



Federal Ministry
for Economic Cooperation
and Development

**Federal Ministry for Economic Cooperation and Development
(BMZ)**

**World Bank Group –
Key Messages of German Development Cooperation**

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The World Bank is the world's most important development institution. As its third largest shareholder, Germany has an interest in seeing that it performs its work efficiently. The purpose of this Paper is to contribute to that. It summarizes our Strategy (Cf. World Bank Strategy Paper) in the form of key messages that should, as far as possible, be taken into account in all dealings with the World Bank (for example, in the comments submitted by country and sector desks and by embassies). This is intended to make our profile clearer, the idea being to express and stress our key concerns, in the form of a recognizable leitmotif, in the various comments we make and in our contacts with the World Bank.

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This Paper is regularly updated. See:

http://www.bmz.de/en/approaches/multilateral_cooperation/players/WorldBankGroup/301-wb-kernbotschaften-neu-en.pdf

(Internet)

https://www.ez-extranet.de/01_inhalte/95_download/01_Extranet/Kernbotschaften-en-fin.pdf

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[http://bmz-](http://bmz-intranet/02_Entwicklungspolitik/05_MultilateraleEZ/02_Weltbankgruppe/03_Sachstaende_und_Positionspap)

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Our main messages relate to:

- A. Strengthening the ownership and participation of the population
- B. Better targeting of country programs, such as Poverty Reduction Strategy Papers (PRSPs) as well as CASS
- C. More sharply defining the role of the Bank Group in more advanced developing countries
- D. Increasing and more sharply defining the role of the Bank in the provision of Global Public Goods
- E. Increasing results orientation and monitoring
- F. Stepping up cooperation with other donors

A. *Strengthening the ownership and participation of the population*

There is no one magic recipe for successful development. What is required are measures tailored to each country's specific needs. In that connection, it is essential that partner countries' reforms be firmly anchored in the cultural, social, economic, and political environment. In this respect, the Bank has already made significant progress:

- The old notion of "structural adjustment" has been replaced with a new guideline (Development Policy Lending) which largely eschews ready-made "one-size-fits-all" policy recommendations.
- The World Bank recently adjusted its approach to conditionality. Now conditions are to reflect the partner country's own policy as a matter of principle and not to "impose" policy reforms.
- Poverty reduction strategy papers (PRSPs) are commented on, rather than authorized, by the World Bank (jointly with the IMF in "Joint Staff Advisory Notes").
- The Bank now systematically conducts Poverty and Social Impact Analyses (PSIA), which are intended to gauge the social and other effects of reforms in advance.
- The Bank wishes to make a significant contribution to the implementation of the *Paris Declaration on Aid Effectiveness*. This will strengthen partner countries' ownership, especially as a result of the Bank's increased integration of its procedures into national processes (alignment).

These are important steps forward. However, given the complex and diversified structure of the Bank, the challenge is to implement this approach at the level of operations. In particular, the Bank tends to rely excessively on its own instruments and systems, neglecting opportunities to strengthen and use countries' own systems:

Key messages

- **Responsibility for monitoring and evaluating donor programs should be integrated into national processes and instruments to the greatest possible extent.** On that basis, internal and external accountability (parliament and donors) should rely largely on a uniform procedure. Evaluation and monitoring should have a clear focus on the indicators built into the country-specific PRSPs. All donors must contribute to achieving that goal.
- **The World Bank must not give priority to short-term implementation interests related to project execution but rely on country systems wherever possible, for example in the areas of procurement and safeguards.** The Bank should also avoid establishing its own Project Implementation Units. Where a country's capacities are severely restricted, the Bank should assure that these capacities are enhanced to allow proper implementation of projects. Thereby, capacity building does not need to be done by the Bank itself. Other donors that have a comparative advantage should be brought in. Relying on country systems also means that the Bank should refrain from "luring away" qualified local labor. It is important that the Bank consistently give priority to local capacity building, also in the area of analysis, statistical capacity and monitoring of results.
- **In organizing international Consultative Group Meetings, the World Bank should work towards placing them more under national responsibility.** CG Meetings should normally – with a few substantiated exceptions – be conducted by the governments of partner countries and, whenever possible, be held in the country concerned.
- **The World Bank must be prepared to act in an advisory capacity in the framework of a wide range of policy options.** It should not let itself be bound by ready-made policy approaches, but, rather, acknowledge in its day-to-day practice that reforms must be clearly adapted to the particular context. It should actively support partner countries in developing and implementing even unconventional policy approaches. CASs and/or Project Appraisal Documents should indicate fairly clearly which fundamental alternatives have been taken into consideration.

