and sustainability, along with better utilization of the World Bank's analytical insights.[8] The evaluation noted that almost a decade of JERP implementation has seen surprisingly little participation in program delivery by local institutional partners. Therefore, the JERP contribution to the build-up of local analytical capacity at the time of evaluation was minimal.

The World Bank's ability to customize knowledge services to the local context and to deliver multisectoral solutions is at risk of eroding in places where country knowledge is too shallow or narrow. This risk arises mainly when the World Bank works through RAS and does not maintain a local presence. The World Bank's strengths may also be challenged by its increasing tendency to deliver knowledge services through the consultant firm model, with insufficient follow-up and lack of emphasis on important issues for the medium-term development agenda. A tension exists between the World Bank as a development agency (focusing on important medium-term development issues) and the World Bank providing specific solutions to narrower problems suggested by the main counterpart in the country—generally a unit within the ministry of finance.

Several evaluations conclude that monitoring of World Bank knowledge services results was weak—both for individual activities and for country programs. According to the knowledge-based country programs evaluation (World Bank 2016a), only 17 percent of the knowledge activities assessed had at least a partial results framework in the country partnership strategy (CPS), allowing tracking of the activity's contribution to the broader development outcomes the CPS sought. Similarly, the Kazakhstan CPE noted that the World Bank's analytical work funded under the JERP did not have an explicit results framework at the time of the evaluation, which diluted the program's focus on the development outcomes.

## Conclusions

IEG evaluations noted that the World Bank Group remained a strategic partner in UMICs by providing knowledge services, but they also noted the need to emphasize "how-to" options rather than diagnostics and "what-to-do" recommendations. The World Bank Group was more effective when it worked on specific sectors instead of broad topics, designed tasks to address specific client concerns, customized international best practice to local conditions, generated data to support policy making, and formulated actionable recommendations that fit local administrative and political economy constraints. The World Bank Group was less effective when it did not address issues that were relevant to the client or could not follow up consistently with the client on the implementation of advisory activities.

IEG evaluations recommended that the World Bank strengthen learning from UMICs and the intermediation of this knowledge to other countries. UMICs provided ample opportunities for learning from development experiences (for example, the development trajectory from a low-income to an upper-middle-income economy in Malaysia, or the World Bank's extensive work in China on regional approaches to investment promotion). This can be accomplished internally through enhanced knowledge exchanges within the World Bank (communities of practice) and externally through practitioner networks or knowledge hubs; easing the confidentiality of knowledge activities conducted through RAS; and leveraging the technical capacity developed by UMICs to other countries.

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[1] IEG conducted an evaluation of World Bank economic and sector work and technical assistance in 2008 (*Using Knowledge to Improve Development Effectiveness: An Evaluation of World Bank Economic and Sector Work and Technical Assistance, 2000–06*. An evaluation of growth diagnostics in Africa was conducted in 2010 (*Performance Assessment Review, World Bank Economic Reports on Growth Diagnostics in Four African Countries: Ghana, Mauritius, Nigeria, and Uganda*), followed by an evaluation of Advisory Services and Analytics on revenue policy (*World Bank Support for Revenue Policy Reform in Eastern Europe and Central Asia: Performance Assessment Reports of Economic and Sector Work in Georgia, Kazakhstan, and the Kyrgyz Republic*) and a clustered evaluation of investment climate assessments in emerging economies (*Performance Assessment Review of Investment Climate Assessments in Five Transforming Economies: the Arab Republic of Egypt, Bangladesh, Guatemala, Kenya, and Vietnam*).

[2] The selected countries were Bulgaria, Chile, China, Kazakhstan, Kuwait, Malaysia, Russia, South Africa, and Thailand.

[3] For example, in China there is evidence that recommendations from the report *Reducing Inequality for Shared Growth in China: Strategy and Policy Options for in Guangdong Province* (a high-profile study conducted jointly with the provincial authorities) are being implemented gradually with concrete results in declining inequality. In Thailand, unlike other

development agencies, counterparts see the World Bank as having the capacity to properly customize international best practice to the Thai context because of its knowledge of local institutions that comes mainly from staff expertise in the regional country office in Bangkok (*Knowledge-Based Country Programs: An Evaluation of World Bank Group Experience)***.** The Thai report *The Economics of Effective AIDS Treatment* is a good example of customization to country context.

[4] The China Preparation of Capital Market Development report is an example of detailed coverage of the institutional and policy context and reliance on a local team of experts to draft the report in Chinese using existing data. The report contributed to capacity building at the China Securities Regulatory Commission's Research Center and to raising its profile and role as the capital markets regulator.

[5] For example, the World Bank mostly used its informal networks through task team leaders and network management to convey knowledge acquired in Chile to other countries in the Latin America and the Caribbean Region and elsewhere. In Kazakhstan, some government agencies have already shared their experiences with other countries in the region.

[6] The 2007 Country Economic Memorandum, which focused strongly on education, was disseminated in a session with the Bulgarian parliament, organized jointly with a think tank. The series of reports on regulatory reform were disseminated through public hearings organized by the ministry of economy with the participation of think tanks and professional associations.

[7] For example, brainstorming sessions are confidential, so lessons learned or a summary of the discussions are not disseminated to a wider audience, and little (if any) of the World Bank's knowledge services is discussed openly with representatives of business associations and other stakeholders.

[8] For example, according to the 2014 Kazakhstan Country Program Evaluation, the demand-driven nature of the World Bank's program in Kazakhstan imposed limitations on the World Bank in defining priorities in its advisory work program, reflecting the lack of government interest in the analysis of several sensitive policy issues. The most important gaps in the program relate to poverty analysis, governance and anticorruption, and the role of the state-owned enterprises sector in the economy. The evaluation noted that in an environment in which the client-driven Advisory Services and Analytics program defines the country partnership, the World Bank needs to maintain space and capacity for its own selection and preparation of specific analytical products in line with its global development mandate.

# 6. Conclusions

This synthesis review concludes that the World Bank Group's engagement with upper-middle-income countries (UMICs) and its support to them remains highly relevant from two perspectives: helping these countries address their specific developmental challenges, and potentially having a valuable demonstration effect for other lower-income groups of World Bank Group clients. Regarding inclusive and sustainable growth, the World Bank Group had a positive role in helping address the remaining large gaps in the quality of UMICs' public sector institutions, accelerate growth in private sector productivity and innovation, and increase private financing of infrastructure. Similarly, with regard to investments in people, the World Bank Group supported UMICs' increasing shift from focusing primarily on access to ensuring improved quality of basic health, education, and urban services. The World Bank was also instrumental in building safety net systems, including the highly successful experience with conditional cash transfers. Support for enhanced resilience to environmental and security shocks was highly relevant because UMICs have an increasingly important role in addressing global threats in these areas.

Despite the high relevance of the World Bank Group's engagements in UMICs, important challenges remain in fully addressing some of the structural issues that underlie UMICs' vulnerability to various shocks and in making progress that is more significant and sustained in several important development areas. Although individual interventions to improve public sector institutions and private sector competitiveness have had positive results, broad systemic improvements were less common, and UMICs still exhibit very large gaps in those areas compared with their higher-income peers. Similarly, despite noticeable individual project and country achievements, significant challenges persist for achieving large and sustained improvements in the quality of basic public services and for strengthening national natural resource management institutions.

The World Bank Group had a positive role in supporting UMICs in the aftermath of the global financial and economic crisis and in the context of dealing with internal and cross-border displacement, but important challenges remain for effectively dealing with the longer-term problems facing the respective countries. Although the World Bank's emergency assistance was appropriate for the short-term crisis, it is unlikely to alter the profile of most stressed UMICs fundamentally. In these countries, external shocks exacerbated many already existing and well-known fundamental systemic challenges, such as unsustainable public sector expenditures and high unemployment. Therefore, future World Bank Group strategies should

consider complementing crisis-response support with longer-term engagements to address the underlying structural drivers of vulnerability to economic and security shocks. Furthermore, the World Bank can potentially be an important source of financial support when a crisis occurs. However, lacking a sustainable macro framework, the World Bank's ability to increase its support will be limited.

The World Bank Group's main comparative advantage in the UMIC context is as a provider of knowledge coupled with financing. This unique role has few, if any, alternatives for the clients. The volume of World Bank Group financing in UMICs does not carry critical mass for most of these countries (except during crises), but it is fully capable of sending proper signals to the markets, providing credible incentives to private investors, leading innovative and catalytic initiatives, and adapting and fine-tuning existing programs to enhance their effectiveness.

The potential for fruitful South-South knowledge transfer is very often underused, and the World Bank Group needs to find better mechanisms for facilitating knowledge transfer. IEG evaluations note that the World Bank Group could have done more in scaling up, including more effective replication of successful projects within and across countries and encouraging more South-South learning and exchange.

The more successful programs the World Bank Group supported were generally long duration and went well beyond the scope of a single investment loan or development policy loan. The World Bank Group's willingness to sustain its engagement and build close relationships at the technical level contributed to successful outcomes. While there are many results that can be achieved at a more micro-level, the most impressive programs tended to be national in scale. Even when programs are undertaken in particular localities, anchoring them in broader national efforts has value. This can leverage the program that the World Bank Group is supporting and contribute to its sustainability.

The World Bank Group portfolio in UMICs performed consistently higher than in other client country groups, but effectiveness across various sectors showed significant variation, even within the same countries. The World Bank Group's limited ability to address political economy constraints in countries that do not rely on its funding could explain this, at least partially. The World Bank was largely effective in helping willing clients accelerate crucial reforms, but it often struggled with consolidating national ownership for reforms. In this respect, it is worth investing more time and effort to understand the political economy constraints for key reforms in the UMIC context, and in expanding support to strengthen pro-reform coalitions.

The general perception is that World Bank Group financing is diminishing in UMICs, but the World Bank continues its important dialogue and engagement with UMICs despite this perception, covering a wide range of issues from fostering countercyclical policies, to building resilience, to financing large infrastructure projects, to catalyzing private sector participation. World Bank Group lending commitments to the UMICs increased significantly during the review period (though mainly because of the global financial crisis), but the trend reversed after 2010 and is now closer to pre-crisis levels. Several evaluations recognized the need to keep lending space at the country level to respond credibly to future crises. However, experience from several countries and sectors shows the need to review existing financial mechanisms and develop new mechanisms (such as fast-response facilities) to use in various situations.

IEG evaluations consistently emphasized the high relevance of the World Bank's analytic work in supporting reforms in UMICs and the high value that country stakeholders in UMICs assigned to its analytical work and technical assistance. This was particularly true where there was commitment to reforms and interest in what the World Bank could offer to enhance the government programs' technical soundness. However, evidence suggests that the World Bank's analytic work also helped build the constituency and support for reforms. In some cases, UMIC governments even sought to borrow from the World Bank to secure its support through ASA. One of the most robust conclusions emerging from several evaluations is the importance of ASA in shaping the quality of the overall assistance, in particularly quality at entry of development policy financing—one of the main engagement instruments with the UMIC group. However, despite the high quality of World Bank Group advisory support, its effectiveness often remained unclear because of the lack of systematic efforts to evaluate the real impact of ASA products.

One of the most robust conclusions from several IEG evaluations referred to the need to strengthen knowledge transfer from UMICs to other countries, possibly by enhancing knowledge exchanges through communities of practice, networks of practitioners, or knowledge hubs. Several IEG reports suggested easing the confidentiality of many knowledge activities conducted through Reimbursable Advisory Services (RAS) and leveraging the technical capacity developed by UMICs to other countries. IEG stressed the importance of continuing to use RAS to expand the feasible set of World Bank services, ensure the sustainability of its business model in UMICs, and generate new knowledge that the World Bank can then intermediate to low-income countries. However, several IEG evaluations noted a tension between the World Bank Group's mandate as a global development agency and the consultant firm model that it increasingly applies to deliver knowledge

services through RAS. This tension often manifests itself in lack of coverage of important but potentially sensitive areas, such as poverty diagnostics or governance.

The lack of analytic material on World Bank Group activities in UMICs as a group was a visible constraint for this report—many World Bank reports often do not distinguish between categories of client countries by income levels. Going forward, there is scope for further work on analyzing World Bank Group performance across various groups and subgroups of clients, including within narrower technical areas.

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# Appendix A. Methodology and Country Selection

## Methods, Sources, and Steps

1. All available recent (10–12 years) evaluative information was collected and classified by mapping out relevant Independent Evaluation Group (IEG) evaluations at all levels using the analytical framework described above as the main organizing principle. The following reports were reviewed and classified according to their relevance to the topic and the suggested analytical framework: relevant thematic and corporate evaluations (including case studies on upper-middle-income countries (UMICs); country evaluations, including country program evaluations (CPEs) and completion and learning report reviews (CLRR) for UMICs; select project evaluations—including Project Performance Assessment Reports (PPARs), Implementation Completion and Results Report (ICR) Reviews, and International Finance Corporation (IFC) EvNotes; and other sources, including World Bank Group and external reports.

2. A total of 78 major evaluations and learning products were reviewed. This included 43 major evaluations delivered between 2008-present, 28 learning products, six Results and Performance Reports (RAPs), one (external) Asian Development Bank (ADB) evaluation of middle-income countries (MICs) (2016). Of the 42 major evaluations, 20 evaluations were categorized as highly relevant from the MICs angle. These reports refer to MICs or International Bank for Reconstruction and Development (IBRD) as an income category, some contain highly relevant content and messages for MICs from both the main report and country case studies, and others have lessons that may have broader applicability and utility for World Bank Group engagement in MICs. Most of the highly relevant major evaluations (16 out of 20) were produced after 2012. Coverage of each major evaluation varied – from 1-2 to 8-10 years.

3. Fifteen reports were categorized as moderately relevant. Some of these reports had some useful comparisons of performance and lending by income groups (MIC, International Development Association (IDA), IBRD), but the majority did not discuss UMICs (or MICs) as a distinct client group. However, these reports are useful from a thematic standpoint (fragility, conflict, and violence; decentralization; housing finance; climate change; and so on) as these are issues across the income per capita spectrum—from low through lower-middle-income, to upper-middle-income

countries. Moreover, some of these reports reference relevant projects in MICs or contained useful country case studies.

4. Several learning products and CPEs (including those that were part of the Clustered CPEs on small states and resource-rich countries) contained substantive discussions on MIC-relevant issues such as resilience (macro-fiscal, climate, social) and competitiveness.

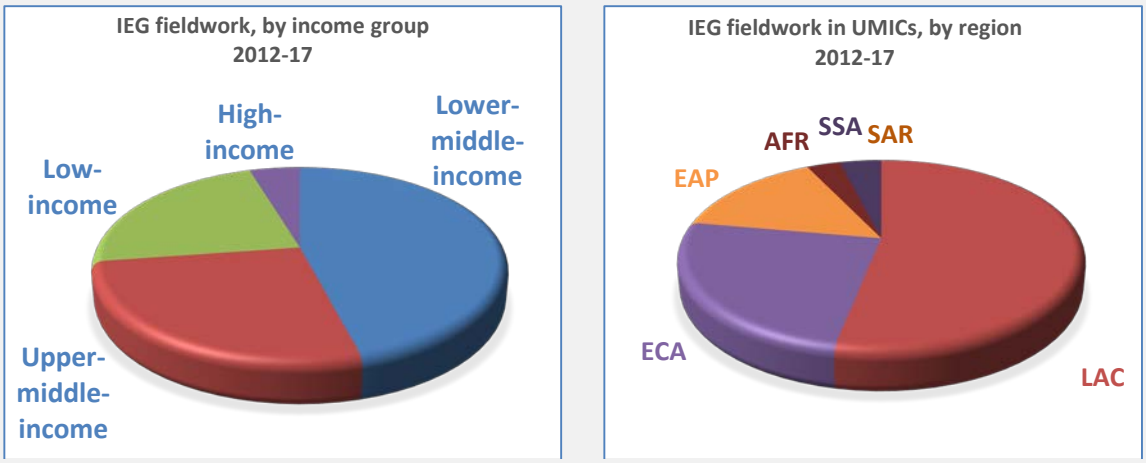
5. This synthesis also reviewed 6 IEG Results and Performance Reports (RAPs) (2010-2015). Two (2010, 2011) out of the six RAPs were found highly relevant and the four were moderately relevant. The two highly relevant RAPs used the categories of UMICs and discussed some trends and issues. The 2010 RAP assessed crisis and non-crisis lending performance and highlights a few key MICs, while showing outcomes by income groups. In addition, the team reviewed 24 completion and learning reports (CLRs). Only a few CLRs (Colombia, Mexico, Turkey, and Romania) mentioned MICs as an income category.

## Case Study Selection

6. From the full MIC universe (108 countries, of which 52 are lower MICs and 56 are upper MICs) the following categories were selected for this review: (i) UMICs that belonged in that category for the last 6–8 years, with the majority of portfolio originating in IBRD; and (ii) high-income countries (HICs) that acquired HIC status within the last 6–8 years, and where the World Bank Group maintains presence, continues dialogue, or both. This group included 30 countries. The team then selected 14 core countries for in-depth coverage at the country review stage (excluding small states) and taking into account regional representation.

7. In terms of income and regional distribution of IEG's fieldwork (figure 1), more than 70 percent of IEG field missions conducted between 2012 and 2017 have been to MICs. UMICs account for 27 percent while lower-middle-income countries account for 46 percent of the total. Therefore, IEG missions have been concentrated in the Latin America and the Caribbean and Europe and Central Asia Regions, which together account for 78 percent (appendix B contains the full list and additional data tables). The most visited countries are Colombia, Mexico, and Turkey.

## Figure A.1. IEG Fieldwork, 2012–17




*Source*: IEG (from Business Intelligence, January 2017, IEG Reports, and IEG TTLs).
*Note*: AFR = Africa [Region]; EAP = East Asia and Pacific [Region]; ECA = Europe and Central Asia [Region]; LAC = Latin America and the Caribbean [Region]; SAR = South Asia Region; SSA = Sub-Saharan Africa [Region]; UMIC = upper-middle-income country.

# Appendix B. Country List

Table B.1. Country List

| | Country | Region | Classification (World Bank Group FY16 Definition) | GDP/capita (current $) in 2008 | GNI in 2008, ($, threshold 3,856) | GDP/capita average FY06–15 (current $) | GDP growth average FY06–15 (%) | RAS | IBRD ($, m) | IDA ($, m) |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | Mauritius | AFR | Upper-middle-income | 7,749 | 7,380 | 8,104 | 4.0 | 0 | 368 | 0 |
| 2 | South Africa | AFR | Upper-middle-income | 5,817 | 6,040 | 6,567 | 2.6 | 1 | 3,750 | 0 |
| 3 | Malaysia | EAP | Upper-middle-income | 8,487 | 7,530 | 9,161 | 4.9 | 21 | 0 | 0 |
| 4 | Thailand | EAP | Upper-middle-income | 4,385 | 3,990 | 5,051 | 3.3 | 1 | 1,079 | 0 |
| 5 | Poland | ECA | High-income | 13,906 | 11,910 | 12,583 | 3.8 | 7 | 8,714 | 0 |
| 6 | Bulgaria | ECA | Upper-middle-income | 7,296 | 6,100 | 6,880 | 2.4 | 2 | 872 | 0 |
| 7 | Romania | ECA | Upper-middle-income | 10,136 | 8,630 | 8,703 | 2.7 | 37 | 5,847 | 0 |
| 8 | Turkey | ECA | Upper-middle-income | 10,382 | 9,350 | 9,747 | 3.9 | 0 | 14,173 | 0 |
| 9 | Kazakhstan | ECA | Upper-middle-income | 8,514 | 6,150 | 9,975 | 5.4 | 122 | 5,056 | 0 |
| 10 | Argentina[a] | LAC | High-income | 8,993 | 7,680 | 10,528 | 3.3 | 3 | 8,670 | 0 |
| 11 | Chile | LAC | High-income | 10,791 | 10,140 | 12,736 | 3.7 | 32 | 199 | 0 |
| 12 | Colombia | LAC | Upper-middle-income | 5,434 | 4,660 | 6,233 | 4.6 | 11 | 8,758 | 0 |
| 13 | Mexico | LAC | Upper-middle-income | 9,579 | 9,580 | 9,300 | 2.4 | 25 | 17,817 | 0 |
| 14 | Tunisia | MNA | Upper-middle-income | 4,343 | 3,880 | 4,080 | 2.9 | 0 | 2,500 | 0 |
| 15 | Namibia | AFR | Upper-middle-income | 4,011 | 4,200 | 4,804 | 5.0 | 0 | 15 | 0 |
| 16 | Albania | ECA | Upper-middle-income | 4,371 | 4,050 | 4,084 | 3.6 | 3 | 1,080 | 130 |
| 17 | Belarus | ECA | Upper-middle-income | 6,376 | 5,470 | 6,047 | 4.3 | 0 | 1,233 | 0 |
| 18 | Bosnia and Herzegovina | ECA | Upper-middle-income | 4,975 | 4,620 | 4,465 | 2.1 | 0 | 345 | 451 |
| 19 | Macedonia, FYR | ECA | Upper-middle-income | 4,822 | 4,350 | 4,668 | 3.2 | 0 | 980 | 0 |
| 20 | Montenegro | ECA | Upper-middle-income | 7,326 | 6,500 | 6,593 | 3.2 | 0 | 310 | 28 |
| 21 | Serbia | ECA | Upper-middle-income | 6,702 | 5,650 | 5,730 | 1.5 | 0 | 2,149 | 100 |
| 22 | Croatia | ECA | High-income | 15,894 | 13,970 | 13,484 | 0.1 | 0 | 2,870 | 0 |
| 23 | Hungary | ECA | High-income | 15,650 | 13,200 | 13,355 | 0.8 | 0 | 1,413 | 0 |

| | Country | Region | Classification (World Bank Group FY16 Definition) | GDP/capita (current $) in 2008 | GNI in 2008, ($, threshold 3,856) | GDP/capita average FY06–15 (current $) | GDP growth average FY06–15 (%) | RAS | IBRD ($, m) | IDA ($, m) |
|---|---|---|---|---|---|---|---|---|---|---|
| 24 | Latvia | ECA | High-income | 16,324 | 13,390 | 13,545 | 1.8 | 5 | 563 | 0 |
| 25 | Russian Federation[a] | ECA | High-income | 11,635 | 9,590 | 11,476 | 2.5 | 71 | 705 | 0 |
| 26 | Brazil | LAC | Upper-middle-income | 8,707 | 7,330 | 9,889 | 2.8 | 8 | 22,615 | 0 |
| 27 | Dominican Republic | LAC | Upper-middle-income | 4,997 | 4,620 | 5,411 | 5.6 | 0 | 899 | 0 |
| 28 | Jamaica | LAC | Upper-middle-income | 5,119 | 4,750 | 5,010 | 0.1 | 1 | 954 | 0 |
| 29 | Panama | LAC | Upper-middle-income | 7,009 | 6,440 | 9,171 | 7.9 | 1 | 1,357 | 0 |
| 30 | Uruguay | LAC | High-income | 9,062 | 7,690 | 12,176 | 4.7 | 1 | 1,677 | 0 |

*Source:* World Development Indicators and Business Intelligence.
*Note*: GNI = gross national income; IDA = International Development Association; IBRD = International Bank for Reconstruction and Development; RAS = Reimbursable Advisory Services;
a. Argentina and Russia are upper-middle-income countries as of FY17.

# Appendix C. Evaluations and Learning Products Reviewed

1. IEG. 2016. Small States Clustered Country Program Evaluation (CPE) (the six Organization of Eastern Caribbean States (OECS) countries and nine Pacific Island countries (PICs), Cabo Verde, Mauritius, Seychelles)
2. IEG: 2016. Supporting Transformational Change for Poverty Reduction and Shared Prosperity—Lessons from World Bank Group Experience
3. ADB. 2016. ADB Engagement with Middle-Income Countries
4. IEG. 2016. Industrial Competitiveness and Jobs
5. IEG. 2016. The World Bank Group's Support to Capital Market Development
6. IEG. 2016. World Bank Group Engagement in Situations of Fragility, Conflict, and Violence
7. IEG. 2016. World Bank Group Support to Housing Finance
8. IEG. 2016. Program for Results: An Early Stage Assessment of the Process and Effects of a New Lending Instrument
9. IEG. 2016. Lessons from Environmental Policy Lending—Summary
10. IEG. 2016. Transformational Engagements: Accelerating Progress to Achieve Development Goals
11. IEG. 2016. Managing Environmental and Social Risks in Development Policy Financing
12. IEG. 2016. Systematic Country Diagnostic and Country Partnership Framework Evaluation
13. IEG. 2016. Lessons from Land Administration Projects: A Review of Project Performance Assessments
14. IEG. 2016. Diagnostic Framework: How to Assess the Capacity of a Government's Financial Management Information System as a Budget Management Tool

15. IEG. 2016. Private Sector Development: Recent Lessons from Independent Evaluation

16. IEG. 2016. Reliable and Affordable Off-Grid Electricity Services for the Poor: Lessons from World Bank Group Experience

17. IEG. 2016. Financial Viability of the Electricity Sector in Developing Countries: Recent Trends and Effectiveness of World Bank Interventions

18. IEG. 2016. Lessons from Policy-Based Guarantees

19. IEG. 2016. The Role of Political Economy Analysis in Development Policy Operations

20. IEG. 2015. Resource Rich Clustered CPE (Kazakhstan and the Synthesis Report)

21. IEG. 2015. Results and Performance of the World Bank Group 2015

22. IEG. 2015. World Bank Support to Early Childhood Development

23. IEG. 2015. World Bank Group Support to Electricity Access, FY2000-FY2014

24. IEG. 2015. Poverty Evaluation

25. IEG. 2015. Financial Inclusion. A Foothold on the Ladder toward Prosperity? An IEG Evaluation of World Bank Group Support for Financial Inclusion for Low-Income Households and Microenterprises

26. IEG. 2015. Learning Note: Additional Financing for Transport and Information and Communication Technology (ICT)

27. IEG. 2014. Tunisia CPE

28. IEG. 2014. Brazil CPE

29. IEG. 2014. World Bank Group Support to Public-Private Partnerships—Lessons from Experience in Client Countries (FY2002-FY2012)

30. IEG. 2014. The Big Business of Small Enterprises—Evaluation of the World Bank Group Experience with Targeted Support to Small and Medium-Size Businesses (2006-2012)

31. IEG. 2014. Lessons from Recent Evaluations: Water, Urban, Transport and Energy

32. IEG. 2014. Past and Future-Bank-IFC Cooperation at the Country Strategy Level

33. IEG. 2014. Annual Report 2014: Expanding Influence

34. IEG. 2014. Agriculture and Environmental Services: Lessons from Recent Evaluations

35. IEG. 2014. Social Safety Nets and Gender Learning Product

36. IEG. 2014. Lessons from Recent Evaluations: Water, Transport and Energy

37. IEG. 2013. Knowledge Based Country Programs Evaluation
38. IEG. 2013. World Bank Group Support for Innovation and Entrepreneurship

39. IEG. 2013. Investment Climate Reforms—An Independent Evaluation of World Bank Group Support to Reforms of Business Regulations

40. IEG. 2013. Improving Institutional Capability and Financial Viability to Sustain Transport: An Evaluation of World Bank Group Support Since 2002

41. IEG. 2013. Results and Performance of the World Bank Group 2013—An Independent Evaluation

42. IEG. 2013. Lessons from Recent Evaluations: Environment, Agriculture and Rural Development (Issue 2)

43. IEG. 2013. Lessons from Recent Evaluations: Environment, Agriculture and Rural Development

44. IEG. 2013. Lessons from Evaluation of World Bank Support to Human Development

45. IEG. 2013. Evaluative Lessons from World Bank Food Crisis Response and Natural Resource Management Projects and Related AAA

46. IEG. 2013. Forestry Evaluation

47. IEG. 2013. Lessons from Evaluation: Private Sector Development in a Changing World

48. IEG. 2013. Lessons from World Bank Support to Infrastructure

49. IEG. 2013. Environmental and Social Sustainability in IFC Projects—A Project Cluster Evaluation

50. IEG. 2012. IFC Support to South-South Investments—A Project Cluster Evaluation Review

51. IEG. 2012. IFC Investments in Infrastructure—A Cluster Evaluation Review

52. IEG. 2012. Youth Employment Programs: An Evaluation of World Bank and IFC Support

53. IEG. 2012. World Bank Response to the Global Crisis II

54. IEG. 2012. Results and Performance of the World Bank Group 2012

55. IEG. 2012. World Bank Country-Level Engagement on Governance and Anticorruption: Desk Review Data for Country Programs and Projects

56. IEG. 2012. Adapting to Climate Change: Assessing World Bank Group Experience (Phase III Study)

57. IEG. 2012. The Private Sector and Poverty Reduction: Lessons from the Field

58. IEG. 2012. IFC Extractive Industries—A Cluster Evaluation Review

59. IEG. 2011. Social Safety Nets: An Evaluation of World Bank Support, 2000-2010

60. IEG. 2011. Results and Performance of the World Bank Group 2011

61. IEG. 2011. World Bank response to the Global Crisis—I

62. IEG. 2011. A Review of World Bank Support for Accountability Institutions in the Context of Governance and Anticorruption (Working Paper)

63. IEG 2011. Capturing Technology for Development: An Evaluation of World Bank Group Activities in Information and Communication Technologies

64. IEG. 2011. Growth and Productivity in Agriculture and Agribusiness

65. IEG. 2010. World Bank Engagement at the State Level: The Cases of Brazil, India, Nigeria, and Russia

66. IEG. 2010. Results and Performance of the World Bank Group 2010

67. IEG. 2010. Climate Change and the World Bank Group: Phase II: The Challenge of Low-Carbon Development

68. IEG. 2010. Gender and Development Evaluation

69. IEG. 2009. Earnings Growth and Employment Creation: An Assessment of World Bank Support in Three Middle-Income Countries (Colombia, Tunisia and Turkey)

70. IEG. 2009. Climate Change and the World Bank Group: Phase I—An Evaluation of World Bank Win-Win Energy Policy Reforms

71. IEG. 2009. Improving Municipal Management for Cities to Succeed

72. IEG. 2009. The World Bank's Country Policy and Institutional Assessment (CPIA)

73. IEG. 2008. Using Knowledge for Better Development Results

74. IEG. 2008. Decentralization in Client Countries: An Evaluation of World Bank Support, 1997-2007

75. IEG. 2008. Evaluation of World Bank Support for Public Sector Reform

76. IEG. 2008. An Independent Evaluation of the World Bank/IFC Doing Business Indicators

77. IEG. 2007. Development Results in Middle-Income Countries: An Evaluation of the World Bank's Support

78. IEG. 2007. A Decade of Action in Transport: An Evaluation of World Bank Assistance to the Transport Sector, 1995-2005

# Appendix D. IEG Fieldwork

Table D.1. Sample UMICs by Region

| Sample UMICs | | | | | |
|---|---|---|---|---|---|
| Region | Total Commitment ($, millions) | Number of IEG country case studies (desk) | Number of IEG country case studies (field) | Number of IEG PPARs | Total number of IEG evaluations with field visits (case studies for major evaluations and PPARs) |
| Latin America and the Caribbean | 72,560 | 25 | 20 | 35 | 55 |
| Europe and Central Asia | 54,875 | 19 | 11 | 26 | 37 |
| Sub-Saharan Africa | 4,133 | 2 | 5 | 0 | 5 |
| Middle East and North Africa | 3,451 | 3 | 2 | 4 | 6 |
| East Asia and Pacific | 1,079 | 3 | 0 | 0 | 0 |
| Totals | 136,098 | 52 | 38 | 65 | 103 |
| UMICs (Bank definition) | | | | | |
| Region | Total Commitment ($, millions) | Number of IEG country case studies (desk) | Number of IEG country case studies (field) | Number of IEG PPARs | Total number of IEG evaluations with field visits (case studies for major evaluations and PPARs) |
| Latin America and Caribbean | 80,886 | 26 | 26 | 41 | 67 |
| Europe and Central Asia | 44,993 | 20 | 11 | 20 | 31 |
| East Asia and Pacific | 21,057 | 9 | 3 | 16 | 19 |
| Middle East and North Africa | 6,419 | 5 | 4 | 0 | 4 |
| Sub-Saharan Africa | 6,151 | 4 | 5 | 0 | 5 |
| South Asia | 107 | 1 | 0 | 0 | 0 |
| Totals | 159,613 | 65 | 49 | 77 | 126 |

*Sources*: IEGHC (from Business Intelligence, January 2017), IEG Reports, IEG TTLs.
*Note*: List of 27 IEG Macro Evaluations completed (for which there is a final report or final draft report) during FY12–17. List of 272 active/closed PPARs approved between FY12 and FY17. PPAR = Project Performance Assessment Report; UMIC = upper-middle-income country.

Table D.2. IEG Country visits, by Region

| Region | IEG Country Visits, by Region (includes field visits for macro evaluations and PPARs) 2012–17 | | |
|---|---|---|---|
| | All income groups | UMICs | UMICs as defined by this study |
| East Asia and Pacific | 86 | 19 | 0 |
| Europe and Central Asia | 55 | 31 | 37 |
| Latin America and the Caribbean | 89 | 67 | 55 |
| Middle East and North Africa | 26 | 4 | 6 |
| South Asia | 65 | 0 | 0 |
| Sub-Saharan Africa | 148 | 5 | 5 |

*Sources*: IEGHC (from Business Intelligence, January 2017), IEG Reports, IEG TTLs.

Table D. 3. IEG Country Visits, by country, 2012-17

| IEG country visits, by country, 2012–17 | |
|---|---|
| UMICs (World Bank definition) | Number of visits |
| China | 18 |
| Colombia | 15 |
| Brazil | 12 |
| Peru | 12 |
| Mexico | 8 |
| Turkey | 7 |
| Albania | 6 |
| Macedonia, FYR | 4 |
| Argentina | 3 |
| Azerbaijan | 3 |
| Dominican Republic | 3 |
| Jamaica | 3 |
| Panama | 3 |
| Romania | 3 |
| Russian Federation | 3 |
| South Africa | 3 |
| St. Lucia | 3 |
| Jordan | 2 |
| Lebanon | 2 |
| Mauritius | 2 |
| Serbia | 2 |
| Belize | 1 |
| Bosnia and Herzegovina | 1 |
| Dominica | 1 |
| Fiji | 1 |
| Georgia | 1 |
| Grenada | 1 |
| Montenegro | 1 |
| Paraguay | 1 |
| St. Vincent and the Grenadines | 1 |

*Sources:* IEGHC (from Business Intelligence, January 2017), IEG Reports, IEG TTLs.

Table D.4. IEG Fieldwork

| IEG Fieldwork | |
|---|---|
| Income group | Number of evaluation visits |
| Lower-middle-income | 215 |
| Upper-middle-income | 126 |
| Low-income | 106 |
| High-income | 22 |

*Sources*: IEGHC (from Business Intelligence, January 2017), IEG Reports, IEG TTLs.

# Appendix E. World Bank Group Portfolio

1. Overall performance traditionally, middle-income countries (MICs) (IBRD borrowers) used to perform better than low-income countries (LICs), (IDA borrowers) across the World Bank Group. However, more recent results from IEG Results and Performance Reports (RAPs) during 2010–16 show a more mixed picture, with MICs higher performance less evident. RAPs are not specific, however, on the reasons behind this trend – whether it is improved performance or increased risk aversion in IDA, of decline in IBRD performance and more risk taking, or both.

2. *Commitments*. The period under review witnessed significant increase in World Bank commitments to upper-middle-income countries (UMICs), mainly due to and during the global financial crisis, from $6billion to $7 billion before the crisis (FY05–08) to $16.8 in FY09 and $24.9 in FY10 (figure E.1). The share of the UMICs commitments to the total increased from about 30 to 40 percent. After 2010 the share of UMICs declined back to precrisis levels. The number of projects per year incrased moderately, a trend attibutable to a growing presense of large-volume projects (figure E.3). The trend then reversed and lending levels returned closer to the precrisis period. The share of IFC commitments for investment projects in UMICs to the World Bank Group total accounted for 33 percent on average during FY2005–16.

3. *Instruments*. Development policy financing (DPF) has been a key instrument for the UMICs with its relatively large share of the total lending as compared with other income groups**.** Over the FY05–16 period, the World Bank approved 180 DPF projects for UMICs ($ 64.7 billion), which accounted for 48 percent of the total World Bank Group lending. The share of DPF in the total lending to the rest of MICs accounted for 26 percent during the same period. DPF led the overall increase of lending commitment to UMICs during FY09–10. The World Bank approved nine DPF projects with commitment of $1 billion or more in UMICs during FY09-10, compared to no loans of similar size during FY05-08 (Figures E.7 and E.8).

4. *Sector Distribution*. The top five Global Practices in terms of share of lending (commitments) to UMICs (covering more than 70 percent of total lending to UMICs) during FY05-16 were Macroeconomics and Fiscal Management, Transport and Information and Communication Technologies (ICT), Energy and Extractives, Finance and Market, and Social Protection and Labor (Table E.3). Poverty and Equity (P&E) and Environment and Natural Resources Global Practices (GPs) had the largest share of number of operations in UMICs in FY05-16 (although P&E had a much smaller overall number and amount of commitments compared to others—16 total), 80.9 percent and 54.6 percent respectively, followed by Finance and Markets

(45.6 percent), Social Protection and Labor (43.9 percent), Macroeconomics and Fiscal Management (43.3 percent) (Table E.1). For IFC, Finance and Insurance sector ranked at the top of IFC investment lending to UMICs (43 percent), followed by Electric Power, Transportation and Warehousing, and Oil, Gas and Mining (between 5-8 percent).

5. *Analytical Services*. The number of advisory services and analytics (ASA) products in UMICs increased from 177 in FY05 to 327 in FY16 at faster speed than the World Bank Group average. The number of AAA to UMICs has increased by 1.8 times, while the World Bank Group average increased by 1.6 times. The share of technical assistance to UMICs accounted for 20.5 percent of the total, while that of economic and sector work accounted for 14.9 percent (Table E.4). The top five GPs in terms of share of ASA production (number of products) in UMICs to the World Bank Group total during FY05-16 include Social Protection and Labor (24.2 percent), Education (22.6 percent), Governance (21.5 percent), Finance and Markets (19.9 percent), and Trade and Competitiveness (19.4 percent) (Table E.5).

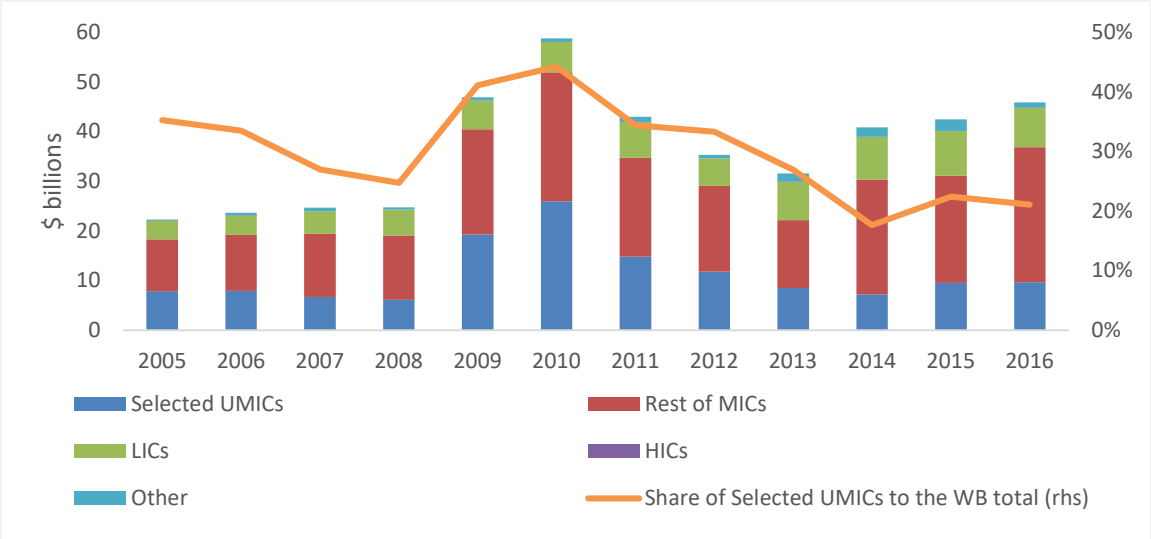
6. *Country-Level Performance* (based on IEG completion and learning report review (CLRR) rating data, 177 country partnership strategies (CPSs) and country assistance strategies (CASs) covering FY07-16, for 97 countries, including 26 UMICs). While Bank-wide country outcomes remain below the corporate target of 70 percent, country outcome ratings have exceeded the target in UMICs. Across the Bank Group, IEG rated 66 percent of country programs moderately satisfactory or above (MS+) during FY13-16 (RAP 2016). In UMICs, IEG rated 84 percent of country programs MS+. The rest of MICs and LICs continue to perform below the target. High performance of IBRD countries reported in RAP 2016 can be largely attributed to high performance in UMICs (Figure E.4).

7. The most frequently observed thematic objective (per this report's classification) in country strategies is economic management and institutions, accounting for 32 percent of objectives in country programs in UMICs, followed by objectives related to improving the quality of life (31 percent). About 65 percent of objectives related to economic management and institutions were rated moderately satisfactory or above (MS+). The share of MS+ ratings for objectives related to jobs, competitiveness, and productivity was the highest at 74 percent.

8. *Project-Level Performance*. The overall performance of UMIC projects (75 percent with outcome ratings of Moderately Satisfactory (MS) or above for FY13-15, Figure E.5) has been higher than Bank-wide average and other income groups. Projects under Finance and Markets and Macro Economics and Fiscal Management GPs were the highest performers among UMICs during FY10-15, with 100 percent and 90

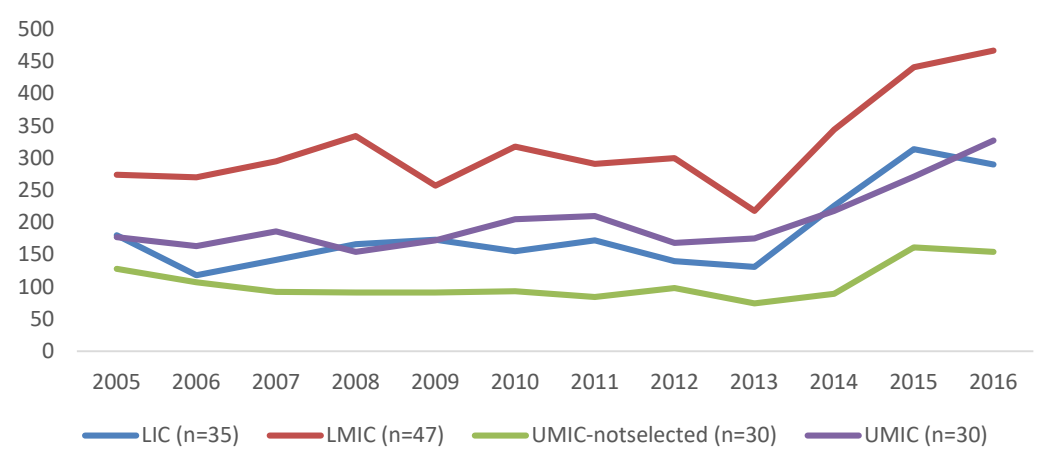
percent of projects rated MS+ on outcome (Figure E.6). Projects under other GPs with outcome rating exceeding the corporate target of 75 percent include Transport and ICT, Governance, Social Protection and Labor, and Energy and Extractives. Notably, the UMIC performance of Finance and Markets and Governance GP projects has been above the Bank-wide average by 27 and 18 percentage points respectively. However, in Water and Agriculture GPs projects in UMICs were rated much lower than Bank average. The success rate of IFC investment projects, defined as development outcome ratings of moderately satisfactory or above, has been on a downward trend overall, including in UMICs (albeit still higher than IFC average)—it declined from 82 percent in 2009 to 59 percent in 2015.

Figure E.1. IBRD and IDA Commitments by Income Groups ($, billion)



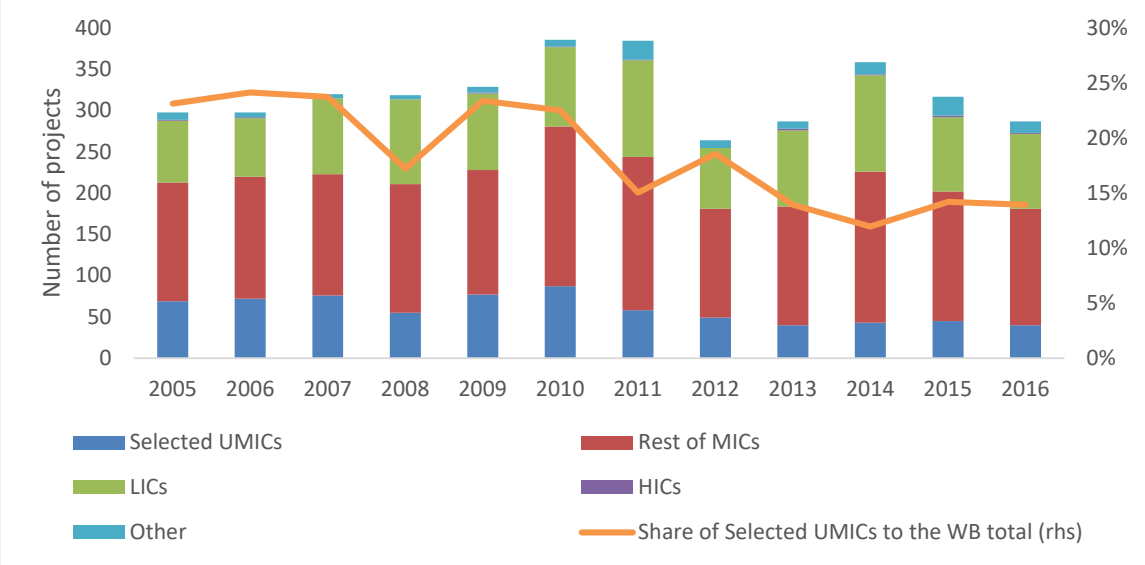

*Source:* World Bank Business Intelligence.