- **For the Bank to play the role of an accessible, responsive and predictable partner, its in- country presence is key.** We therefore encourage the Bank to further increase its field presence and to delegate decision- making power from Washington Headquarters to the field offices. This allows field staff to respond to requests from partner countries better and more quickly and to show greater flexibility in coordination processes with other donors on the ground. In order to attract highly- skilled personnel to difficult assignments abroad, internal incentive structures need to be changed.
- **Furthermore, the conditionality of World Bank programs needs to concentrate more on core areas and on results.** The range of conditionalities (including benchmarks and indicators) should be further trimmed. Conditionalities in sensitive areas (such as privatization) should be exceptions and only be imposed following thorough scrutiny of the consequences (PSIA). Generally speaking, conditionalities should lend support to a partner country's overall policy and not impose reforms that go beyond it. Ownership would also be fostered if, to the extent possible, performance criteria could be phrased in terms of outcome indicators

B. Better targeting of country programs, such as Poverty Reduction Strategy Papers (PRSPs) as well as CASs

The principal prerequisite for improved ownership and stronger national accountability is further enhancement of the quality and "depth" of the PRS process itself. Increasingly, country strategies are setting the parameters for the development activities of partner countries as well as the terms of reference for donors. Recipient countries therefore need to raise the quality of their PRSs, by prioritizing and specifying their objectives, measures, and indicators. It is also essential to ensure that country strategies are more closely intertwined with budget plans: priorities must be more clearly stated in view of budgetary constraints. Only then can these strategies form a true basis for planning, programming, and accountability. Particular importance needs to be attached to the formulation of clear and concrete strategies for promoting economic growth and employment.

Experience culled in recent years shows that efficient institutions (rules, standards, and their enforcement) play a decisive role in economic and social development. Policies are, of course, important, but mainly affect the development process indirectly, namely if, and to the extent that, they alter the institutional framework. That makes improvement of governance and the well-targeted strengthening of government capacity particularly important. An inefficient and/or corrupt public sector, largely unfettered by accountability constraints, is not only a major impediment to investment. It particularly limits opportunities for the poor and for marginalized groups to benefit from the development process. It is therefore of the utmost importance to reduce incentives and opportunities for corruption and to make public administration more efficient. The World Bank already plays an outstanding role in this field, but needs to make increased contributions in the following areas in particular:

Key messages:

- **The Bank should strive to ensure that countries' strategies are spelled out in more concrete detail, and to better prioritize the country programs (CASs) related to them.** The Bank's involvement (and that of other donors) should focus on those economic and social reforms that – in light of limited administrative and financial capacity and valuable political capital – yield the highest benefits (concentration on binding constraints). It is to be assumed that in many instances the binding constraints have to do with institutional reforms (governance, property rights, political and economic legal framework, general environment for private-sector investment, gender issues, scope for civil society involvement, etc.). The Bank should support this process and not opt – as it did all too often in the past – for the broadest possible gamut of reforms (selectivity).
- **More targeted attention should be given to measures to strengthen analytical capacity (advice, capacity building, etc.) in key areas as part of the PRS process.** The Bank must help strengthen this component in the next generation of country programs and work together with other development institutions more often to implement it. This applies, for instance, to PRSP-related preparatory studies, such as PSIA, poverty analyses, Public Expenditure Reviews, Sector Studies, Debt Analyses, etc. This will also help to fill analytical gaps – for example, with regard to the causal links involved in macroeconomic reforms or the socioeconomic repercussions of reforms – and, in that way, to find solutions tailored to a country's specific circumstances.

- **The World Bank must provide more efficient support to partner governments' efforts to further develop their growth and employment strategies.** To that end, more research is needed into potential growth factors and ways to galvanize them. Private-sector investment and the economic empowerment of women are of special importance. The Bank can also play an important part in this by showing, for each individual partner country, which public investments have the greatest impact on economic growth, employment, and poverty reduction. The related conclusions and implications should be reflected in key Bank papers (CASs, PRSCs, etc.).
- **Strategies for poverty reduction also need to consider that poverty differs between regions, sectors, genders and ethnic groups. We urge the Bank to reflect these differences more thoroughly in its analyses of patterns of growth.** Likewise, economic analyses and policy recommendations should integrate more systematically an analysis of the political economy of the country in question, including identification of actors for change, social and political patterns of conflict, political windows of opportunity, different ethnic and social groups' access to resources, power relations, etc.
- **The Bank should further strengthen its understanding of rights-based approaches to development and capacity as regards human rights issues.** While the Bank is not an institution whose primary goal is to push for the realization of human rights, the Bank and most of its shareholders are increasingly recognizing that human rights are an integral part of the Bank's core task of bringing about reconstruction and development.
- **More attention should be given to the need to establish more efficient, fairer and more transparent systems of taxation, including the strengthening of the respective institutions.** The mobilization of sufficient domestic resources is not only a prerequisite for achieving fiscal sustainability but also promotes public accountability.