## Figure E.2. Advisory Services and Analytics by Income Groups (number of products)



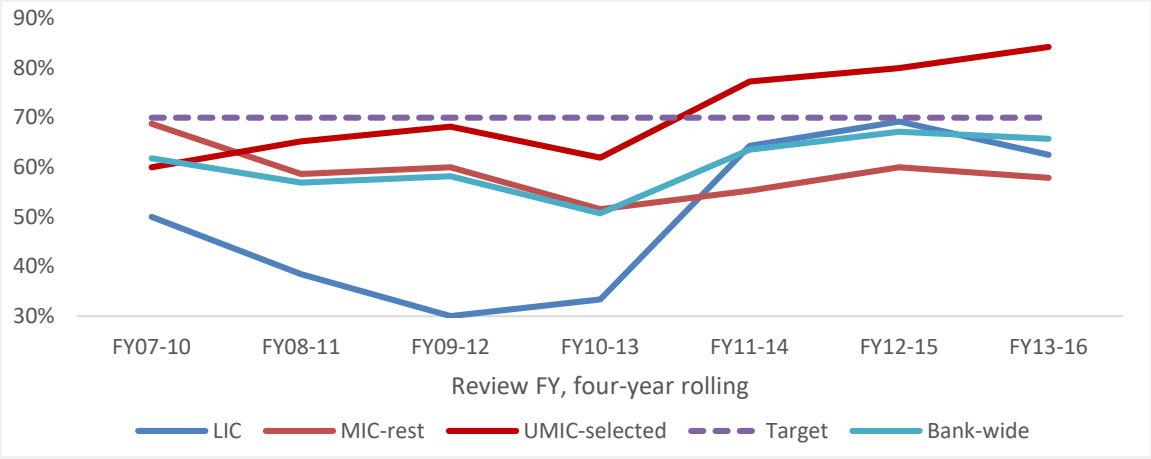

*Source:* World Bank Business Intelligence.

## Figure E.3. Number of IBRD and IDA Commitments by Income Groups



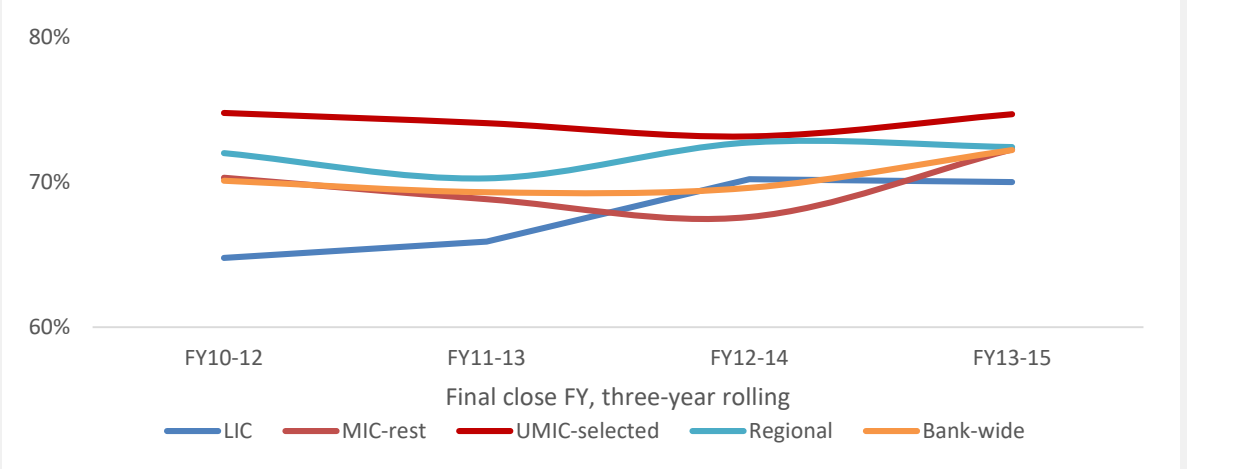

*Source:* World Bank Business Intelligence.

## Figure E.4. Share of CLRs with outcome rated MS or above



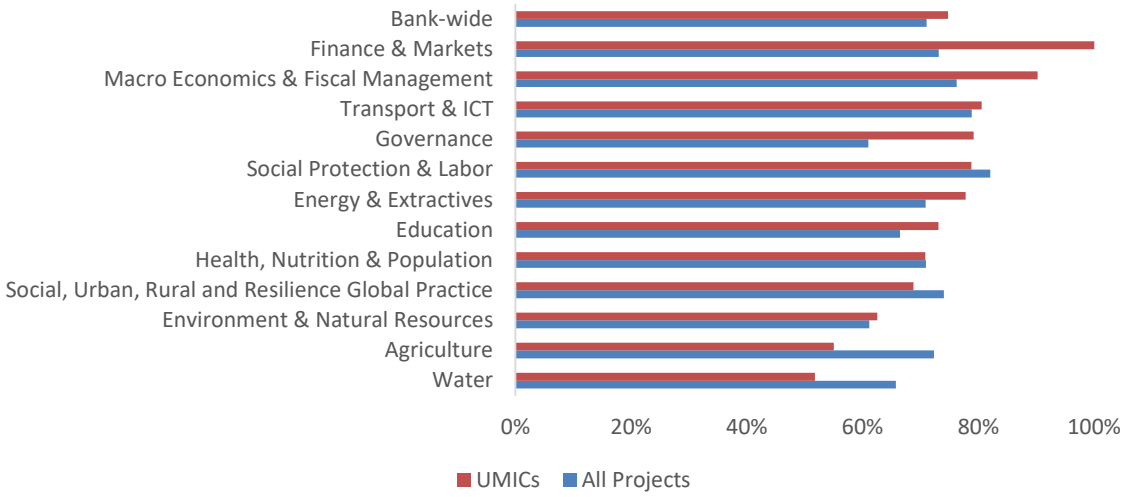

*Source*: IEG completion and learning review rating data.
*Note:* World Bank Group target is 70 percent of CLRs rated MS+ on country development outcome.

## Figure E.5. Share of Projects with Outcomes Rated MS or Above




*Source:* World Bank Business Intelligence and IEG World Bank project ratings data.

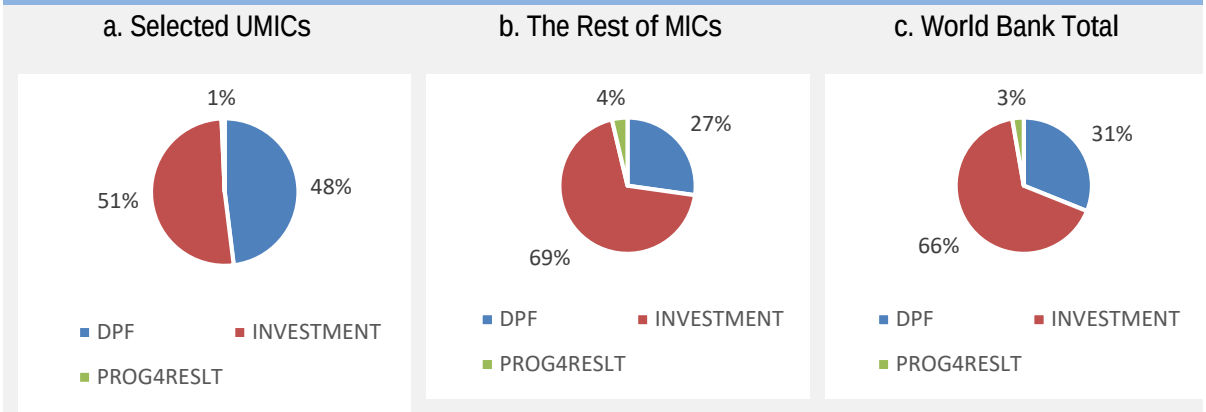
Figure E.6. Share of Projects with Outcomes Rated MS or Above by GPs.




*Source:* World Bank Business Intelligence and IEG World Bank project ratings data, FY10-15.
*Notes*: The Poverty and Equity and Trade and Competitiveness Global Practices are excluded from this figure because there were three rated projects respectively in UMICs during this period. All of the Poverty and T and C projects had a rating of MS+.

## IBRD and IDA Commitments by Instrument Type, FY05–16

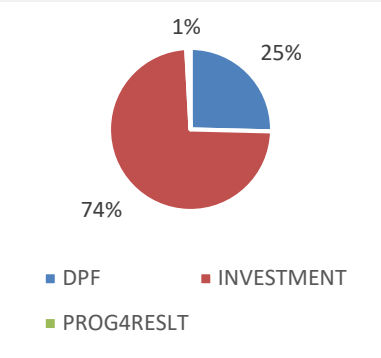
Figure E.7. Amount of IBRD and IDA Commitments by Instrument Type, FY05–16



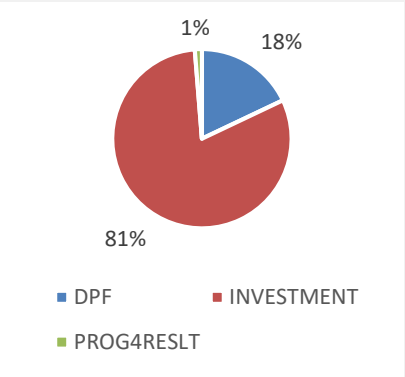

*Source:* World Bank Business Intelligence.

Figure E.8. Number of IBRD and IDA Commitments by Instrument Type, FY05-16

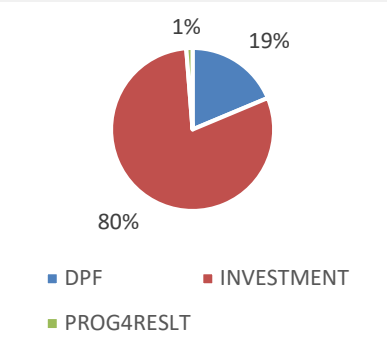
a. Selected UMICs




b. The Rest of MICs




c. World Bank Total

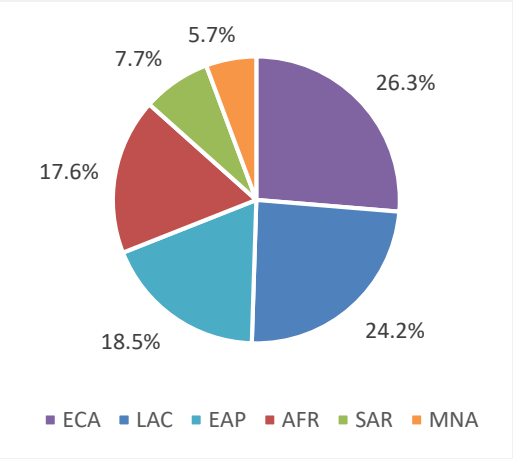



*Source: World Bank Business Intelligence*

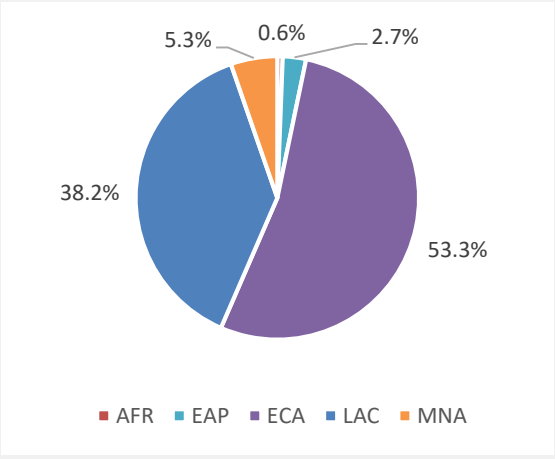
## IBRD and IDA Commitments by Pillars and Regions, Sample UMICs (30 countries)

Figure E.9. IBRD and IDA Commitments for Economic Policies and Institutions (GPs: Macroeconomics and Fiscal Management and Governance Global Practices) by Regions, FY05-16

a) World Bank Group



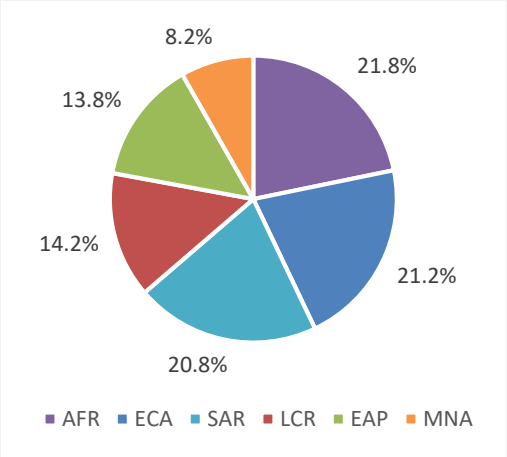

b) Selected 30 UMICs



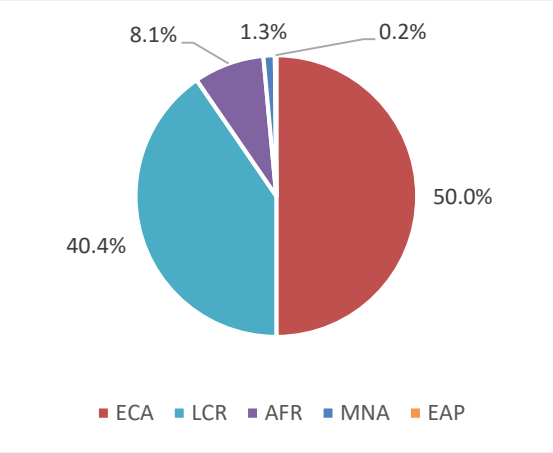

*Source:* World Bank Business Intelligence.

## Figure E.10. IBRD and IDA Commitments for Competitiveness and Productivity (GPs: Energy and Extractives, Finance and Markets, Trade and Competitiveness, and Transport and ICT) by Regions, FY05-16

a. World Bank Group



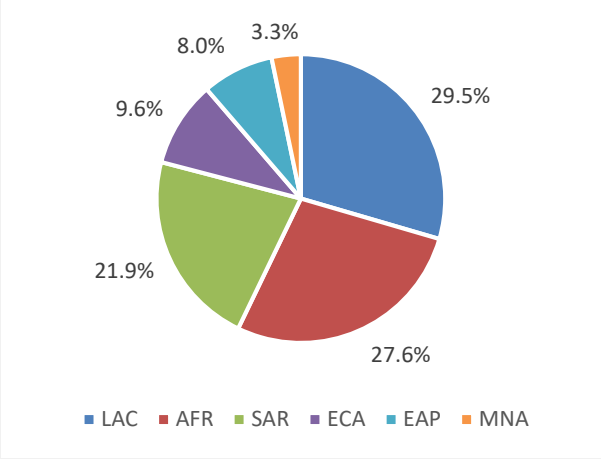

b. Selected 30 UMICs



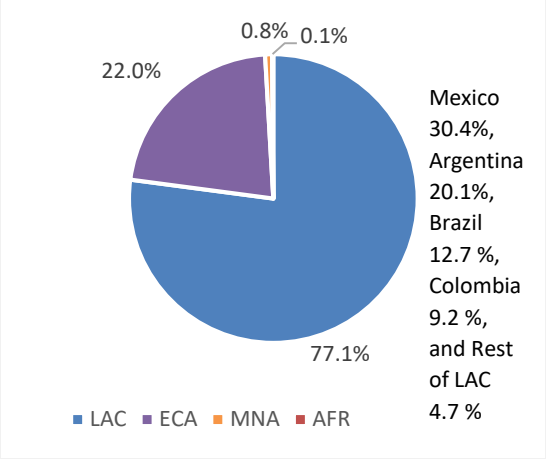

*Source:* World Bank Business Intelligence.

## Figure E.11. IBRD and IDA Commitments for Human Capital and Quality of Life (GPs: Education, Health, and Social Protection) by Regions, FY05-16

a. World Bank Group



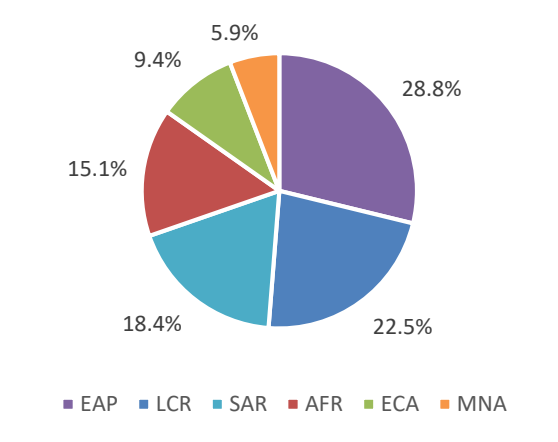

b. Selected 30 UMICs



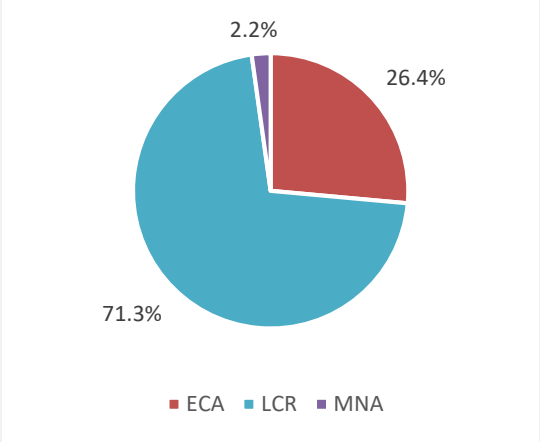

*Source:* World Bank Business Intelligence.

Figure E.12. IBRD and IDA Commitments for Resilience (GPs: Environment and Natural Resources and Social, Urban, Rural, and Resilience) by Regions, FY05-16

a. World Bank Group




b. Selected 30 UMICs




*Source:* World Bank Business Intelligence.

Table E.1. Share of IBRD and IDA Commitments (Amount) by Global Practices (World Bank Group–wide), FY05-16

| Global Practices | LICs (n=34) | Rest of MICs (n=77) | Sample UMICs (n=30) | HICs (n=35) | Other (n=29) | Amount of World Bank Total Commit. ($ billion) |
|---|---|---|---|---|---|---|
| Poverty and Equity | 8.8% | 7.7% | 80.9% | 0.00% | 2.6% | 1.53 |
| Env. & Natural Resources | 5.2% | 36.9% | 54.6% | 0.00% | 3.3% | 13.46 |
| Finance & Markets | 5.9% | 48.1% | 45.6% | 0.00% | 0.3% | 30.32 |
| Social Protection & Labor | 31.0% | 24.9% | 43.9% | 0.03% | 0.2% | 29.73 |
| Macro. & Fiscal Management | 12.1% | 44.6% | 43.3% | 0.06% | 0.0% | 74.69 |
| Trade & Competitiveness | 32.8% | 28.4% | 35.2% | 0.00% | 3.6% | 6.25 |
| Governance | 22.2% | 45.9% | 31.2% | 0.00% | 0.7% | 16.93 |
| Health, Nutrition & Pop. | 22.2% | 42.2% | 29.3% | 0.17% | 6.2% | 20.72 |
| Energy & Extractives | 16.4% | 50.4% | 27.3% | 0.00% | 5.9% | 56.42 |
| Transport & ICT | 16.4% | 52.3% | 25.8% | 0.00% | 5.6% | 63.12 |
| Education | 20.9% | 54.1% | 23.8% | 0.03% | 1.2% | 25.78 |
| Water | 13.7% | 67.2% | 16.8% | 0.00% | 2.4% | 35.23 |
| Social, Urban, Rural & Resil. | 20.4% | 62.3% | 16.5% | 0.02% | 0.8% | 43.61 |
| Agriculture | 26.0% | 55.7% | 12.8% | 0.00% | 5.5% | 22.06 |
| Other | 0.0% | 63.9% | 36.1% | 0.00% | 0.0% | 0.22 |
| Not assigned | 100.0% | 0.0% | 0.0% | 0.00% | 0.0% | 0.01 |

*Source:* World Bank Business Intelligence.
*Note*: HIC = high-income country;

Table E.2. Share of IBRD and IDA Commitments (Number of Loans) by Global Practices (World Bank Group–wide), FY05-16

| Global Practices | LICs (n=34) | Rest of MICs (n=77) | Sample UMICs (n=30) | HICs (n=35) | Other (n=29) | Number of World BankTotal Commit. |
|---|---|---|---|---|---|---|
| Poverty and Equity | 25.0% | 31.3% | 37.5% | 0.00% | 6.3% | 16 |
| Finance & Markets | 25.3% | 42.1% | 30.3% | 0.00% | 2.2% | 178 |
| Env. & Natural Resources | 17.5% | 44.8% | 28.0% | 0.00% | 9.8% | 143 |
| Trade & Competitiveness | 36.3% | 36.3% | 23.1% | 0.00% | 4.4% | 91 |
| Social Protection & Labor | 39.8% | 37.8% | 21.6% | 0.41% | 0.4% | 241 |
| Governance | 34.7% | 44.0% | 20.0% | 0.00% | 1.3% | 225 |
| Water | 20.7% | 58.6% | 18.8% | 0.00% | 1.9% | 324 |
| Macro. & Fiscal Management | 33.1% | 47.0% | 18.5% | 1.32% | 0.0% | 453 |
| Education | 28.9% | 51.6% | 18.1% | 0.35% | 1.0% | 287 |
| Social, Urban, Rural & Resil. | 25.2% | 55.9% | 16.5% | 0.41% | 2.1% | 485 |
| Transport & ICT | 20.4% | 54.2% | 16.4% | 0.00% | 8.9% | 450 |
| Energy & Extractives | 31.4% | 47.7% | 16.0% | 0.00% | 4.9% | 369 |
| Agriculture | 33.8% | 47.5% | 14.4% | 0.00% | 4.3% | 305 |
| Health, Nutrition & Pop. | 34.4% | 45.9% | 13.6% | 0.36% | 5.7% | 279 |
| Other | 0.0% | 50.0% | 50.0% | 0.00% | 0.0% | 2 |
| Not assigned | 100.0% | 0.0% | 0.0% | 0.00% | 0.0% | 1 |

*Source*: World Bank Business Intelligence.
*Note*: HIC = high-income country.

Table E.3. Amount and Number of Commitments by Global Practices (sample UMICs), FY05-16

| | Amount | | No. | |
|---|---|---|---|---|
| Global Practice | Amount of commitments ($ billions) | % amount of commitments | No. of projects | % number of commitments |
| MFM | 32.4 | 23.9% | 84 | 11.8% |
| TICT | 16.3 | 12.0% | 74 | 10.4% |
| Energy & Extractives | 15.4 | 11.4% | 59 | 8.3% |
| Finance & Markets | 13.8 | 10.2% | 54 | 7.6% |
| SPL | 13.0 | 9.6% | 52 | 7.3% |
| ENR | 7.4 | 5.4% | 40 | 5.6% |
| SURR | 7.2 | 5.3% | 80 | 11.3% |
| Education | 6.1 | 4.5% | 52 | 7.3% |
| HNP | 6.1 | 4.5% | 38 | 5.3% |
| Water | 5.9 | 4.4% | 61 | 8.6% |
| Governance | 5.3 | 3.9% | 45 | 6.3% |
| Agriculture | 2.8 | 2.1% | 44 | 6.2% |
| Trade & Competitiveness | 2.2 | 1.6% | 21 | 3.0% |
| Poverty and Equity | 1.2 | 0.9% | 6 | 0.8% |
| Other | 0.1 | 0.1% | 1 | 0.1% |
| Grand Total | 135.2 | | 711 | |

*Source*: World Bank Business Intelligence.
*Note*: SPL = Social Protection and Labor; SURR = Social, Urban, Rural, and Resilience; TICT = Transport and Information and Telecommunication Technologies.

## AAA by Income Groups, Product Lines and Global Practices/CCSA

Table E.4. AAA by Income Groups and Product Line, FY05-16

| Product Line | LICs (n=34) | LMICs (n=47) | Rest of MICs (n=30) | Sample UMICs (n=30) | HICs (n=35) | Other (n=29) | Total (n=205) |
|---|---|---|---|---|---|---|---|
| EW (no. of products) | 1,111 | 1,649 | 516 | 863 | 96 | 1,548 | 5,783 |
| TA (no. of products) | 1,096 | 2,160 | 746 | 1,563 | 410 | 1,651 | 7,626 |
| Total (no. of products) | 2,207 | 3,809 | 1,262 | 2,426 | 506 | 3,199 | 13,409 |
| EW (percent to World Bank total AAA) | 19.2% | 28.5% | 8.9% | 14.9% | 1.7% | 26.8% | - |
| TA (percent to WB total AAA) | 14.4% | 28.3% | 9.8% | 20.5% | 5.4% | 21.6% | - |
| Total (percent to WB total AAA) | 16.5% | 28.4% | 9.4% | 18.1% | 3.8% | 23.9% | - |

*Source*: World Bank Business Intelligence.
*Note*: HIC = high-income country.;

Table E.5. Share of Advisory Services and Analytics by Income Groups and Global Practices, FY05–16

| Global Practices or CCSA | LICs | LMIC | Rest of MICs | Sample UMICs | HICs | Other | Total (No.) |
|---|---|---|---|---|---|---|---|
| Jobs | 0.0% | 0.0% | 0.0% | 100.0% | 0.0% | 0.0% | 1 |
| SPL | 12.9% | 27.3% | 10.1% | 24.2% | 6.0% | 19.4% | 751 |
| Education | 16.8% | 26.1% | 8.2% | 22.6% | 3.2% | 23.1% | 659 |
| Governance | 22.1% | 32.7% | 9.3% | 21.5% | 4.6% | 9.8% | 1,607 |
| Finance and Markets | 14.5% | 25.1% | 10.2% | 19.9% | 5.2% | 25.0% | 2,256 |
| Trade and Competitiveness | 15.5% | 22.5% | 9.8% | 19.4% | 5.3% | 27.5% | 530 |
| MFM | 21.3% | 29.8% | 10.0% | 18.8% | 2.9% | 17.2% | 1,519 |
| ENR | 12.6% | 25.2% | 8.9% | 18.6% | 1.7% | 33.1% | 644 |
| TICT | 12.9% | 28.7% | 9.6% | 16.9% | 5.7% | 26.3% | 813 |
| Poverty and Equity | 22.7% | 29.6% | 10.1% | 16.3% | 0.9% | 20.4% | 692 |
| SURR | 13.3% | 35.6% | 9.1% | 14.5% | 2.6% | 25.0% | 1,245 |
| Agriculture | 15.7% | 30.0% | 6.7% | 14.4% | 0.9% | 32.2% | 534 |
| Energy and Extractives | 16.2% | 25.8% | 11.8% | 14.4% | 3.5% | 28.3% | 791 |
| Fragile, Conflict, and Violence | 14.3% | 0.0% | 0.0% | 14.3% | 0.0% | 71.4% | 7 |
| Other | 3.9% | 15.5% | 4.4% | 13.8% | 3.9% | 58.6% | 181 |
| HNP | 15.8% | 25.7% | 7.2% | 13.0% | 4.7% | 33.6% | 708 |
| Water | 16.5% | 33.6% | 9.7% | 11.8% | 1.9% | 26.5% | 423 |
| Public Private Partnership | 10.0% | 30.0% | 0.0% | 10.0% | 0.0% | 50.0% | 10 |
| Climate Change | 0.0% | 3.2% | 0.0% | 3.2% | 0.0% | 93.5% | 31 |
| Gender | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 100.0% | 2 |
| OTH | 0.0% | 80.0% | 0.0% | 0.0% | 20.0% | 0.0% | 5 |
| Total | | | | | | | 13,409 |

*Source*: World Bank Business Intelligence.
*Note*: CCSA = cross-cutting solutions area; SPL = Social Protection and Labor; SURR = Social, Urban, Rural, and Resilience; TICT = Transport and Information and Telecommunication Technologies.

Table E.6. CASs, CPFs, and CPSs Reviewed by IEG, FY07–16

| | Countries (number) | | | | |
|---|---|---|---|---|---|
| Country Income Group | Total countries | Total reviewed | With one review | With two reviews | With three reviews |
| Low-income countries | 35 | 22 | 8 | 14 | 0 |
| Lower-middle-income countries | 47 | 37 | 9 | 24 | 4 |
| Upper-middle-income countries—rest | 31 | 12 | 8 | 2 | 2 |
| Upper-middle-income countries—selected | 30 | 26 | 3 | 18 | 5 |
| Total | 143 | 97 | 28 | 58 | 11 |

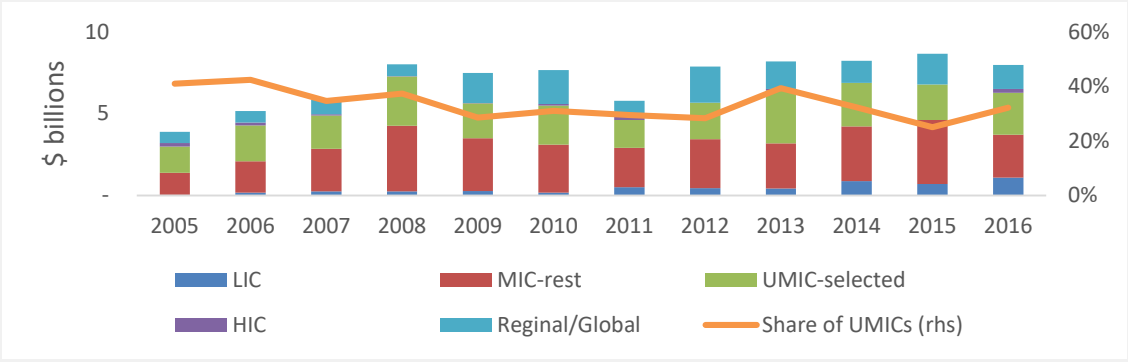
*Source*: IEG.
*Note*: The total in this table excludes two reviews of CPFs/CASs for OECS, which gave six OECS countries a single rating. CAS = country assistance strategy; CPF = Country Partnership Framework; CPS = country partnership strategy.

## IFC and MIGA Portfolio and Performance

### PORTFOLIO

8. IFC commitments in UMICs increased from $2 billion in FY07 to $3 billion in FY08 and $1.7 billion in FY11 to $3.2 billion in FY13. The average (FY05-16) share commitments in UMICs to the total is 33 percent. It increased to 39 percent after the financial crisis in 2011.

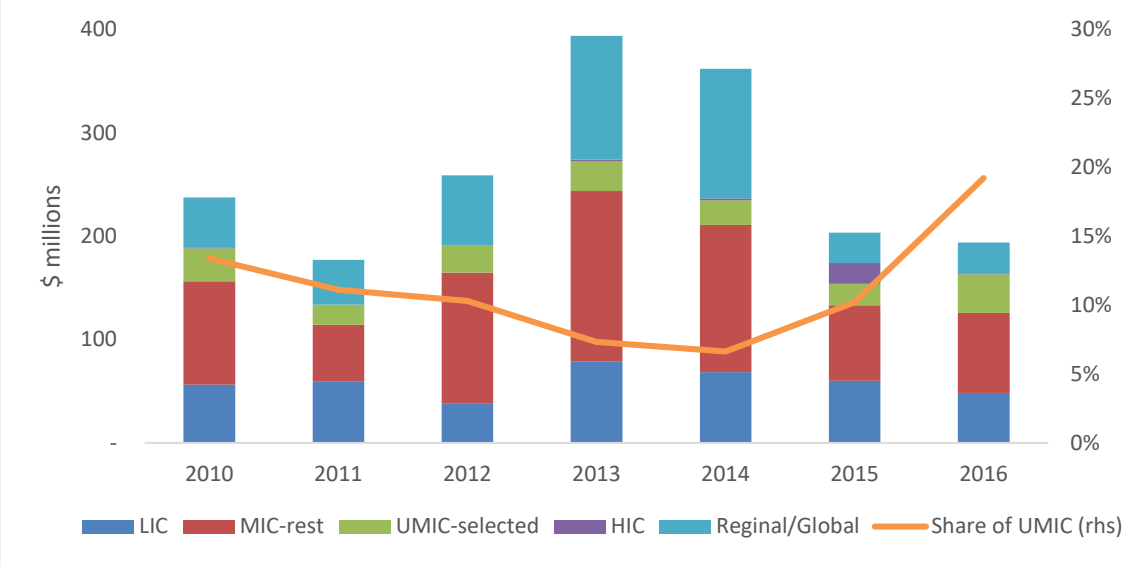
**Figure E.13. IFC Commitments by Income Groups ($ billion)**




*Source: Source*: IFC database.
*Note*: "Other" includes global and regional projects. IFC commitments exclude short-term commitments (Trade Finance), swaps, right issues, and b loan.

9. The amounts and share of IFC Advisory Service (AS) projects in UMICs to the IFC total is relatively smaller compared with other incomes groups. The total funding of AS projects to UMICs has been between $20-37 million during FY10-16. The average share of IFC AS projects in UMICs was 10 percent, while that in the rest of MICs and LICs were 40 percent and 22 percent respectively.

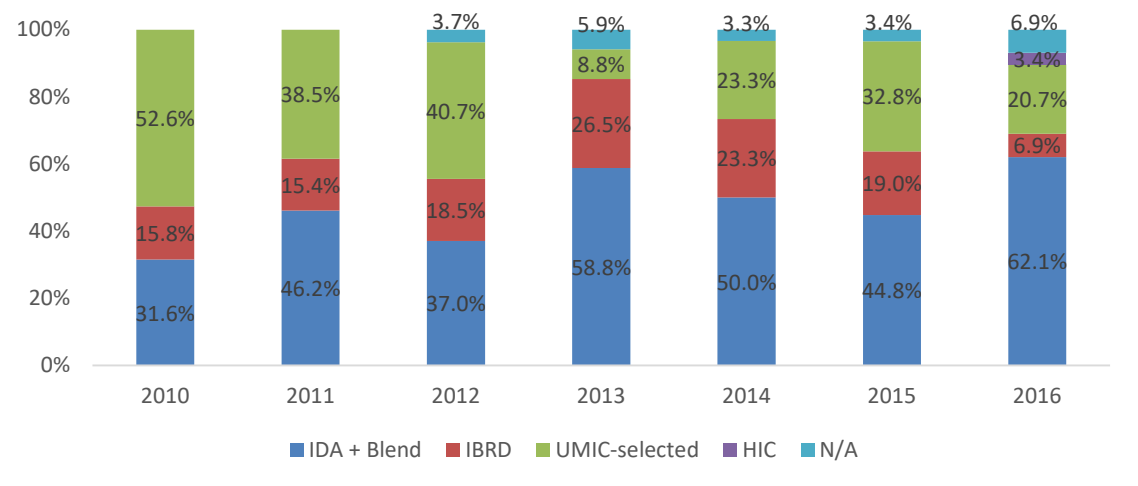
Figure E.14. IFC AS projects by income groups (amounts and share of total funding), FY10-16




*Source*: IFC database.

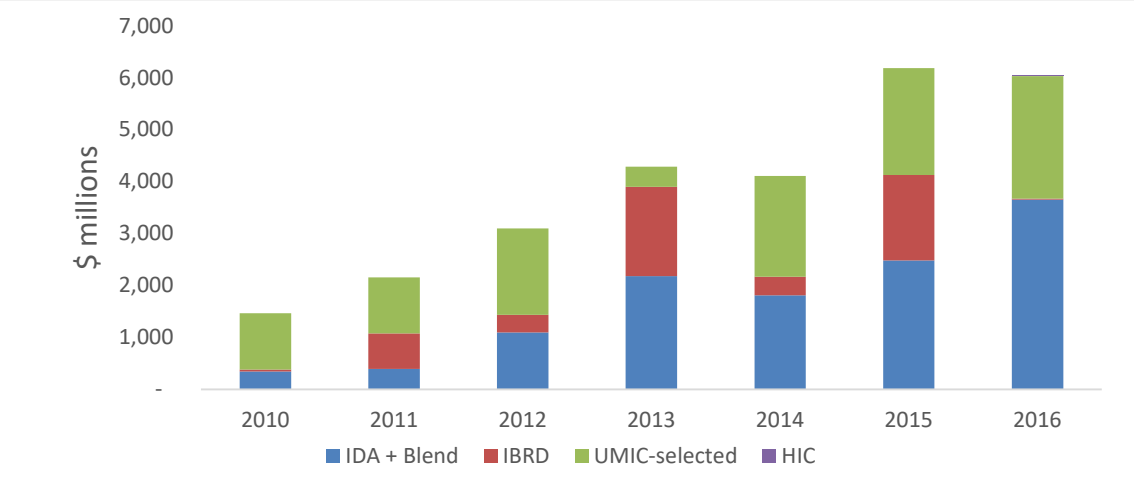
10. While the Multilateral Investment Guarantee Agency (MIGA) has been scaling up its support to lower-income countries (IDA eligible countries) and fragile countries in recent years, it has maintained its business in UMICs. In terms of the number of projects, IDA and IDA blend countries represent on average a close to 50 per cent of MIGA projects during the 7-year period from FY10–16. In FY16, 62.1 per cent of MIGA projects (18 projects out of 29 approved projects) were in IDA and IDA blend countries. Regarding gross exposure, IDA and IDA blend countries represent 48.6 per cent of gross exposure with $7.9 billion for FY14–16, while UMICs accounted for 38.9 per cent of MIGA's gross exposure with $6.3 billion.[1]

Figure E.15. Share of MIGA Projects in IDA and IDA Blend Countries, FY10-16




*Note:* N/A is West Bank and Gaza, which does not have lending classification (IBRD/IDA).

Figure E.16. MIGA Amount of Gross Exposure by Income Groups, FY10-16

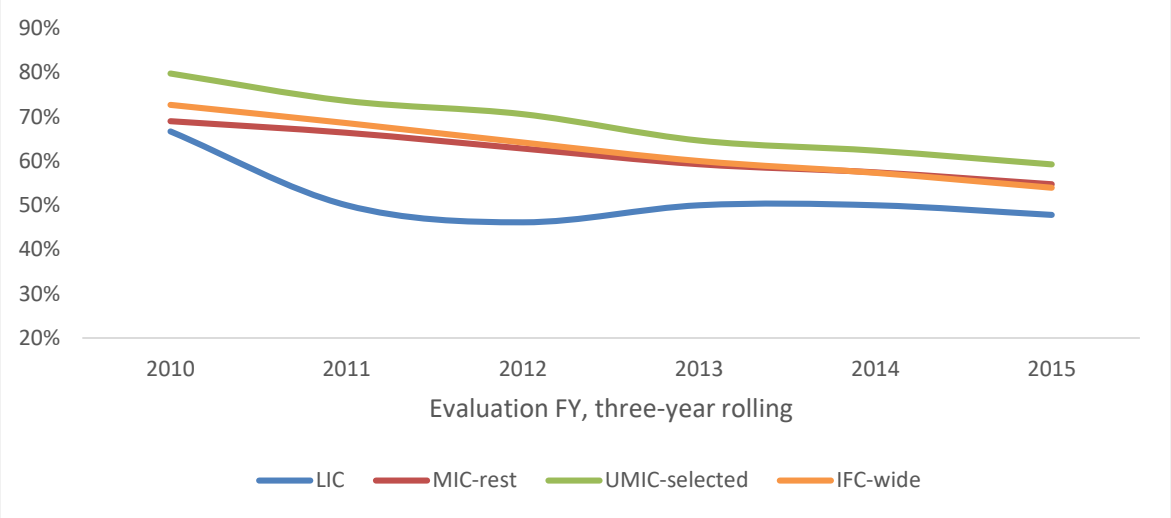



*Source:* IEG compilation based on MIGA database as of May 2017.

**Project-Level Performance**

11. The success rate of IFC investment projects, defined as development outcome ratings of MS or above, have been on a declining for UMICs – similar to IFC-wide trend. Although the success rate of IFC investment projects in UMICs have been above the IFC average, it declined significantly, from 82 percent in 2009 to 59 percent in 2015.

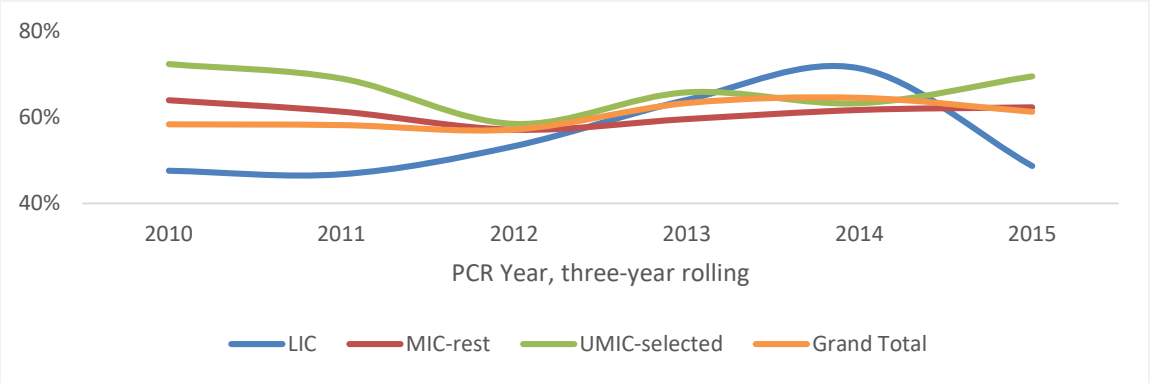
Figure E.17. Share of IFC investment projects with development outcome rated moderately satisfactory or above.




*Source*: IEG data for IFC project ratings.
*Note*: The share for LICs fluctuates, as the average number of the projects is smaller than other income groups (7 projects in LICs, 51 projects in the rest of MICs, and 52 projects in UMICs).

12. The success rate of IFC AS projects, defined as development effectiveness ratings of MS or above, has been increasing in UMICs—from 59 percent in FY12 to 70 percent in FY15. For FY10 – FY15, the success rate in UMICs was above IFC average, except in FY14.

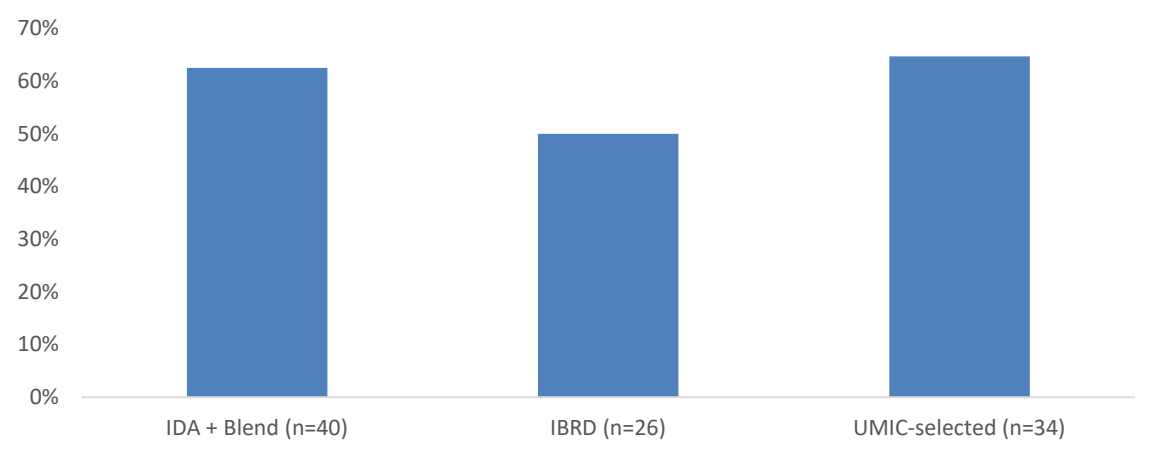
Figure E.17. Share of IFC advisory projects with development outcome rated moderately satisfactory or above




*Source:* IEG data for IFC project ratings.

13. In terms of development outcomes, for the period from FY03-16, MIGA projects in UMICs has been only slightly higher (65 per cent success rate) than IDA and IDA blend countries, with 63 per cent success rate.

Figure E.18. Share of MIGA projects with overall development outcome rated satisfactory or above, Evaluation FY03-16



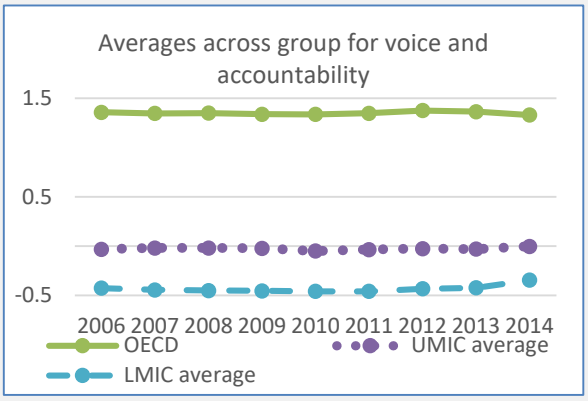

*Source:* IEG data for MIGA project ratings.

[1] The average share (number of gross exposure to IDA eligible countries) to the total during FY14–16 is 52 percent.