C. More sharply defining the role of the Bank Group in more advanced developing countries

Within the World Bank, too, recipient countries and their needs have become highly diverse. Many of the more advanced developing countries today enjoy ample access to private credit markets. Some of these countries have accumulated substantial foreign exchange reserves and are beginning to play an increasingly important part in the global economy and in the international community. A number of these countries have also recently become major donors. This development has important implications for the work of the World Bank Group. In 2006, the Bank adopted a strategy to strengthen its engagement in IBRD partner countries, which seeks to tailor the Bank's instruments and products more closely to the needs of middle-income countries (MICs).

The World Bank should apply this strategy consistently in its country programs. That translates into a number of specific steps:

Key messages:

- **The World Bank needs to clearly define its activities in these countries (especially in CASs). Given countries' improving internal financing capacity and access to private capital markets, the World Bank has to demonstrate the specific value added linked to its activities in MICs:**
 - a) that it is providing financing where access to private-sector financing is not (yet) available or fragile** (e.g., for long-term investment, for sub-national authorities or with regard to external shock vulnerability) **and where the Bank can leverage private-sector financing and contribute to financial sector development** (e.g., by providing guarantees or more sophisticated/innovative financing instruments or by local currency lending);
 - b) that it is providing global public goods**, including the application of cutting-edge knowledge on a global scale (e.g., by increasing its involvement in the area of energy efficiency and renewable energy sources).
- **In these countries, the World Bank should step up the provision of consultancy services that are not directly linked to lending and systematically offer such expertise as a stand-alone product.** In the case of activities not linked to the provision of a global public good, such services should, as a rule, be charged to client countries.

D. Increasing and more sharply defining the role of the Bank in the provision of Global Public Goods

Since the beginning of the 1990s, the Bank has very often taken part in what are called "global programs" – mainly on an *ad hoc* basis, without a clear policy or strategy. This mushrooming of activities is increasingly undermining the efficiency of Bank operations, for example because staff are spending large proportions of their time finding external financing, typically trust funds (such financing now accounts for almost 20% of the Bank's budget). So far, shareholders have not given the Bank clear instructions regarding the areas and forms in which it should get involved in the provision of Global Public Goods. This is an area of activity for the Bank that has not yet been systematically tapped to the full.

The World Bank's mandate with regard to the provision of global public goods should be defined more clearly and strengthened:

Key messages:

- **The Bank's global programs must be reformed fundamentally; there should be a clear governance structure and a clear policy with regard to the financing terms for this important area of the Bank's work.** An appropriate share of the costs should continue to be financed from donor contributions, but in future this should be done in a less fragmented form than the current multitude of trust-fund contributions. Moreover, it must be ensured in future that the integration of the various global programs into partner countries' programs is improved.
- **The Bank should increase its involvement in the area of energy efficiency and renewable energy sources.** Before granting loans for investment in traditional energy sectors, the Bank should systematically review the potential for energy savings and renewable sources of energy. It should also step up its energy policy advisory services in partner countries, for instance by providing, like the EBRD, energy audits free of charge.
- **In its activities, the Bank must rely on the broadest possible range of knowledge, experience and ideas from the various regions and cultures. For example,** problems are frequently created in the legal reforms area by the Bank's one-sided preference for, or recourse to, Anglo-Saxon "common law" approaches rather than those based on Continental Europe's "civil law."

E. Increasing results orientation and monitoring

By aligning development cooperation to partner countries' poverty reduction strategies, it is possible to define precise shared results to be expected from the joint endeavors of partners. A few years ago, already, the World Bank was asked to clarify its own contribution to the achievement of the envisaged development goals and to introduce a system that shows, with greater clarity, the impact of the Bank's various activities on poverty reduction. To that end, as a first step, a monitoring system was established that covers, on the one hand, the World Bank's country-specific analyses (including poverty analyses, research into public expenditure systems, and procurement studies) and, on the other, the verifiable trends of individual poverty indicators (including, *inter alia*, school enrolment and child immunization rates).

More recently, however, progress on implementing the results agenda seems to have slowed. Proof of concrete success in development is vital to legitimate joint development efforts and, for that reason, the World Bank must continue to assign top priority to the development and refining of methods for measuring performance.