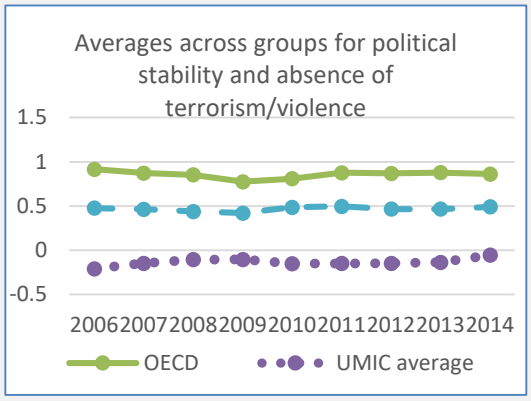
# Appendix F. Worldwide Governance Indicators

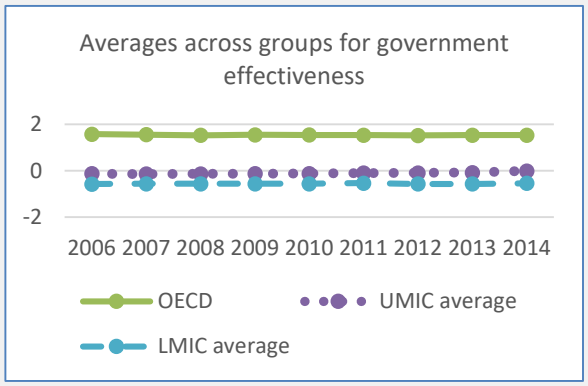
## Figure F.1. Worldwide Governance Indicators for OECD countries, UMICs, and LMICs

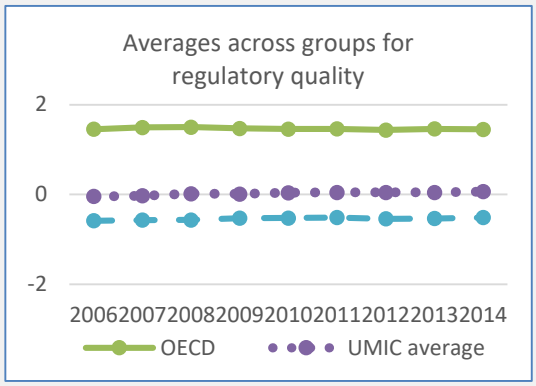
a. Group averages for voice and accountability

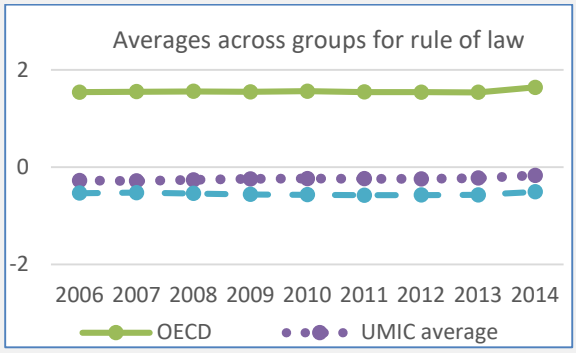


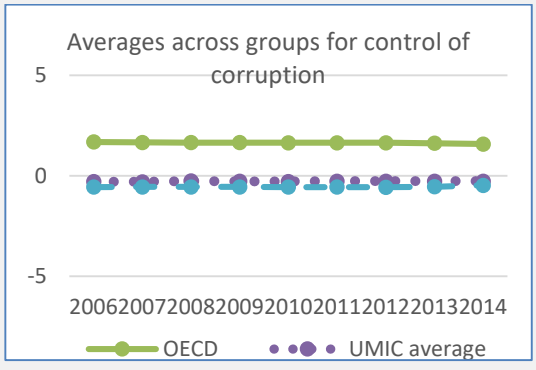

b. Group averages for political stability, absence of




*Source:* Worldwide Governance Indicators.
*Note*: LMIC = lower-middle-income country; OECD = Organization for Economic Co-operation and Development; UMIC = upper-middle-income country.

# Appendix G. Dynamics of Competitiveness Indicators

## Selected Competitiveness Indicators

1. The 2016 IEG Competitiveness Evaluation concluded that the best source of data to track the changes in competitiveness across a large number of countries is the Global Competitiveness Index (GCI) database, compiled by the World Economic Forum for almost 140 economies.[1]
2. The current GCI structure was established in 2007. Thus, by now nine years of data are available for analysis, 2007-15. The GCI dataset before 2007 had quite a different format that looks unusable for the purposes of this review.
3. The current CGI dataset consists of 12 pillars. Those include the pillars that the World Bank would normally consider part of the private sector development agenda, as well as those that reflect governance and HD dimensions of development. In our analysis below, the use of GCI data is limited to six pillars related to private sector development. Others were dropped to avoid duplicating the analysis done within other parts of the review.
4. Six CGI pillars used here are as follows:

- 6th pillar: Goods market efficiency
- 7th pillar: Labor market efficiency
- 8th pillar: Financial market development
- 9th pillar: Technological readiness
- 11th pillar: Business sophistication
- 12th pillar: Innovation

## Selected country groups

5. We compared competitiveness trends across the following five country groups:

- Upper-middle-income countries (UMICs), 38 countries in the GCI database[2] (vs. 53 countries for which systematic governance data are available)
- Established lower-middle-income countries (LMICs) that had been in that group since at least FY06, 16 countries (vs. 22 countries with governance data)
- New arrival LMICs (countries that became LMICs after 2006), 17 countries (vs. 25)

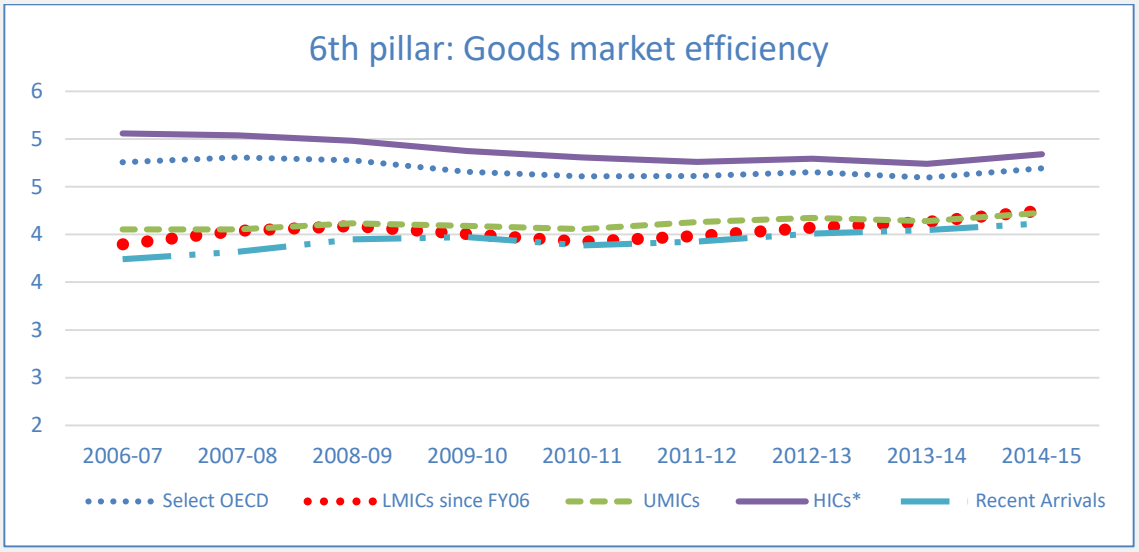
- High-income countries (HICs), 31 countries (all of which belong to OECD)
- New Organization for Economic Co-Operation and Development (OECD) members, 4 countries (Chile, Estonia, Korea, and Poland); this is a subset of the previous group, HICs

## The results

6. The main findings from the data analysis could be summarized as follows:

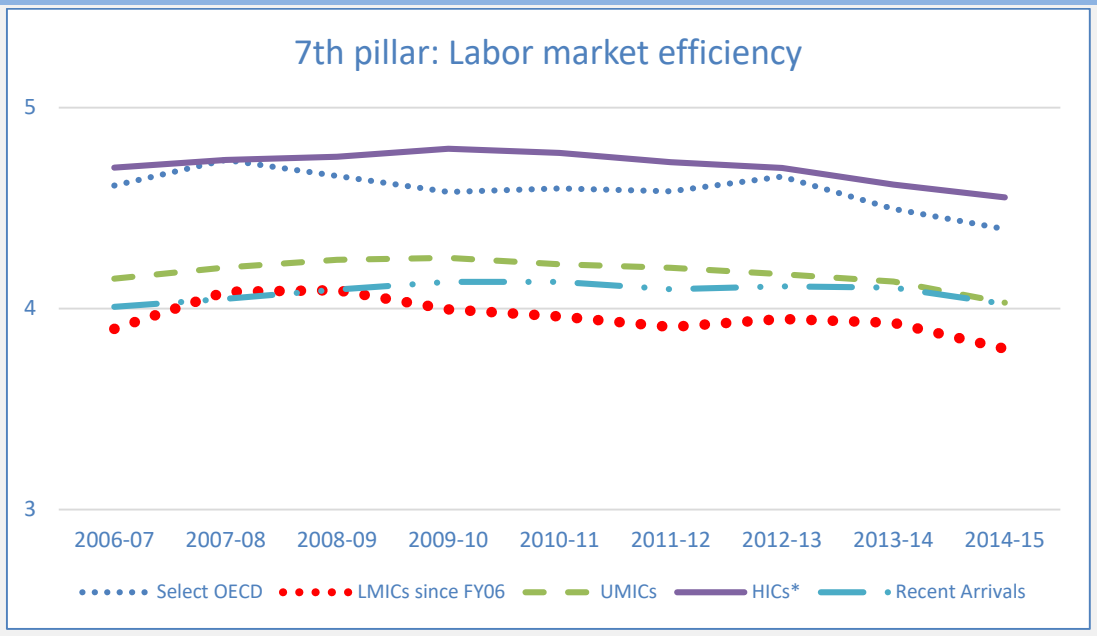
- The trends in the group averages are mostly flat, at best (except for P9, technological readiness). This is a bit different from the analysis of governance indicators, which has shown a robust growing trend for new OECD countries, and respectively a widening gap between them and other middle-income countries (MICs) groups.
- Labor market efficiency (P7) shows the declining trend across all groups.
- There are significant gaps between HICs/new OECD on one side and the remaining (MICs) subgroups on the other, especially for technological readiness (P9) and innovation (P12). These gaps have been rather stable during the review period. Some gap closing has taken place in just two cases – P6 (goods market efficiency) and P8 (financial market development). The latter is entirely due to the deterioration in the ratings for OECD countries after the financial crisis of 2008-09.
- Regarding the differences between various subgroups within the MIC universe, in many cases they do not look statistically significant. The differences are nontrivial in just three cases listed below.
- P9 (technological readiness): This is the case "as expected." Both UMICs and traditional LMICs significantly overperform the new arrivals, with these performance gaps have been widening recently. In turn, the average ratings for UMICs have been higher than for traditional LMICs. This is the case similar to what the analysis of governance indicators suggests.
- P8 (financial development): In this case, the picture is very similar to the previous one (new arrivals significantly underperform), but the ratings for two remaining MICs subgroups are almost identical.
- P7 (labor markets): Unexpected case. It shows that the collective performance of traditional LMICs has been weaker than of two other MICs subgroups, with a significant deterioration in their average ratings since 2008-09. Respectively, the gap between them and the UMICs has widened.

## Figure G.1. Sixth Pillar: Goods Market Efficiency



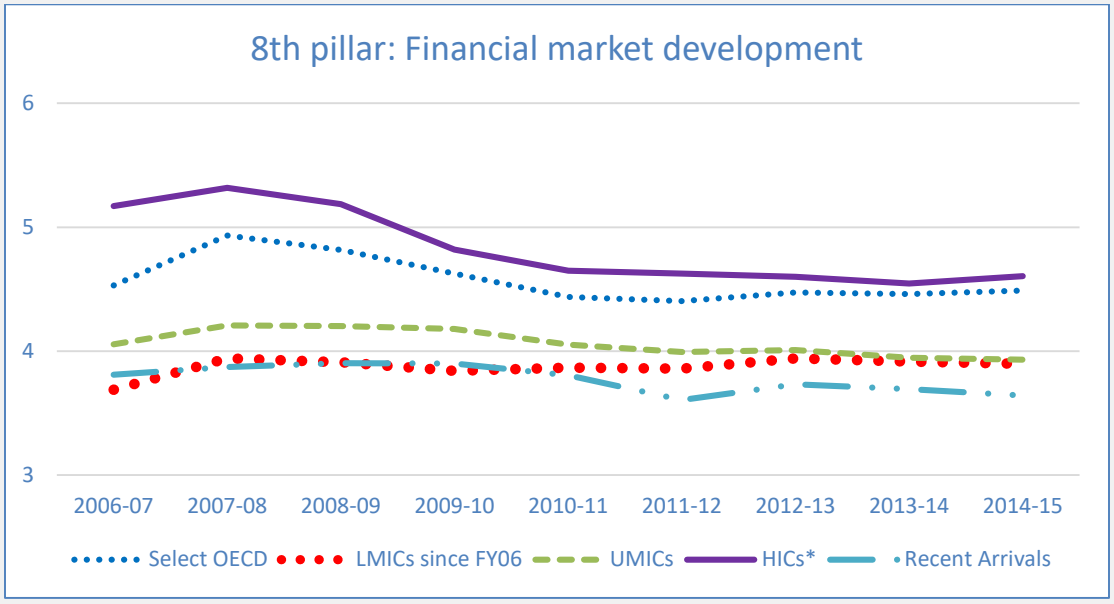

*Source:* Global Competitiveness Index dataset.

## Figure G.2. Labor Market Efficiency



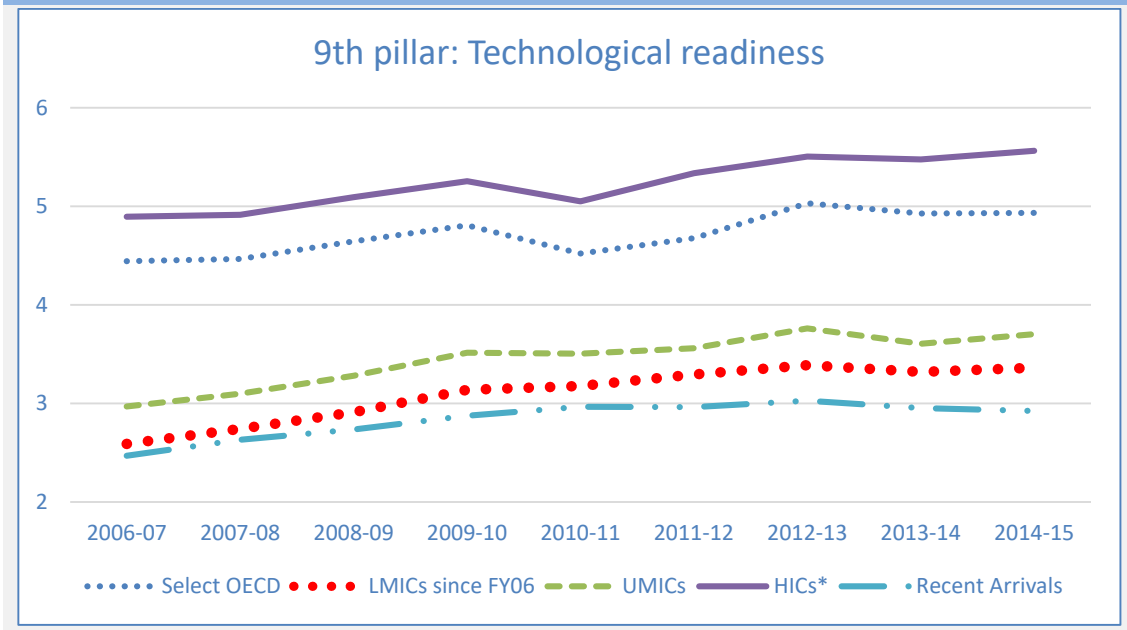

*Source:* Global Competitiveness Index dataset.

## Figure G.3. Financial Market Development



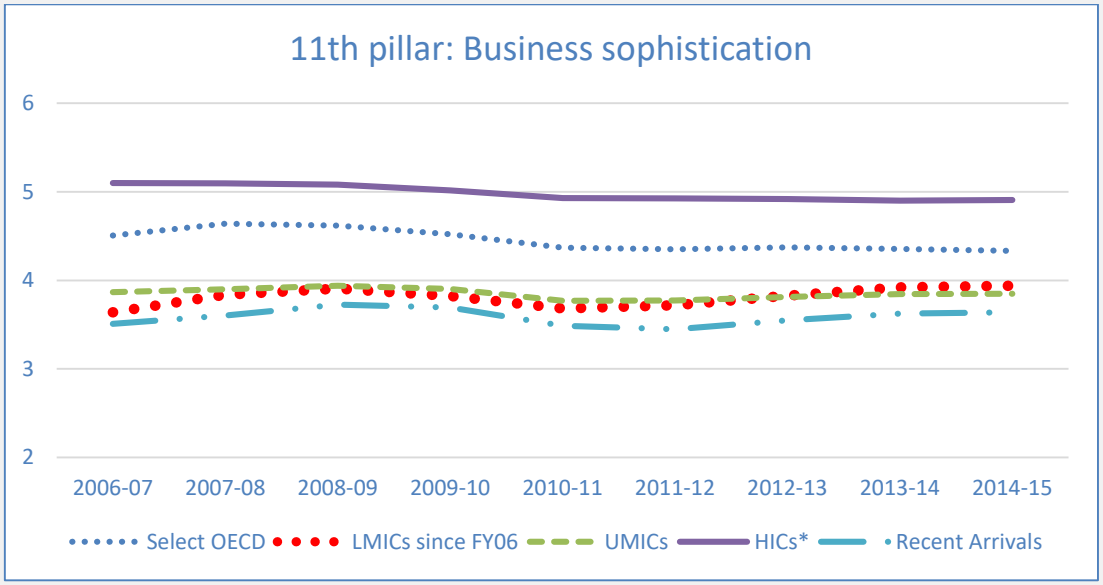

*Source:* Global Competitiveness Index dataset.

## Figure G.4. Technological Readiness



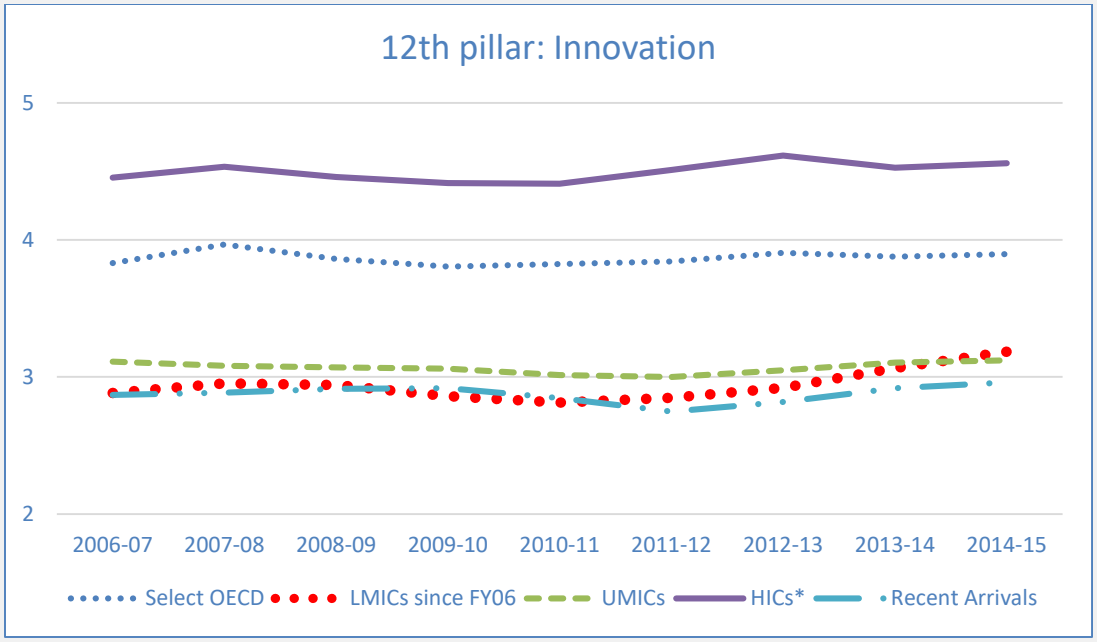

*Source:* Global Competitiveness Index dataset.

Figure G.5. Business Sophistication




*Source:* Global Competitiveness Index dataset.

Figure G.6. 12th pillar: Innovation




*Source:* Global Competitiveness Index dataset.

[1] http://reports.weforum.org/global-competitiveness-report-2015-2016/.

[2] The Global Competitiveness Index database does not cover many small countries and also countries that the World Economic Forum considers nonmarket economies (including Cuba, Belarus, and Uzbekistan). Overall, the competitiveness data are available for the number of MIC countries that is 30 percent smaller than the number of MICs with the available governance indicators.

# Appendix H. IFC and MIGA Contribution

## Industry Specific Support by IFC and MIGA

**IEG's Industry Competitiveness and Jobs Evaluation (2016) found that majority of the World Bank Group's support to the manufacturing sector are IFC's firm-level projects and most of these IFC projects are in the middle-income countries (MICs).** The evaluation also notes that the level of IFC support in the manufacturing sector has been declining in recent years. The portfolio review carried out by this evaluation notes that a total of 418 IFC and MIGA projects for the period from 2008 to 2014 had contained some elements of industry-specific support (165 IFC investment projects, 190 IFC Advisory Services engagements, and 63 MIGA guarantee projects).

**The main reason for the concentration of project portfolio in MICs is that it is challenging for IFC to find strong project sponsors in the manufacturing sector in low-income countries.** A 2015 IEG internal review found that manufacturing investments mainly supported large markets. China, India, Russia, and Turkey constituted about 30 percent of IFC Investment Services' industry competitiveness manufacturing portfolio. Except in these large markets, potential investments are too small in many developing economies (especially in many small markets), with sponsor issues, costly transaction processes, and little incentive for IFC investment officers to conclude these deals.

**In terms of the sector, IFC supported four industries: manufacturing (including agribusiness), information and communication technology (ICT), tourism, and agriculture.** IFC investment projects' success rates were at the average in these four industries, and MIGA projects were above the average. Thirty-six evaluated investment operations supported competitiveness in the four industries under review. Out of 36 projects, 67 percent achieved high development outcomes, which is in line with the rest of the IFC portfolio. The analysis of 35 Expanded Project Supervision Reports shows that 57 percent of projects under review had successful or excellent project business performance (in line with the rest of the portfolio), so the financial outcomes of IFC's competitiveness projects are comparable to the rest of the portfolio. Similarly, the projects under review were as successful as the rest of the portfolio on investment outcome, which is essential for IFC's sustainability and achieving its mission. For the upper-middle-income countries (UMICs), IFC's advisory service project in the former Yugoslav Republic of Macedonia illustrates how IFC can support to improve the business environment (Box H.1).

**Box H.1 FYR Macedonia—IFC's Industry Specific Support in Upper-Middle-Income Countries**

In FYR Macedonia, IFC assisted in improving the business environment as a part of regional advisory service project with the goal of attracting and supporting FDI. In overall objective of this project is to introduce International Standards and Technical Regulations (ISTR) in the six countries in the Europe and Central Asia Region to facilitate exports and stimulate economic growth. ISTRs are important, as individual country standards can vary from country to country, and having too many different standards makes life difficult for producers and exporters. Furthermore, if the standards are set arbitrarily, they could be used as an excuse for protection-ism and individual country standards can become obstacles to trade. IFC project in FYR Macedonia had the following 3 main objectives:

1. Build broader awareness about, and capacity building for, European Union (EU) technical regulation and standards to increase exports;

2. Build a sustainable local consultancy network, and implement company-level standards for medium to large companies in the region, to increase overall sales and exports, through in-depth advisory with a target of 6 companies to help them acquire adequate standards and become compliant with relevant technical regulations in the food processing and general manufacturing sector; and

3. Address knowledge gaps at sector level and on regulatory framework issues through a Food Safety Toolkit and Food Safety System Assessment that would generate a set of recommendations at the policy and regulatory level, resulting in at least one follow-on IFC project.

For the Development Effectiveness of this advisory service project, IEG assigned Mostly Successful rating. The project seems to have raised awareness on the ISTR standards, helped some Macedonian companies implement ISTRs, despite some shortcomings in M&E and results reporting in the project.

*Source: IEG Country Case Study of Industry Competitiveness and Jobs Evaluation (2016) and IEG project level validation of projects (EvNotes).*

**Across income levels, performance was the highest in lower-middle-income countries, followed by upper-middle-income countries.** This is mostly in line with the rest of the IFC portfolio's performance ratings. Within a small sample of 12 projects, MIGA projects were more successful (75 percent success rate) than the rest of MIGA's portfolio (59 percent success rate). Industry competitiveness projects also outperformed the rest of MIGA's portfolio in another area for which IEG evaluates and validates ratings. Eighty-three percent of competitiveness projects were successful regarding economic sustainability (compared with 67 percent in the rest of the portfolio).

**IEG's Industry Competitiveness evaluation found that the main contribution of IFC (most IFC projects were in MICs) is its efforts toward improving working**

**conditions.** According to previous IEG studies, including annual reviews of IFC's Environmental and Social performance by IEG, IFC's monitoring of its performance standards on working conditions is an important contribution in the manufacturing sector. One internal IEG assessment found that client compliance with labor and working conditions improved from the approval stage to the evaluation stage (67 percent to 78 percent), implying that IFC's role in helping clients improve these standards is important (IEG FY14). Of the industry competitiveness projects with ex post data on standards compliance, 75 percent complied with IFC's performance standards on labor and working conditions compared with 75 percent for other IFC projects.

## Investment Climate Operations of IFC

**Over the period FY07–13, IFC supported 476 projects with multiple investment climate interventions (a project may contain several interventions) with $350 million.** Across interventions, licensing, permits, and administrative barriers; trade; and investment promotion account for almost half. A division of labor exists between the two World Bank Group institutions. The World Bank does interventions in trade and property rights almost exclusively (more than 80 percent of all), as well as majority of interventions on investment promotion. IFC, in contrast, undertakes more (60 percent) licensing and registration efforts. In terms of value, investment climate interventions are small, particularly for IFC with the average value of one intervention is less than $1 million. The World Bank focuses more on higher-level reforms, such as revising and harmonizing laws and codes, reforming institutions, developing strategies, and coordinating government agencies and ministries. IFC, in contrast, mostly focuses on streamlining and simplifying procedures and processes, providing technical assistance, and automating systems.

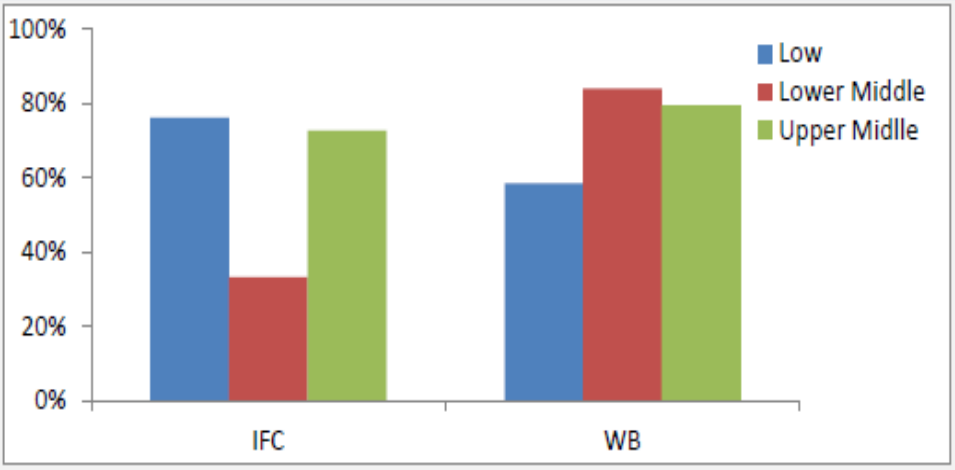
**Regardless of the income status of the countries, one of the key findings of the evaluation is that the IFC business model is implemented through stand-alone advisory services.** The evaluation also points out IFC's weakness to deal with the political economy of its client countries. IFC projects are based on standardized, focused, short-term, and rapid interventions. As per consultations with stakeholders carried out by the evaluation team, IFC's ability to handle the political economy was not as strong, nor was its ability to move beyond standardized products. Unsuccessful efforts in regulatory reforms supported by the Bank Group institutions often focus on improving the technical quality of legislation but ignore the importance of the process to move a bill through the parliamentary process. Although the World Bank and IFC cannot and should not be engaged in these processes, the evaluation argues that successful regulatory reform requires

understanding this part of the policy-making process and engaging relevant stakeholders.

**The evaluation, however, does not present any evidence on IFC's project examples in UMICs and to what extent IFC's political economy consideration by IFC has affected the development outcome of IFC's investment climate operation.** Further assessments of IFC's political economy analysis and its project development outcomes in UMICs are recommended for the upcoming MICs evaluation. In the Chapter 5 of the Investment Climate evaluation, it presents the example of Kenya, Rwanda, Bangladesh, Nepal as well as the summary of key lessons from past IFC investment climate projects in FCS countries. In Kenya, evaluation found that IFC did not carry any formal stakeholder analysis during the project preparation, although the bill affected many different groups with conflicting interests. Due to the lack of political economy consideration, the Business Regulatory Act supported by IFC has been stalled in the Parliament for some time in Kenya. Despite these examples in IDA and FCS countries, the evaluation does not present any examples of IFC's engagement with UMICs.

**In terms of development effectiveness, IEG's Investment Climate Evaluation notes that the success rate of IFC projects is significantly lower in lower-middle-income countries compared to upper-middle income countries and low-income countries.** This is explained by the pattern of interventions—the fact that in lower-middle-income countries IFC implements fewer interventions on trade, licensing, and administrative barriers that tend to have relatively higher ratings and more interventions on tax, property, and investments promotions, which tend to have lower rates of success. One of the successful examples of investment climate operation in UMICs is IFC's advisory operation in Serbia and the project is also a good example of the Bank Group collaboration as discussed in details in Box G.2.

**Figure 3.1. Distribution of Successful Investment Climate Projects by Level of Income**




*Source:* IEG portfolio review.
*Note:* WB = World Bank.

**Box H.2. Serbia: IFC's Investment Climate Operation in Upper-Middle-Income Countries**

IFC's advisory service projects in Serbia presents a useful lesson how the Bank and IFC can collaborate at the strategic and project level to achieve results to the clients. For Regulatory Impact Analysis (RIA) in Serbia, IFC brought experience from related IFC projects in the region, a network of technical experts and a network of peers for clients and counterparts in the government of Serbia. IFC collaborated with the World Bank and World Bank Institute on this project through inter-related components and technical assistance.

Unlike the World Bank, IFC undertakes its advisory service operation with client in kind and in cash contribution, based on legally binding agreements. The variation in pricing and implementation requires ex ante collaboration and synergy between all the Bank Group parties before approaching the client with a single voice. Studies by the World Bank (ICA survey and ICAS Administrative Barriers Study) showed that the regulatory burden was one of the key constraints to long-run growth and competitiveness in Serbia.

In 2010, a Regulatory Reform Conference was held in Belgrade in 2010. It was organized by the government of Serbia, the World Bank, the World Bank Institute (WBI), and IFC, in cooperation with the Balkan Center for Regulatory Reform. A full cooperation of three Bank Group institutions (IBRD, IFC, and WBI) was crucial for a successful delivery of the Project, even though each Bank institution has different modus operandi with either field presence (IBRD and IFC) or acting from Headquarters (WBI). The most efficient approach of this coordination was the permanent communication of TTLs, especially before endorsing with the client any action and requirement.

*Source: IEG Country Case Study of Industry Competitiveness and Jobs Evaluation (2016) and IEG project level validation of projects (EvNotes).*

## IFC Capital Market Operations

**IEG evaluation of The World Bank Group's Support to Capital Market Development (2016) concludes that IFC was pivotal in the development of mortgage-backed securities in upper-middle-income countries (UMICs).** In Colombia and Russia, where its interventions were well-designed, mutually reinforcing, progressive, and sustained. IFC's investments to support securitization in Brazil made limited headway. IFC also had positive contributions toward the development of mortgage-backed securities in Mexico, though the institutions proved unsustainable when faced with the global crisis. IEG Learning Product on World Bank Group's Support to Housing Finance (2016) summarizes experiences and lessons from the Bank Group engagement in the housing finance sector and capital market development in Mexico as presented in Box G.3.

### Box H.3. Lessons from World Bank Group Engagement in the Housing Finance Sector in Mexico

In Mexico, both the Bank and IFC supported the development of the housing finance market in number of areas. Bank Group's experience in Mexico presents important lessons of its support to nonbank financial institution (NBFIs) and development of securitization market.

**Interventions to support NBFI mortgage lenders have been relevant to country development needs when banks have been unable or unwilling to lend.** In Mexico, legislation created specialized nondepository lenders, the Sofoles (Sociedad Financiera de Objeto Limitado) at a time when the banks had withdrawn from the market following a Mexican financial crisis started in 1994. IFC invested in several Sofoles, including the largest one, funded by the state-owned Federal Mortgage Corporation that provided liquidity and long-term loans and subsequently access to the capital markets through securitization. Although things did not turn out so positively in the end after the global financial crisis in 2008, the Sofoles became major players achieving a peak market share of 22 percent by loan amount (12 percent by number of loans) in 2008.

**The Bank Group support to liquidity facilities has been relevant in countries with shallow bond markets.** In Mexico, the World Bank supported the transformation of FOVI, a central bank lending window, into Sociedad Hipotecaria Federal (SHF), which initially operated as a liquidity facility and funded the Sofoles, specialized financial intermediaries, the main private sector lenders at the time. SHF was structured as a development bank and its debt was fully guaranteed by the Mexican government, ensuring its credibility as an issuer. The intervention was timely as the country was emerging from a financial crisis in which the banks had left the mortgage market and government lenders were meeting only a fraction of market demand.

**Leading up to the global financial crisis in 2008-9, both the World Bank and IFC supported further development of mortgage securitization market in Mexico.** The World Bank supported SHF on several initiatives moving its funding model from that of a liquidity facility to partial guarantees of mortgage-backed securities issued by Sofoles.

The IFC supported the development of securitization by investing in several Sofoles with equity and providing technical assistance on all aspects of the mortgage lending process to build high quality securitizable portfolios. Before the crisis, these interventions were successful. Mortgage refinancing and securitization began in Mexico under the FOVI Project and expanded under three development policy loans. Well-structured packages were launched, and securitization mobilized $4.3 billion in financing from 2004 to 2008, equivalent to nearly all SHF/Sofoles mortgage funding over that period.

**In Mexico, the crisis exposed the weakness of a monoline business model like NBFIs and its overdependence on the capital markets.** The Sofoles were able to issue MBS at competitive rates with issuance increasing year on year up to 2008 —in fact proceeds were in part used to replace SHF funding. However, the securitization market collapsed in 2008–09 when several Sofoles, including the largest, experienced significant financial distress at the time when the subprime housing finance crisis in the United States was in full force. Investors lost confidence in the securities and the Sofoles were unable to access the capital markets for funding. A business model largely dependent on the capital markets for funding, both short term through commercial paper and long term through securitization proved to be vulnerable to severe disruptions in the capital markets. The Sofoles collapsed when the capital markets closed during the crisis, leading to losses in several IFC investments.

**The lack of prudential regulation was also a factor in the demise of the Sofoles.** The banking and securities regulator did not regulate the Sofoles as it was believed that the market could regulate them given their dependence on capital market finance. In an environment of intense competition and lax oversight, some Sofoles were not applying basic prudential lending norms or even contacting the borrowers. Moreover, the business model included providing bridge loans to developers that would refer clients for permanent loans, a risky form of lending. Developers presented groups or packages of loans to the institutions to be approved in bulk. Loan underwriting, approval and collection processes in the Sofoles were generally subpar and needed to be adjusted to best practices.

**One of the key lessons is that IFC missed warning signs such as the fast growth and increasingly risky lending, including a growing maturity mismatch, of its Sofoles it supported in Mexico.** Though one of these IFC's supported Sofoles had an initial good start and became a leader in the industry and was considered the model successful case for the mortgage lending via NBFI, these factors exacerbated by the global financial crisis adversely affected the company's performance leading to its demise.

*Source:* IEG learning product on World Bank Group's support to housing finance (2016).

## IFC Operation in Public Private Partnership

**IEG evaluation on World Bank Group support to public-private partnerships (PPP) found that IFC's Investment Services and MIGA focused on UMICs, whereas World Bank and IFC Advisory Services tend to support more low-income countries.** IFC investments and MIGA guarantees tend to benefit mostly projects in

MICs or UMICs, with 65 percent and 72 percent in MICs and UMICs, respectively. This reflects the flow of foreign direct investment (FDI) for PPPs, which also has been directed toward MICs in 2007-16 and indicates the demand-driven nature of IFC's investments and MIGA guarantees.

**As one of the successful IFC engagements in PPP in UMICs, Brazil Country Program Evaluation (CPE) recognizes that IFC's contributions through its advisory services on PPP were widely recognized in the country.** Most of these PPP projects were supported by the Brazil Private Sector Partnership Program established by IFC, the National Bank for Economic and Social Development (BNDES), and the Inter-American Development Bank (IDB). This program provides advisory services to structure private concession projects with emphasis on establishing new standards and introducing innovative models for private sector participation in Brazil. During the period evaluated, the Program successfully structured projects in transport, health, and education. One of such projects is Hospital do Subúrbio, in which IFC supported the transaction with its global expertise in the health sector PPPs (box 4). With the success of its PPP program with BNDES and the IDB, IFC started a similar program at the state level by working with Banco de Desenvolvimento de Minas Gerais, a state development bank in Minas Gerais. Building on IBRD's experience in supporting improvement in regulatory frameworks in infrastructure finance in Brazil, the report suggests to increase synergies of Bank Group collaboration between the upstream regulatory work by IBRD and the downstream transaction supports of IFC's expertise in PPP project financing and structuring as well as MIGA's ability to offer guarantees.

**Box H.4. Brazil: IFC's Health Sector PPP Project**—Hospital do Subúrbio

IFC's involvement was crucial in structuring the Hospital do Subúrbio project, the first PPP hospital transaction in Brazil. IFC provided international expertise in project finance, assisted in promoting private sector financing, and helped set performance standards for the hospital.

The hospital operates more efficiently than public hospitals. It has flexibility and speed in hiring employees and procuring medical equipment, and has maintained the high standards a private hospital operator needs to meet a set of performance standards. Hospital do Subúrbio serves the poor community of Salvador in Bahia and provides high-quality care to the community. This innovative PPP hospital project was replicated in at least seven other states and municipalities in Brazil. In 2011, the project was selected as one of KPMG's 100 most innovative projects.

IEG's review of this project notes that IFC brought in transparency and independence during the project's structuring and financial closure and played the honest broker role

for a road show presentation. Furthermore, Brazil's stock exchange oversaw the bidding for higher transparency—another IFC value added.

*Source:* IEG Brazil CPE 2014.

# Appendix I. Specific Country- and Project-Level Examples

## Chapter 2: Inclusive and Sustainable Growth

### FISCAL MANAGEMENT

- Several client countries that received fiscal management–focused DPLs emerged from the crisis with weaker fiscal positions. IEG's reviews show that the Bank's DPLs often paid insufficient attention to the available space for fiscal stimulus, to the reversibility of stimulus measures, and to forward-looking measures to attain fiscal sustainability. Where such weaknesses in the design of the Bank's DPLs were present, the deterioration in fiscal positions after the crisis was noticeable. In some cases, this partly reflected insufficient measures of fiscal consolidation and underestimation of the fiscal impact of the crisis, as exemplified by upper-middle-income countries (UMICs) such as **Poland, Romania, and Serbia**, or a combination of these factors.
- Gradually developing strong fiscal and structural deficit rules that allow saving out of commodity booms or other windfalls from trade gains can be highly effective in controlling procyclical behavior. With a few exceptions, IEG evaluations have not assessed the progress made by UMICs in this area. The clustered country program evaluation (CPE) on Resource-Rich Developing Countries, examines the management of natural resources in a group of countries, including two UMICs, namely Chile and Kazakhstan: how much to save and spend, manage trends and fluctuations, and design governance structures needed to implement transparent and accountable structural fiscal rules and sovereign funds. It elicits lessons from Chile and assesses Bank support to Kazakhstan in developing sovereign wealth funds to immunize fiscal policy against fluctuations in energy prices. This kind of work is critical for the Bank to intervene effectively in preparing countries respond to external shocks. Drawing on the Crisis evaluation II, Section 3 notes that the introduction or implementation of fiscal rules was part of the Bank-supported PFM agenda.
- Several DPLs were designed for precautionary purposes (DPL/DDOs) with a contingent component, providing flexibility as well as a signal to markets in UMICs such as **Mauritius, Peru, and Uruguay**, none of which faced high fiscal stress.

- When countries are ranked by level of financial stress, it is evident that short-term issues received greater emphasis in World Bank support to more severely stressed countries, especially related to liquidity and credit shortages. The focus in countries with low levels of stress was relatively more on longer-term issues with the understanding that the three-zone classification spans a continuum. Mexico and Turkey, both of which faced moderate financial stress, each suffered declines in gross domestic product of more than 10 percentage points during the crisis on a peak-to-trough basis, and bank credit growth stagnated. In both countries, a slowdown in credit, market volatility, and (in Mexico) difficulties in some loan markets—housing finance and consumer credit markets-- were the main manifestations of the crisis. World Bank operations were appropriately balanced across sectors in Mexico and Turkey. Both countries had large DPLs providing fiscal resources, which were accompanied by reforms to improve supervision. In **Turkey** and **Croatia**, where the latter country faced high financial stress, the authorities preferred financial intermediation loans which are lines of credit from financial intermediaries to private borrowers via participating financial institutions. In **Colombia** (a moderate stress country) and **Uruguay** (a low stress country), where reforms had been taken in the sector during previous years with the assistance of the Bank, DPLs focused on supervisory issues and further reforms in the overall capital markets.
- The Bank's support to countries' financial sectors during the crisis depended also on the quality of its engagement, especially through advisory services before the crisis. Much of it took the form of Financial Sector Assessment Programs (FSAPs) undertaken as joint exercises with the International Monetary Fund (IMF). Broadly speaking, the 12 FSAPs completed no more than three years before the onset of the crisis (2005 and later) out of the 18 in-depth sample countries reviewed by IEG, were fairly successful in identifying strengths and weakness and provided a good basis for intervention. However, they were not uniform in their coverage, either overall or for the issues that proved to be of most importance in the crisis. More recent FSAPs, including in **Croatia, Latvia, and Ukraine**, all of which faced high financial stress, focused more on liquidity risks, external funding, and crisis preparedness and, as in Hungary, which experienced moderate financial stress, identified the vulnerabilities created by the high level of short-maturity, external borrowing by domestic financial institutions, high leverage, and currency mismatch. In UMICs such as Colombia, Mexico, and Turkey (all moderate stress countries) and Uruguay (a low stress country),

FSAPs identified macroeconomic and structural vulnerabilities. The crisis evaluation reports that after previous FSAPs, many countries worked on shortcomings and, as a result, had more resilient financial systems in the crisis.

### SOCIAL SAFETY NETS

- Phase II of IEG's evaluation of World Bank Group's response to the global economic crisis reports that World Bank lending for social protection increased during the crisis to nearly four times its pre-crisis levels. Although social protection includes social safety nets (SSNs), active labor market programs, and social insurance and pensions, the evaluation reports that the largest increase was for poverty-targeted SSN programs. Most lending was concentrated in a handful of middle-income countries in Latin America and the Caribbean and Europe and Central Asia that experienced contractions in the formal and informal labor markets, jobs, and earnings. Mexico was the country that received the largest share, and other important recipients were Brazil, Colombia, the Dominican Republic, Poland, and Uruguay. This sharp increase was also possible partly due to the World Bank's longer-term engagement in this area through both analytical work and lending. In Bulgaria, Latvia, and Romania, World Bank support allowed an expansion of either temporary public works programs or guaranteed minimum income programs. These programs could be scaled up quickly where they were well structured and where sufficient information was available (Brazil, Bulgaria, Colombia, and Mexico.) Targeting groups specifically affected by the crisis was implemented better if updated household surveys existed and impact studies were in place, as in Latvia, Mexico and Poland. In countries with weak systems, the World Bank focused more on consolidation of programs and longer-term reforms.
- In a few UMICs such as **Colombia and Mexico**, Bank-supported SSN programs throughout the decade 2000—2010 have gone to the national scale, and there are concerns about pressure on national budgets and questions of fiscal sustainability. Argentina offers an example after several years of effort (and Bank support), the country successfully wound down the program designed for crisis response while continuing to strengthen its permanent SSN. It is therefore important for countries to be aware that expansion of safety nets under crisis can become permanent and some may become difficult to scale back once the crisis is over.

- Public financial management (PFM) systems are budget institutions that encompass budget formulation, budget preparation, budget approval, budget execution and budget evaluation. Both PFM and tax administration have proved to be convenient points of entry in strengthening public sector institutions. Improving basic PFM was an important part of the agenda in **Bulgaria**, which was preparing to meet the standards needed to join the European Union. The experience of a fiscal crisis can also lead to PFM and tax administration becoming entry points for the Bank, as in Argentina, Colombia, and Russia. Case studies done for the evaluation, of which Bulgaria is an example, support the desirability of getting the basics right before moving to more complex aspects of public financial management. Thus, Bank projects in Bulgaria focused on the basics, such as introducing a unique taxpayer identification system and a one-year budgeting framework. A more demanding type of PFM innovation introduced in developed countries and subsequently promoted by the Bank among its borrowers, is a multiyear perspective in fiscal planning, expenditure policy, and budgeting. Despite concerns about achieving such transparency in multiyear budgeting and notwithstanding challenges evident in developed countries in making effective use of this instrument, **Albania and South Africa** are examples of countries that adopted well-functioning medium term expenditure frameworks (MTEFs) with Bank support.
- A more up-to-date account of Bank-supported PFM reforms is provided by IEG's Phase II evaluation of World Bank Group's response to the Global Economic Crisis, which notes that PFM reforms, including measures to improve budget planning, execution, comprehensiveness and transparency, were a key focus area of DPLs provided by the Bank in response to the global economic crisis. **Poland and Serbia** present examples where reforms were part of an integrated approach to strengthening PFM systems and institutions. Rolling out of medium-term expenditure frameworks was supported in **Georgia** (for the public investment program), **Mexico, Poland, Romania**, and **Serbia**, but progress in this direction varied across countries. The introduction or implementation of fiscal rules, limiting the increase in public spending or the level of the fiscal deficit, was supported in some countries, notably in **Peru** and **Poland.** Although some PFM reforms would not have an immediate impact from a countercyclical perspective, strengthened public financial management and revenue administration had the potential to improve fiscal outcomes for any given fiscal measures in place. Promoting the results orientation of the budget, supported by the DPLs

in UMICs such as Georgia, Peru, and Poland, was expected to help generate fiscal space for priority expenditures by increasing attention to spending outcomes in the formulation of the budget. In as much as PFM reforms typically require follow-up actions over an extended period to attain the expected results, stand-alone crisis response operations were probably not an appropriate design to support these structural reform agendas. This was the case for the implementation of public expenditure evaluation systems in Mexico. By contrast, **Romania** is an example of a country where the Bank initiated a crisis response operation in 2009 as part of a programmatic DPL series, cognizant that the implementation of the structural fiscal reforms to bring the fiscal position to a sustainable footing would require time.