In our dialogue with the World Bank, we should point, above all, to the following shortcomings:

Key messages:

- **In particular, the monitoring system is to be expanded** by incorporating, based on partner countries' improved monitoring capacity, additional poverty indicators, which are simultaneously reflected in the partner countries' poverty reduction strategies.
- **We should ensure that CASs contain clear goals in form of outcome indicators, possibly referring to national development programs.**

- **Where possible, CASs should also include measures to support efforts by partner country administrations to develop results-oriented management systems** (fostering national strategic planning capacity, support for results-oriented management by the public administration, statistical capacity building and development of monitoring and evaluation systems, etc.).
- **In the case of Development Policy Lending, conditions should be expressed, wherever possible, as outcome indicators.**
- **The Bank's internal incentives should focus more on the goal of achieving specific outcomes.** The weight which is currently being given to the criterion of credit volume per member of staff should be further reduced, and complemented with more comprehensive performance indicators. The drafting of key performance indicators, which has already started, could form a basis for this.
- **IFC project proposals in particular should systematically describe the expected development impact and its additionality.** With regard to additionality, there is a need for an explicit section in the relevant documents presenting (i) the main characteristics of the financing market available to investors in a country, (ii) why the clients are unable to use alternative sources, (iii) why standards similar to the IFC environmental and social standards could not otherwise be implemented. With regard to development impact, the choice of relevant indicators should be better articulated.

F. Stepping up cooperation with other donors

Full use must be made of the potential and strengths of the different donor organizations, their comparative advantages, and the experience they have acquired in transferring funds, knowledge and skills. To this end, the roles and mandates of the various development organizations need to be more clearly coordinated and linked. For the World Bank, this means primarily that it must combine its own measures and instruments more profitably with the contributions of other bilateral and multilateral donors, for instance, combining the Bank's financial transfers with technical advice by other donors.

Experience with PRSP processes, too, points to the need for closer cooperation and enhanced division of labor among donors. Since the start of the second generation of PRSPs in a series of countries, it has become increasingly evident that cooperation in connection with the PRSPs needs to be improved in order to increase countries' ownership and in order to achieve a more focused dialogue between donors and PRSP countries on key development issues. What is needed is not only reinforced alignment of donor practices and procedures with country systems but also enhanced division of labor amongst donors.

Key messages

- **In order to implement the Paris Declaration, the Bank must work more closely with other donors on the ground** and be ready to engage in joint programs, reviews, analytical work, and the development of joint products. If other donors are prepared to take on the lead role for a given topic or sector in connection with joint programs, the World Bank should accept and promote that. German development cooperation is ready to take the lead in sectors and themes where it has long-standing expertise (such as energy, water, microcredit, capacity building and decentralization).
- **The World Bank Group must define its comparative strengths via-à-vis other multilateral as well as bilateral donors more clearly and accordingly focus its engagement in countries on fewer sectors and themes (enhanced division of labor).** Take Tanzania: the Bank is still involved in 19 sectors and seems to be very reluctant to focus its engagement. We believe the Bank can play a strong role as a "first mover", venturing out to try new instruments and models of cooperation.
- **The World Bank has to change its internal procedures and regulations to make them less cumbersome, more flexible** and thus to facilitate better cooperation with other donors and reduce transaction costs for partner countries. The harmonization of donor procedures should preferably be implemented by aligning with country systems.
- **Before drafting a CAS, the Bank should present an "organizational landscape"** (Which donor is working on which tasks in a given area? What has the Bank done for the further development of the coordination process? How/what has the Bank learned from the work of other donors in the country?) and use it to further develop its program. CASs should systematically include indicators for progress on donor harmonization during the CAS period.

- **The Bank should increasingly design its contributions in the form of coordinated donor programs** (in the technical assistance area, through Sector-Wide Approaches or Multi-Donor Budget Support). That necessarily also entails the establishment of clear procedures for coordinating and monitoring the total contribution, including exit scenarios. Wherever the necessary prerequisites are in place, the Bank and other donors should draw up Joint Assistance Strategies. It should, as far as possible, place its PRSC Performance Assessment Frameworks (PAFs) under the umbrella of a joint MoU with all donors of budget support.
- **In areas in which joint donor programs are already under way, the Bank should participate in joint review (monitoring and evaluation) mechanisms.** The Joint Staff Advisory Notes for the routine review of the PRS process should be replaced by Donor Advisory Notes.
- **To assess national budget management in partner countries, the Bank should rely on the Public Expenditure and Financial Accountability (PEFA) approach (which is based on donor coordination).** For external support of this area, the focus should be on joint programs with other donors (e.g., with German development cooperation).