- Notwithstanding these challenges, however, several examples of well-received diagnostic pilots, as well as successfully implemented civil service and administration (CSA) reforms supported by the Bank in UMICs deserve mention. There were a few diagnostic pilots, for instance in Albania and FYR Macedonia. The Bank had provided good quality analysis and advice on CSA reforms in Russia that was well received and that helped support the country's reform agenda. Bank support for CSA reform implementation exemplifies different approaches tailored to country situations. To help the political leadership, identify tangible benefits of CSA reform, the Bank supported the development of measurable indicators of progress in Albania, such as the percentage of recruitment done by merit, which the government is reported to be tracking on a regular basis. Reforms in human resource management and compensation, which cover merit-based promotion, pay structures, and pensions, among others, were successfully implemented in Albania. Russia offers an example of positive results being achieved by designing reform measures that tried to shift existing practice rather than advocating all-or-nothing change. With a realization at the political level that lack of CSA capacity was holding back other reforms, there was growing acceptance of the need for civil service reform during the evaluation. The government had started to require that new hires meet certain minimum qualifications, even if the final selection is politicized, to keep track of absentees, and to make it easier to fire them. While Bulgaria made little headway with regard to downsizing, it successfully implemented compensation reform and human resource management reform. In an example of effective donor coordination, the Bank provided a roadmap of reform, but other donors provided technical assistance for specific reforms.
- Tax administration reforms usually aim to increase voluntary compliance. The typical entry point for the Bank's policy dialogue has been the government's need for additional revenue. Other objectives, as in **Bulgaria,**

have included preparation for accession to the European Union, adapting tax administration to a free-market economy as in Russia and other countries in Eastern Europe, and increasing transparency and efficiency to improve the image of tax administration with voters and the business sector. A pilot approach to tax administration proved successful in several cases. Thus, implementation of a value added tax was used as a pilot to introduce a modern taxpayer identification system and tax collection in **Albania**. The establishment of large taxpayer units served the same purpose in Bulgaria and **Russia.**

- Working with other donors was important in most of the cases of tax administration reform that were studied. The IMF often helped with the diagnosis and strategy, as in **Albania** and **Bulgaria.** The European Union was a powerful external anchor for reforms in countries in Central and Eastern Europe that were preparing for EU accession. Still, the role of Bank expertise was important; even when the IMF was providing a lot of technical advice, having the Bank help design and manage the actual project was essential, according to interviews with country counterparts. And the IMF was not always available; in those cases, the in-house expertise and consultant roster of the Bank become even more important.
- Reducing opportunities for petty or bureaucratic corruption by simplifying procedures and regulations and getting incentives right through, for instance, personnel payment programs, are systemic approaches that have been incorporated in Bank support to PFM, tax administration, and civil service reform. Thus, many of the previously mentioned reforms in PFM, civil service, in particular recruitment and pay reform, and tax administration in UMICs, such as Albania, Bulgaria and Russia, were important indirect ways to improve transparency and target bureaucratic corruption by reducing opportunities and incentives for corrupt actions during the evaluation. The Bank's country strategies and major operations address "grand" corruption, also known as State capture, quite infrequently. Furthermore, the evaluation notes that direct attempts to address either petty or grand corruption through measures such as anticorruption laws and commissions succeeded rarely.
- In **Ukraine**, the Bank supported a program called Voices of the People, which sought to improve municipal-level integrity by strengthening the voice of citizen groups as they demand better services and governance.

## Chapter 3: Investing in People

### SUPPORT TO PROMOTE INDUSTRIAL COMPETITIVENESS AND INNOVATION

- There have been at least two subgroups of middle-income countries (MICs), where it is broadly accepted that long-term engagement of the World Bank Group made a significant contribution to a broad successful transformation of these countries, led by improvements in their competitiveness and growth acceleration: a) major development success stories of the last 40 years, including Chile, China, and Korea, and b) the most advanced transition economies in Europe and Central Asia, such as **Poland**. In the former case, the Bank is credited (IEG, 2016) with making critical initial contributions to the countries' developmental strategies through research and technical assistance to introduce basic economic reforms, modern project management practices, new technologies, and so on, and then later shifted its assistance to help with institutional reforms and knowledge transfer.
- Specifically, in **China**, Bank Group financing represents a small share of China's investment and financing needs, but it plays a prominent role in bringing ideas, knowledge, and best-practice experience to help the country improve firm and sector competitiveness. In addition, the Bank delivered at least three investment projects with a focus on accelerating the pace of innovation by helping Chinese firms take part in global R&D networks. This was complemented by various IFC's interventions at the firm level to upgrade products and processes. Moreover, IFC was instrumental to help address a major financing constraint in the innovation finance: in 2006 IFC made an equity investment of $20 million in a 10-year closed-end venture capital fund, which helped an indigenous fund manager raise its first venture capital fund. This created a major demonstration effect and catalyzed the development of China's venture capital industry.
- In **Chile,** the World Bank made important contributions to enhancing the effectiveness of the innovation system though two highly innovative investment projects to stimulate cross-sector cooperation between research and industry. The projects also helped to improve the design of the country's innovation strategy and policies and increase the stock of human capital in the S&T sector.
- In **Poland,** the evaluative evidence suggests that the World Bank Group, together with its partners, played an important role in Poland's post-socialist transformation through its lending and advisory work. In particular, the World Bank Group was instrumental in helping Poland initiate and sustain economic growth driven by the private sector. Bank loans in the energy, agriculture, and transport sectors helped support both design and

implementation of quite radical sectoral reforms, which were well aligned with the structural reform agenda for EU accession. Today, the Bank program in Poland is largely based on knowledge products that are in part reimbursed by the government.

- In contrast, in **Romania**, another recent EU entrant, World Bank Group interventions to accelerate private sector development–driven transformation were relatively less effective, largely because of weaker government ownership. For instance, despite various World Bank Group efforts in the last 25 years, Romania's state-owned enterprises sector remains relatively large.
- **Peru** qualifies as another MIC, in which the World Bank Group, through long-term engagement, has been instrumental in bringing about a major economic transformation in terms of improvements in country competitiveness, diversification, and sustainable growth. Specifically, IFC investments in the emerging sectors, such as agribusiness and tourism, were catalytic as they helped build a momentum in these sectors at a time when they considered to be too risky and were not served by the banking sector. Currently, Peruvian government seems to have valued most the convening role and know-how capacity of the Bank -- much more than its financing contribution.
- In **Mauritius,** reforms to enhance competitiveness and promote private sector development represented the core of World Bank Group partnership strategy. Support was provided largely in the form of development policy loans (DPLs), complemented by analytic work and technical assistance for capacity building in various parts of the government. This effort was only moderately successful. World Bank Group interventions helped to increase FDI inflows and enhance export diversification. However, Mauritius' competitiveness remains constrained by skilled labor shortages and inadequate quality of infrastructure services (in ports, for example), the areas that did not attract much of World Bank Group support.

SUPPORT FOR INVESTMENT CLIMATE REFORMS

- The Bank Group's investment climate program in **Peru**, rated Moderately Satisfactory, may be seen typical in this respect. Although the World Bank Group undertook a relevant set of diagnostic work in Peru, the program aimed to address only a narrow set of constraints. It succeeded in catalyzing some reforms to reduce regulatory obstacles, including simplification of business registration. But it did not engage in more critical and politically sensitive areas, such as high tax rates and a restrictive labor code that discourages formal sector employment.

- When compared to this "average UMIC experience," the Bank investment climate program in **Mauritius** in the 1st decade of this century was both unusually ambitious and successful. In addition to the streamlining business registration, it made critical contribution to liberalizing labor market (including hiring of skilled foreign labor) and accelerating the process of closing down unviable firms. However, the lack of government's appetite for further reforms since 2011 put the sustainability of some of these achievements at risk, pointing once again to criticality of domestic ownership and political economy considerations.
- Positive experience of the World Bank Group with similar investment climate reforms in transition economies in Europe and Central Asia could be linked, to a large extent, to strong government ownership, which was a reflection of elite consensus regarding longer-term national strategies aimed at the EU membership that helped to maintain the reform momentum even when national governments were replaced. The Bank support in countries such as **Poland, Bulgaria**, and **Romania** (albeit with a significant degree of variation in terms of quality and timeliness of the outcome) helped the governments identify the binding business environment constraints to growth and development and make right choices regarding prioritization of necessary reforms. Good-quality analytical and advisory products were especially appreciated by this group of clients.
- In contrast, in **Brazil,** where local political interests are more fragmented, the Bank Group was not able to make significant impact in reducing cost of doing business, and this area (the infamous Custu Brazil). remains a critical constraint to the country's growth and a key government concern. Brazil's tax burden has been quite high, nontransparent, and complex, while the trade regime was quite distortive. Both areas did not get adequate attention from the Bank, while these problems have been widely acknowledged by Brazilian think tanks. A pilot Doing Business in Brazil report by IFC (2006) examined large differences in the cost of doing business across 13 states and thus established an important set of benchmarks. But the report had a very limited follow-up (beyond the state of São Paulo). And there has been a significant gap between advisory support on investment climate reforms and lending.
- Available evidence does not contain many examples of successful collaboration across the World Bank Group in UMICs. One of the most profound success stories comes from **Serbia**, where IFC, the World Bank, and the World Bank Institute collaborated on the Regulatory Impact Analysis Project. All parties had different modus operandi, but there was a clear division of tasks, accompanied by continuous communication between task team leaders, especially before endorsing with the client any action and

requirement. Another example comes from the LAC region, where investment climate work has been jointly managed by the Bank and IFC, which helped to improve client management and ensure more collaborative project development, though at a high administrative cost. More recently this joint management experience became a common model across the World Bank Group.

PUBLIC-PRIVATE PARTNERSHIPS AND INFRASTRUCTURE

- The IEG evaluation (2014) pointed out that IFC's financial support for actual public-private partnership (PPP) projects too often reached already "developed" PPP countries. In fact, the PPP portfolio of IFC has been overconcentrated in the selected group of UMICs, which creates at least two problems. First, it limits both demonstration effect and market impact of IFC operations. Second, it reduces business opportunities for IFC Investment Services as commercial banks increasingly become more prominent financiers of PPPs, especially in the established sectors of UMICs, such as Brazil. However, the evaluative evidence suggests that the World Bank Group, especially IFC and MIGA, could take more risk and push harder in promoting private participation in infrastructure in "less developed" PPP countries, such as Mauritius and Kazakhstan.
- In general, as the CPE suggests, Brazil could be seen as a case of missed opportunity for the Bank to maximize its catalytic impact on infrastructure development: a lot of Bank lending recently went to finance large metro and rail expansion in rich urban areas, where the private sector could have provided most of project financing (as cost recovery would have been possible). IFC was not forceful in encouraging PPPs in these sectors, neither the Bank helped to improve the regulatory framework that would have encouraged private sector participation. Instead, IFC has been pushing for more traditional PPP projects, where it was facing strong competition from local banks. Overall, the Bank engagement in Brazil brought only limited results in addressing the country's infrastructure bottlenecks, particularly in logistics.
- In terms of more traditional infrastructure investment projects, the World Bank Group project portfolio in UMICs contains numerous examples of triggering critical policy reforms and achieving significant sector-wide impact with modest amount of financing. For instance, in the road sector the Bank project support for performance-based road maintenance contracts helped the client governments to strengthen policy and institutional environment for managing their entire road network. This was the case, in particular, of **Chile, Poland** and **Kazakhstan**, where the World Bank projects assisted in setting

the new road management standards. In Kazakhstan, although the country has ample resources of its own to finance an expansion of its road network, it borrowed $3 billion from the Bank to ensure sound investment program planning and execution. Bank involvement helped introduce stronger fiduciary and governance standards, upgrade the capacity of local contractors, and launch the modern practice of maintenance contract outsourcing. Outside the transport sector, the Bank was also successful in accelerating critical infrastructure reforms in the information and communication technology (ICT) (**Mauritius, Romania**) and power (**Brazil)** sectors. In the new EU member countries in the Europe and Central Asia Region World Bank Group interventions were instrumental in helping the clients to improve their utilization of EU structural funds that greatly increased the scale of public funding available for infrastructure upgrades.

- In the telecom sector, which globally has been dominated by private commercial players, the Bank Group has been playing largely a catalytic role through a careful selection of its interventions. It allowed the World Bank Group to achieve a considerable demonstration effect, such as with the **Bulgaria** Revenue Administration Reform Projects (promotion of ICT applications in the public sector) and the **Russia** E-Learning Support Project (support for ICT skills development). Generally, ICT skills development has received little attention in Bank Group operations, and this is seen as an important constraint to ICT diffusion and applications in several countries. The Bank interventions also helped to expand access to ICT services for the poor in several countries, including Chile and Romania. Additionality from IFC's participation in infrastructure projects, including in ICT, was associated more strongly with its perceived capacity to mitigate political and regulatory risks than with its financial contributions.

- **Turkey** (power): The Bank was successful in supporting (though the DPL series) policy reforms to encourage private sector investment in electricity generation and integrating principles of environmental sustainability in key sectoral policies and programs.
- **Mauritius** (ICT): The World Bank Group combined support for regulatory reforms in ICT with investments in critical infrastructure to improve broadband connectivity. As a result, the prices of ICT services have fallen, the sector has expanded strongly, and the share of ICT services in total services exports has more than doubled between 2007 and 2013.
- **Russia** (airports): The World Bank, through the use of Reimbursable Advisory Services, successfully supported the arrangements for a public-

private partnership for Pulkovo Airport in the city of St. Petersburg. This was one of the first PPPs of such scale in Russia.

- **Peru** comes across as an example of best practice of Bank support for infrastructure development in the UMIC's context, including through good cooperation across the entire World Bank Group. IBRD helped introduce some best practices in sustainable infrastructure development and financed highly relevant projects to expand rural and urban infrastructure, while IFC and MIGA supported several PPPs that helped relieve the investment burden on the public sector. Among several private concessions, IFC and MIGA helped to arrange in Peru, some were highly visible, such as private management of Lima's international airport, and played an important signaling role. IEG rated the outcome of this infrastructure support program as highly satisfactory due to substantial progress across its ambitious agenda.
- But such a broad success across different infrastructure sectors has remained relatively rare in the World Bank Group's operational experience in UMICs. More often than not, the degree of success has varied within the single country depending upon specific circumstances of particular infrastructure segment. The noticeable example comes from **Tunisia**, where failure to improve cost recovery in railway services was accompanied by a major breakthrough in sea port commercialization: The implementation of the landlord model, achieved with the Bank support, has opened up port services in Tunisia to private operators and has led to more competition conducive to cost reductions for port users. In **Mauritius** too, there has been a great contrast between success of Bank-supported reforms in ICT and IFC's failure to improve port operations (which is a critical development constraint for the island economy) by bringing in an experienced private sector partner. These examples once again underline importance of government commitment and other political economy considerations for success of World Bank Group interventions in UMICs.

## Chapter 4: Resilience

### CONDITIONAL CASH TRANSFERS

- In **Mexico**, the Bank sought to increase capacities in health, nutrition and education of poor families through human capital investment by promoting regular health checkups, improving health status, and raising school enrollment and attendance fees. With the Bank's Support to Oportunidades and additional financing (FY09 and FY11), the number of families participating in the successful conditional cash transfer program increased from 5.2 million to 5.8 million in December 2012 (three years later), while the

target of having 3 million more children participating in the program was surpassed.

- In **Colombia,** IEG found that support from the Second Social Safety Net Project (FY09) and its Additional Financing, programmatic knowledge services to improve the performance of social services, and a reimbursable advisory service to strengthen the National Health Superintendence helped the government improve coverage and monitoring, particularly in education, health, and early childhood development. The number of households covered by the Unidos Program increased to nearly 2 million as of June 2015, exceeding the program target of 1.5 million.
- **Brazil'**s Bolsa Familia conditional cash transfer (CCT) program transformed the country's social assistance program by providing adequate incentives for desired changes in behavior (for example, vaccinations and school attendance) among targeted beneficiaries. The program is addressing the significant gap in access of the poor to education and health services compared with the national average. The Bank has supported the program from early in its inception and is credited by the authorities with contributing to the design and implementation and providing a sounding board for the officials in charge. It was designed to cover 32 percent of the population, including the poor and extremely poor. The program has been key to the reduction in poverty and equity, accounting for about one-fifth of the reduction in the Gini coefficient. It ensures that beneficiaries understand the expectations for changes in behavior. The conditions under which cash transfers will be made have been widely publicized in Brazil.
- Bank support for the Roma community in **Romania** has been a major part of its activities in that country. The approaches supported by the Bank have had considerable impact on what has often been regarded as an intractable problem. In Romania the Social Inclusion Project (FY06) helped construct and rehabilitate kindergartens in 27 Roma communities, developed an early childhood education curriculum, trained staff, and experimented with alternative community-based solutions for early childhood education. The project contained subcomponents aimed at improved access to rural infrastructure, roads, and water supply in targeted Roma communities. The gap in the living conditions index between targeted Roma settlements and neighboring communities was reduced by more than 40 percent between 2008 and 2013. The Bank has continued to support the government with advice on developing national policies and identifying cost-effective programs to integrate the Roma.

- Mexico was a pioneer in early childhood education. In 2014, nearly 70 percent of 3-year-olds and 100 percent of 4-year-olds were in some form of preschooling. Cash transfers were an important part of enabling the participation of the poor. The World Bank supported this program at the Mexican government's request to help insure that the resources devoted to the program were having the intended impact. World Bank support helped strengthen parental involvement in the program and build stronger links with health and nutrition programs. Although the World Bank made a positive contribution, its participation might have been even more important in enabling the World Bank Group to gain a firsthand understanding of the potentials and pitfalls of programs in this area.
- In **Mexico,** the Bank also provided support intended to improve learning outcomes of children in the most marginalized municipalities. The Programa Escuelas de Calidad (PEC) was established in 2001 and has been successful in introducing school autonomy and improving local participation in education. The completion and learning report review (CLRR) found that the Bank's School-Based Management Project I and II helped expand public schools in the PEC, especially those in marginalized and indigenous areas, and strengthened the program. Learning results from the Ministry of Education's ENLACE test in 5 pilot municipalities increased significantly for both 6th grade primary (from average 469.15 in 2009 to 517.13 in 2010-11) and 3rd of secondary (from 498.6 in 2009 to 514.4 in 2010-11)
- The World Bank Group supported **Turkey** in its efforts to enhance the quality of education through the Basic Education Adaptable Program Loan (APL), the Secondary Education Project, and advisory services and analytics activities in secondary education and vocational training. The 2012 CLRR notes that secondary enrollment increased from 57 percent to 69 percent during the country partnership strategy (CPS) period, and graduation rates increased from 45 to 51 percent. Furthermore, educational quality improved according to the Programme for International Student Assessment (PISA) scores (the average reading score rose from 447 in 2006 to 464 in 2009—the latest available year; math scores rose from 424 to 445, and science scores increased from 424 to 454).
- In general, however, outcomes have been mixed in supporting better quality education. In **Colombia** the CLRR of 2017 notes that while indicators on student enrollment for the education objective were all virtually achieved, the challenge is not only to increase enrollments but to focus on improving education quality. Student achievement (based on PISA scores) has been

declining in Colombia recently. PISA results show that the percentage of students that test at the lowest levels in math, reading, and science has increased recently. In addition, only about 1 percent of students from a poor socioeconomic background get good results in math, perhaps reflecting that the fast pace of increased enrollments under the Bank-supported program has not been accompanied by a commensurate increase in education quality.

- In **Argentina,** the Bank focused on education inequalities and sought to improve completion rates for students in lower secondary rural education (grades 7-9). This objective which was supported by Rural Education Improvement project was achieved. The promotion rate in rural areas from grades 1-3 to grades 4-6 improved from 76 percent to 86 percent and the number of students completing the 7th grade and moving to the 8th grade of schooling in rural areas rose from 73 percent to 84 percent. The CLRR notes however that this should be seen against an apparent stagnation in educational attainments as per the 2013 PISA showing Argentina ranking as the 59th out of 65 nations and with no apparent improvement since the year 2000.

HEALTH

- Risk pooling to enable better coverage of the poor was a major focus of World Bank support for the UMICs, and six UMICs had interventions: Argentina, Colombia, Mexico, Poland, Romania, and Turkey.
- World Bank support strengthened management and information systems in Poland, where the case-based payment (supported by World Bank policy lending) contributes to transparency and improved data availability in the social health insurance fund. Similarly, in Argentina (among others), supervision of health facilities, information and reporting systems. and routine data validity improved.
- The World Bank also helped increase revenues for health by subsidizing contributions to various insurance institutions for low-income groups. This type of World Bank support was implemented through lending and policy dialogue in countries such as Mexico and Turkey. The World Bank supported the explicit targeting of subsidies to finance contributions for low-income groups through means testing in Turkey.
- IEG's review of project completion reports found that in Colombia, the World Bank's Public Sector and Health teams (mainly through development policy operations) supported improvements in tax collection from employers and employees, which increased revenue transfers from the tax authority to social health insurance. In Eastern Europe (including Turkey), the World Bank

recommended budgetary caps on spending to manage spending growth. In Argentina, World Bank lending and policy advice ensured that the government financed and protected basic and cost-effective health programs, including the availability of reproductive health care services for low-income groups in public facilities. The World Bank, through development policy operations, recommended introducing copayments with exemptions for lower-income groups in Romania.

- The share of poor included in risk pools increased where the World Bank helped governments subsidize their enrollment. In Turkey, insurance coverage for the poorest increased more than fourfold between 2003 and 2011, generating a coverage rate of 85 percent for the poorest. The public health insurance has recently incorporated the Green Card Program, which subsidizes health care for the poorest income group and is funded by general government revenues. The World Bank–supported insurance reform in Turkey contributed to improved equity in health financing across income groups and substantially reduced catastrophic expenditures for the poor while increasing their service use. Similarly, the World Bank's development policy operation in Colombia helped increase the enrollment of low-income groups in government-subsidized insurance from 10.7 million in 2002 to 18.2 million in 2007. By March 2014, about 43 million people (90 percent of the population) was insured in Colombia. Colombia's health insurance for the poor lowers the mean inpatient spending for patients and is associated with the use of preventive series and health gains for children.
- **Argentina**'s Plan Nacer had an impact both on access to health care and on quality. Plan Nacer transformed the health system by changing incentives to provide coverage for the poor and vulnerable—who had not been covered by the comprehensive health insurance reform. The program was supported through World Bank policy and investment lending, was the first results-based financing operation in a Bank-supported health sector project. Policy lending supported the government's 10-year health sector reform program, which emphasized health service delivery for the poor with special attention to the design of an incentive framework to improve access to basic health care for uninsured mothers and children. Phased investment lending supported implementation of the program. Plan Nacer had strong and comprehensive incentives. Recognizing the central role of the provinces in providing health services, federal funding to the provinces was increased. Provincial governments received payments based on the number of individuals enrolled in Plan Nacer. Additional funding was contingent on attaining health outcome targets. IEG's evaluation found that linking funding to outcomes increased competition among health services providers, creating an incentive

to increase the number of services provided and to increase the number of individuals enrolled in the Plan. Patients benefited from improved quality of services and a cash subsidy for enrollment. Coverage under Plan Nacer increased rapidly. By 2010, the plan covered 84 percent of the target population in Argentina's poorest provinces in the north (558,000 members). The plan was scaled up to the national level, covering 56 percent of the population in the remaining provinces. The enrollment rate was 100 percent among eligible children and 63 percent among eligible women at the end of the project. By 2010 more than 1.3 million individuals who previously had no health insurance were covered under Plan Nacer.

- In **Poland**, the CLRR of 2013 noted as an important outcome the improved efficiency in allocation and use of resources in the health sector. The CPS emphasis was on improved efficiency of hospitals and rationalized service delivery to allow allocation of resources toward primary and preventive care. This would be measured by increasing the percentage of hospitals covered by diagnostically related groups systems and the number of hospitals corporatized under the Commercial Code by the end of 2010. Although no baselines were established, the targets were met and/or widely surpassed. Financial incentives were given to local governments that decided to convert their poorly performing public hospitals into corporate entities operating under the Commercial Code. In IEG's view the World Bank Group helped to formulate and implement these reforms through the DPL2 and DPL3 and through technical assistance.
- The **Turkey** CLRR of 2012 indicates major improvements in health indicators. Maternal mortality fell from 28.5 deaths per 100 thousand in 2005 to 16.4 in 2010, while infant mortality declined from 18.0 per thousand in 2007 to 13.7. However, the occupancy rate of hospitals remains at 63 percent, with the CPS's expected increase not taking place. Public spending on preventive and primary health care services increased by less than expected in the CPS, from 25 percent of total public spending to 27 percent (against a targeted 30 percent). This increase helped finance the extension of family and community health services to the entire country. Under the reform of the social security and universal health insurance system health insurance coverage increased from 86 percent in 2005 to 96 percent in 2010, because of obligatory insurance and targeted government programs for the poor. These outcomes reflected the government's Health Transformation Program, which was supported by IBRD's Health Sector Transition APL (FY04), the Avian Influenza APL (FY06) the Health Transformation and Social Security Reform APL (FY09) and AAA. IFC made two investments in health care, including equity in a large,

distressed provider and a loan to a leasing firm that financed small and medium enterprise health providers.

- In **Romania**, the World Bank Group sought to improve the efficiency and quality of health services. The idea was to significantly reduce the rate of admission of acute care facilities, increase the share of generic drug use, reduce maternal mortality, and reduce the death rate among emergency patients. The Health Sector Reform APL (FY05) helped increase access to and improve of maternal, rural, and emergency health care services, prepare Romania's Primary Health Care Strategy and review the content and listing processes for the Romanian basic package of health services and technologies. IEG's review noted that the annual rate of admission to acute care facilities was below 170 per 1,000 as of 2011 compared to a baseline of 229 per 1,000 in 2008, the share of generic drug use had increased in line with CPS target, the maternal mortality and the 24-hour death rate among patients treated in the emergency room declined by 10 percent compared to the 2007 baseline. IFC made two investments in a health care operator and mobilized € 28 million in a syndicated loan. The operator has become the leading player in the private health care market providing integrated medical services for corporate clients and individuals. Moreover, it supported bank onlending for small health enterprises and individual health care professionals to expand and modernize their operations.
- In **Mexico**, the Bank supported a program to strengthen the capacity of the health system to control epidemic waves. The Bank intended to support this objective through the Influenza Prevention and Control project (FY10). However, after three extensions of the original February 2010 deadline, the loan lapsed in 2011 without becoming effective. Without Bank assistance, the government implemented several actions that strengthened the country's capacity to monitor effectively, distribute vaccines, medicines, and medical supplies, and expand the country's strategic reserves of these supplies. The Bank provided technical assistance to the National System for Epidemiological Surveillance through a performance assessment, which identified areas in need of improvement in the system, and an Avian and Human Influenza grant (FY10-FY12) to develop comprehensive risk communication strategies at the local level in nine states. IFC invested in three hospitals, including one through PPP, which helped to expand the capacity of the relevant localities to deal with epidemics. The completion and learning report concludes that overall there is little evidence of a strong World Bank Group contribution to improving Mexican health system's capacity to control epidemic waves.

- In March 2006, the Government of **Romania** requested support from the World Bank and an emergency project under the Global Program for Avian Influenza Control (GPAI) was approved in the same year. The Romania project was part of a horizontal Adaptable Program Loan to help countries around the world prepare for and contribute to prevention of a global avian influenza pandemic. With a loan of EUR 29.6 million, the project development objective was to reduce the threat posed to humans and the poultry sector by HPAI [Highly Pathogenic Avian Influenza] and other zoonosis, and preparing for, controlling and responding to influenza pandemics and other infectious disease emergencies. The project outcome was unsatisfactory. The Animal Health Safety agency did not carry out its role and this key component was dropped. The Project Performance Assessment Report (PPAR) argues that the focus of the Bank in pandemics in high capacity countries such as the UMICs should be on preparedness for pandemics rather than on crisis response.

URBAN DEVELOPMENT (QUALITY OF LIFE)

- In **Colombia,** the Bank provided support from a large number of projects to improving access to sustainable urban services in transport, housing and water. The Bogota Urban Services project (FY03), the National Macro-projects, Social Interest project (FY11), Integrated Mass Transit System project (FY04), Rio Bogota Environmental Infrastructure project (FY11), Productive and Sustainable Cities DPLs (FY13, FY15) helped the government improve access to urban transport, housing, and water services. The indicator for increased population benefitting for improved population services was achieved for large cities but not achieved for medium-size cities, owing to delays in the execution of projects as the budget did not allocate resources for this purpose in a timely fashion. IFC supported the delivery of new safe and affordable homes enabled for low-income families.
- In **Tunisia** the Bank played a leading role in articulating and supporting sectoral reform issues. Six water projects financed by the Bank were active during the review period and covered a wide range of activities (four are still underway). Because of these projects: Water and sanitation infrastructure was usefully augmented, which helped to expand the reach of these services in rural and urban areas. Some institutional measures were also implemented to improve water management, and the capacity of state agencies was enhanced through training. However, for most of the review period, there were sharp differences in views between the government and the Bank on reform priorities, including the role of the private sector, and the pace of tariff

adjustments. These differences slowed down the implementation of water projects, diminishing the relevance of the interventions. In the electricity sector the Bank and the IMF provided technical assistance to help design an effective cash compensation program for the poor to protect them from proposed energy price increases.

- In **Brazil** the Bank funded a series of integrated urban development and municipal projects supporting city specific programs in many states and metropolitan areas. In some the emphasis was on slums upgrading, in others in supporting basic infrastructure such as water and sanitation. Questions have been raised whether a proliferation of many of these very city specific projects have had sufficient demonstration effects. At the federal level the Bank implemented a policy-based operation accompanied with technical assistance and AAA activities. It suggested up-front transparent budgetary subsidies for social housing instead of subsidized interest rates, but progress in this area has been limited.
- World Bank support for Argentina's Basic Municipal Services Project (2006–15) aimed to improve the quality of basic municipal services through the provision of water supply and sanitation, urban drainage, and roads infrastructure in an equitable and fiscally sustainable way. IEG found that the project objective was substantially achieved because the infrastructure investments improved the quality of life through access to safe water and reliable water resources, sanitation services, reduced losses and travel time through improved road networks, and reduced costs from floods.
- The Istanbul Municipal Infrastructure Project (2007-13) in **Turkey,** illustrates some of the potential pitfalls of the Bank working directly with municipalities. The project aimed to improve the municipality's solid waste management capacity, and its capacity to mitigate earthquakes, by retrofitting key facilities and infrastructure and upgrading the institutions and their procedures to help them respond to emergencies. $320 million was provided for this purpose. In the event 93 percent of the loan was canceled, and IEG rated the outcomes as highly unsatisfactory with negligible achievement of the indicators. It seems the project went forward without a clear endorsement from the State Planning Office and without even an assurance that it formed part of the city's own financing plans.
- Between 2004 and 2008 the Bank supported the objective of affordable housing for low and middle-income households in **Mexico,** through a series of three DPLs. IEG found that the policies supported by the Bank increased housing availability for those in the 40th to the 70th deciles of the population, but did not provide for increased housing supply for the poorest groups. The PPAR found the project outcomes unsatisfactory and pointed out that

"housing finance through mortgage lending encounters an affordability floor. Experience in Mexico shows that poorer households below the 40th percentile of the income distribution cannot afford the cheapest formal housing unit through a market-based mortgage loan without a subsidy."

## Chapter 5: Knowledge Agenda

### ENVIRONMENTAL SUSTAINABILITY

- The Bank has focused its support for managing natural disaster risks on hot spots. In countries such as **Colombia** and **Turkey** which are natural disaster hot spots, the Bank has sought to play a role in helping to respond to the disasters when they occur and to build resilience through better infrastructure, zoning, planning, early warning systems, and so on.
- The **Argentina country assistance strategy (CAS)** of 2009-14 for example identified Sustainable Use of Natural Resources as an objective and defined specific medium-term progress benchmarks in this area such as reduced rates of land degradation, adoption of new fisheries policies, technologies, and management practices, improved public disclosure of water, air and toxics pollution data and levels of compliance, and compliance with international environment treaties and timetables.
- While in general in the UMICs the selection of priorities is closely aligned with the government's own priorities, there were some cases where it is apparent that the Bank attached higher weight to programs in this area than the government. In **Turkey** for example, in the area of environmental management the FY04 CAS had hoped to engage the Turkish authorities in a broader dialogue on investment priorities and move beyond specific interventions at the regional level supported by Bank lending. The intention was to build on the National Environmental Action Plan prepared before the CAS period and provide a link between this and the EU dialogue on environmental standards. IEG's CASCR review concluded that "In practice there does not seem to have been much take-up in this area. The Bank did not undertake major analytic work during the period, and overall the Bank's instruments do not seem to be very strategic in relation to this objective. This said, the Turkish authorities were engaged in the task of preparing the ground for meeting specific EU directives so that some progress was made against this outcome though with more limited input by the Bank than had been intended. Indeed, the Turkish authorities indicated at one point that they were not interested in having the Bank's involvement in this area, but were advised by the EU that in other cases the Bank had played a helpful role in this regard.

- Several Bank operations have been very broadly defined in terms of promoting sustainable development. The evaluative evidence suggests that it is very difficult to set out a meaningful results framework in such situations. The Bank lent $17 million to **Colombia** in to support the design and implementation of policy reforms and related investments in line with the framework of the DPL for Sustainable Development. IEG's review of this after it closed in 2015 states that "As it is unclear what the project outcomes actually were, it is very difficult to specifically identify the risk to them. The project was appraised as a typical, small technical assistance and investment loan to support the DPL program. It was appraised on a small budget in just more than 5 weeks. There was no economic appraisal of the investment envisaged. Costs of the inputs required were woefully underestimated. The results chain was very weakly defined and the project activities were scattered across several sectors. There were only general proposals for inter-sectoral coordination. The RF was very complex and poorly designed with no consistent results chain. Not surprisingly IEG rated the project as Unsatisfactory.
- A considerable part of the Bank's focus in the UMICs as opposed to lower-income borrowers, has been to try to create incentives for communities or the private sector to maintain and protect the environment. The evaluative evidence suggests a mixed experience in this regard. On the positive side for example two operations in **Bulgaria,** rated satisfactory by IEG, helped to ensure that the environmental damage caused by state-owned enterprises was handled during the privatization process in ways that did not hinder the privatization but still ensured that the new owners would be responsible for carrying out remediation and compliance plans.
- In **Brazil,** a Pilot Program for the Conservation of the Amazon Forests (PPG-7) established and funded by the G-7 and administered in large part by the World Bank. An IEG evaluation of transformational projects assessed this as perhaps the most successful environmental program supported by the Bank is the PPG-7. Although only partially attributable to the program (1994–2012), data show that the rate of deforestation in Brazil has slowed significantly since the mid-2000s. PPG-7 supported numerous scientific research activities, strategy studies, capacity building, and piloting and demonstration projects, which prepared the necessary knowledge base for the transformation of Brazil's policy and institutional framework for forest protection and management. It also helped prepare numerous follow-up projects that helped strengthen Brazil's protected areas framework and consolidate the open agricultural frontier. All together, these interventions have helped to successfully reverse the trajectory of Amazon deforestation from an

unsustainable to a sustainable trend. The main driver of this transformation was the self-interest of private companies to meet the consumer demand for sustainably produced oil, which BACP helped demonstrate. Certified Sustainable Palm Oil sales grew to 5.4 million tons, about 18 percent of the global supply in 2014.

- By contrast the evaluative evidence suggests that a similar initiative in Indonesia has not been successful. Although **Indonesia** is not a UMIC, the experience has important lessons. The program for Sustaining Indonesia's Forests addressed the destruction of tropical forests and the attendant impacts on biodiversity loss and greenhouse gas emissions. Deforestation in Indonesia has continued to increase in the last decade. The program in Indonesia received only weak support at the national level; as a result, little government capacity and though some policy reforms were enacted, they were not seriously implemented, and most sustainable forestry activities remain dependent on donor funding. As of 2012, the intended transformation was still a work in progress.
- The Bank's experience in **Tunisia** illustrates both the potentials in this area, but also the difficulties in building institutions and incentives to promote sustainability even in UMICs. In Tunisia, despite decades of government efforts, overexploitation and inadequate land management have led to significant resource degradation (particularly severe in some parts of the country such as the northwest, central-west, and the south) caused by a combination of natural and artificial factors. The Bank's AAA provided the necessary analytical underpinning for reforms and sought to enhance local institutional capacity to mainstream environmental factors and improve implementation of resource management practices. The Bank's contribution was small but useful, and was largely provided in the form of projects for rural development and integrated natural resource management in parts of the country that were especially vulnerable to resource degradation. Support for water resources management was also provided through water sector investment loans. Vegetation and forest coverage in project areas was increased, and there was a significant expansion of land treated for soil erosion and conservation. Investments were made to protect soil and water quality. Associations of ultimate beneficiaries were given more responsibility in managing the use of water and land, and were helped by Bank technical assistance in strengthening their capacity. However, there is insufficient data to assess the extent to which measures have actually reduced the rate of natural resource degradation through, for example, slowing down soil erosion or dam salinization. Moreover, the sustainability of some of the gains achieved is in question as local institutions remain weak and financially

vulnerable without strong commitment to raise water tariffs to provide stable revenues.

- Two projects in the sample were part of the Bank's efforts to support better land and water management in **Tunisia**. The Natural Resource Management project was a $27 million pilot to test the feasibility of implementing the integrated participatory approach within the Ministry of Agriculture's regional offices as a first step toward mainstreaming participation throughout the country. The objectives were to assist in sustaining natural resource management, particularly on crop and range land, and improving productivity through a greater involvement of resource users in development programs. The project met most of its targets for the construction of soil and water conservation works, aimed to stabilize and reverse erosion, restore soil fertility and contribute to water conservation, but did not measure actual results such as changes in soil erosion, and so on. Targets for the establishment of pastoral plantations were not met and reported agricultural productivity gains were below expectations due to four consecutive years of drought. The project approach facilitated the development of partnerships between local communities and government line agencies. However, a durable mechanism to engage resource users in these programs has not yet been established. The project-driven entities do not have formal legal status and many ceased to operate after project closure. The Northwest Mountainous and Forestry area development project was provided with a $34 million loan to enhance livelihoods in the region through ensuring sustainable management of natural resources through the improvement and diversification of the agricultural and pastoral production systems and the promotion of off-farm income-generating activities. The project also employed a participatory approach to achieve its objectives. The project succeeded in meeting many of its output targets for soil and water conservation investments, but the project fell short in measuring results from these activities. While indicators for the region as a whole improved, there was no control group so attribution is difficult given that the period included recovery from droughts.
- Four projects in the sample related specifically to watershed management, two in **Kazakhstan,** one in **Turkey**, and the fourth, the support provided to the Mekong River Commission by the Global Environment Facility (GEF). While the results in Kazakhstan were generally positive which the IEG evaluation attributes to strong government ownership, IEG downgraded both the other projects, in the first case because of the lack of clear evidence on the attribution of achievements to the Bank-supported project, and in the second case because of the underlying assumption that the political problems of

allocating the use of the Mekong waters could be resolved by a purely technical approach.

- The Bank provided a loan of $13 million to **Chile** including $7m. of GEF funds to help reduce Greenhouse Gas emissions from ground transport in Santiago. As an important component of this, the project funded the construction of 40 km. of bikeways. IEG found that the bikeways had been successful and some headway had been made in reducing harmful emissions. But the objectives framed for the project were too broad. The project was downgraded from MS in the ICR because the evidence supporting efficacy and efficiency was insufficient.
- According to IEG's PPAR, the **Argentina** National Forests and Protected Areas Project resulted in the preparation of the first National Forest Inventory, which altered public opinion and the debate over forest policy. It was instrumental in the passage and implementation of a new Native Forest Law and Fund in 2007 aimed at countering the financial incentives driving the conversion of native forests to agriculture and cattle-ranching in areas with poor soils and climatic conditions for such land uses. Improved management increased the level of environmentally sustainable tourism at four selected national parks in Patagonia through investments to improve tourism infrastructure, concessionary services, and park management. The Argentina Biodiversity Conservation Project succeeded in expanding and diversifying the protected areas system to include some of the most threatened and underrepresented ecoregions in the country by establishing five new protected areas and national parks. This was done in a scientifically defensible way, and using internationally accepted selection methods, criteria and protocols. The project also helped establish conditions for effective management of these parks through introduction of sustainable land-use activities in park buffer zones, using refined mechanisms of consultation and participation, and improved access to biodiversity information management.
- A substantial part of the Bank's program in **South Africa** has been support for biodiversity. These were in three very clearly defined geographic zones and IEG evaluated them as broadly successful in achieving their biodiversity objectives. In addition, poverty reduction objectives were also part of these programs, though clearly secondary to the environmental purposes. Because of the difficulty of substantiating the poverty reduction impact of the biodiversity projects, the ratings were lower than would have been the case if the objectives had been limited to biodiversity. IEG's review of the South Africa CAS completion report, also notes that the program of biodiversity support did not take a broader systemic approach and that there were few synergies from the three projects.

### DISASTER RESPONSE AND RISK MANAGEMENT

- The **Colombia** Disaster Vulnerability Reduction project was an APL which aimed in the first operation to assist in the strengthening of national capacity for reducing the fiscal vulnerability to natural disasters and to mitigate the negative impact of possible effects deriving from such disasters. Of the total $300 m. was for financing of critical imports required due to a disaster as identified in a recovery plan up to six months after the declaration of a national emergency. The second APL aimed to strengthening capacity to manage disaster risk and reduce vulnerability in key sectors. The project supported the retrofitting of schools, kindergartens and fire stations, and in revisions of the original design, hospitals to make them resilient. IEG rated DRM capacity strengthening as substantial – for example, training teachers to act as safety wardens in schools.
- The Bank's response to flooding in **Poland** in 1997 was also indicative of how disaster response can be used to put in place a framework for disaster management. In IEG's view "The main objective of the project was the restoration of the municipal and rural infrastructure and this exceeded the scope of works identified during project preparation by 20 percent. Though an extension of the closing date of the loan was needed to complete the vulnerability reduction aspects of the project, this objective was substantially achieved through the successful completion of the flood management and hazard reduction component. Poland now has one of the most modern flood forecasting and warning systems in the world. The project had an unintended positive impact on institutional development. Though not a direct objective, significant gains were made through the creation of: The Office of Natural Disaster Recovery in the Chancellery of the Prime Minister, crisis management centers within each administrative region, and flood risk reduction planning and management at the community level."

### CLIMATE CHANGE MITIGATION AND ADAPTATION

- The project in **Mexico** was particularly interesting since it looked at environmental impacts – climate change, natural disasters and deforestation – through the lens of their impact on the poor. The project attempted to strengthen social resilience through policies that directly and indirectly benefited the poor by improving a) adaptation planning oriented to the state level; b) disaster risk reduction and territorial development actions oriented to the municipal level; c) sustainable community forest management at the community level. A DPL in Mexico provided support for mainstreaming

adaptation to climate change in the water sector through strengthening the institutional framework and monitoring capacity in integrated water management.

- The Bank's support for the Integrated National Adaptation Program in **Colombia** aimed to support efforts to define and implement specific pilot adaptation measures and policy options to meet the anticipated impacts of climate change. Components included making climate change information available; design and implementation of an adaptation program and responses to increased exposure to malaria and dengue. IEG found that except in relation to exposure to malaria and dengue the outcomes were substantial. A particularly important and valuable contribution of the Program was the contribution to institutional collaboration within Colombia between institutions and various stakeholders. Essentially the project led to a new model for working synergistically across institutions at all levels, and with stakeholders and beneficiaries.
- The renewable energy in **Turkey** was the only one in the sample whose outcome was rated by IEG as Highly Satisfactory. The project was designed to increase privately owned and operated power generation from renewable sources without the need for government guarantees, and within the market-based framework of the new Turkish Electricity Market Law. The Bank made a loan of $200 million for financing a Special Purpose Debt Facility for generation using renewable energy resources. IEG found that the project's objectives had been fully achieved and the approach had been adopted by other institutions and international financial institutions. Increased generating capacity of privately owned renewable plans; increased volume of electricity produced from private renewable generating facilities; decrease in carbon dioxide equivalent emissions—all these were above the original targets. The IERR was about 20 percent.
- Mexico was an important recipient of Bank support in the energy sector with a series of operations designed to provide policy and investment support. The $400 million Low-Carbon DPL aimed at increasing renewable energy supply, promoting energy efficiency, reducing gas flaring and venting, improving the efficiency of the vehicle fleet and road transport operations; promoting efficient housing, and sustainable forestry development. IEG concluded that the project had a substantial impact through contributing to an increased renewable energy supply and reduced gas flaring, including promotion of energy-efficient housing.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