



**Serving a
Changing
World**

*Report of the
Task Force
on Multilateral
Development
Banks*

DEVELOPMENT COMMITTEE



DEVELOPMENT COMMITTEE
TASK FORCE ON MULTILATERAL DEVELOPMENT BANKS



SERVING A CHANGING WORLD

Report of the Task Force
on
Multilateral Development Banks

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FOREWORD

The Multilateral Development Banks (MDBs) play a critical role in helping developing countries achieve their development objectives. In recognition of these important responsibilities, the Development Committee established in 1994 a Task Force on Multilateral Development Banks to undertake, for the first time, an assessment of the five major MDBs - the African Development Bank, the Asian Development Bank, the European Bank for Reconstruction and Development, the Inter-American Development Bank, and the World Bank.

The Task Force, comprised of seventeen current or former senior government officials, was led by Mr. Abdlatif Al-Hamad, Director-General of the Arab Fund for Economic and Social Development. The Task Force Report was reviewed by the Development Committee at its April 1996 meeting. Ministers welcomed this balanced and objective report, which they found provided an excellent analysis of the importance of multilateralism and the role of MDBs in a rapidly changing world. The Committee appreciated the report's careful assessment of the performance of these five quite different institutions, with particular reference to its support for poverty reduction and sustainable development, investment in infrastructure, promotion of the private sector, operational orientation toward results on the ground, and to increasing cooperation among the MDBs.

The Development Committee generally agreed with the report's conclusions and recommendations, recognizing that not all apply equally to each institution. Bearing in mind this valuable diversity among the MDBs, ministers urged the MDBs to act upon relevant recommendations as a matter of priority to strengthen further their policies and practices. The Presidents of the five MDBs were invited to advise the Committee, in about two years' time, on progress achieved in implementing the Task Force's major recommendations.

This report provides a timely and valuable contribution to the on-going debate about development issues and institutions. It touches in an admirably concise and thoughtful fashion on a wide array of issues confronting these remarkable institutions and their members. These findings should be a source of information and guidance for the institutions, their shareholders, and the many members of the public with a strong and growing interest in the MDBs and their work.

The Development Committee extends its appreciation and gratitude to the Task Force Members and Secretariat as well as to the five MDBs and the IMF for their cooperation and generous support.



Mohamed Kabbaj
Chairman, Development Committee
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Serving a Changing World

The Report of the Development Committee Task Force on Multilateral Development Banks

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SERVING A CHANGING WORLD

Report of the Development Committee Task Force on Multilateral Development Banks

Summary and Recommendations

1. The multilateral development banks face a world vastly different from the one in which they were created. Lower trade barriers and global financial markets have expanded economic opportunities, while advances in communications and technology have helped the operation of integrated markets. A number of developing countries have achieved sustained economic growth, which has permitted major improvements in living standards and substantial reductions in poverty. Together with the end of the Cold War, this has brought about a greater consensus on economic policy and development issues.

2. Yet, the challenges of development remain great. There are still 1.3 billion very poor people in developing countries. Population growth is adding the equivalent of a country the size of Vietnam or Germany (70-80 million people) to the global family every year. The globalization of economic activities has occurred alongside a widening disparity in economic performance and job creation. Environmental threats are real, and there is still much to be done to protect biodiversity. There is concern about the nature of growth: How can it be made sufficiently broad-based and sustainable to serve a world population which will double by the middle of the 21st century? Although private international capital flows have grown dramatically, they are focussed on a relatively small number of developing countries. The composition of these flows carries risks, while the depth and duration of private sector interest in emerging economies remain volatile. Associated with these changes, the challenge of transition from centrally planned to market economies has been added to the international agenda, and reconstruction needs have become important again.

The Role of the Multilateral Development Banks

3. The multilateral development banks (MDBs) have served a number of important purposes: as financial intermediaries, drawing on private international savings for sound development purposes; as channels for concessional resources provided from the aid budgets of donor countries to accelerate development in the poorest countries; as sources of analysis, guidance, and advice for borrowing countries and a clearing-house of information, policy research, and good practices; and as instruments of international cooperation. Because of their broad membership, the MDBs are able to take positions representing a global consensus on major issues. Their ability to make impartial operational decisions in the face of many pressures is safeguarded by their public status, their collective ownership, and their governance and management arrangements, which make them accountable to their shareholders.

4. The MDBs' contribution is more than the sum of its parts. Offered in combination, the services of the MDBs can help member countries and their governments make

difficult policy changes and achieve development objectives that may otherwise be hard to reach.

5. The recovery of private sector lending and foreign direct investment should allow the MDBs to focus increasingly on countries and activities that do not readily attract stable private financing. At the same time, a more fertile setting for the private sector requires investment -- in infrastructure, policy reform, human development, capacity building, the modernization of public administration, and the environment -- to which MDBs should continue to contribute. There will always be critical development activities where governments will remain in the lead. Examples include investments in roads and health and education facilities in poor communities which, for the most part, cannot be structured to ensure an early return to private investors. Another case is the development of remote rural provinces where the minimum conditions for private investment have yet to be established and where it is especially important that environmental concerns receive due attention. And fundamental reforms, such as those in financial markets, by definition require active and constructive engagement by governments, not only to strip away policy and regulatory distortions but also to ensure appropriate oversight.

Supporting Sustainable Development

6. ***Reducing Poverty.*** The main challenge of development is to reduce poverty. Thirty percent of people in the developing world still live on less than \$1 per day. Poverty can be reduced only if there is strong, sustained, and broad-based economic growth, a firm Government commitment to reduce poverty, an institutional capacity to design and follow through on appropriate policies and programs and good public sector management that minimizes unproductive expenditures, and a strengthening of essential services -- especially primary education and vocational training, preventive health care, family planning, nutrition, clean water, sanitation, and rural infrastructure.

7. ***Promoting Effective Government and a Strong Civil Society.*** There is a strong relationship between good public policy and economic efficiency. Good policy includes the rule of law, protection of legitimate economic activities and interests, a government's accountability to its citizens, effective measures to curb corruption, a participatory approach to development, easy access to important information and services, and sound decision-making reflecting the actual needs of people.

8. ***Making Development Environmentally Sustainable.*** Although they are often forced by the lack of economic alternatives to despoil their immediate environment, the poor are the first victims of bad environmental policy and practice. No one suffers more from excessive population growth, pollution, deforestation, erosion, and over-farming. The need to improve the situation of women deserves special attention, as in many countries they are the

most involved in the use of scarce natural resources. The circumstances of indigenous people also need particular consideration. Although there have been some dramatic and well-publicized failures, the MDBs have learned from their mistakes and introduced a number of changes in their staffing and operational approaches. But much remains to be done. Environmental concerns still need to be incorporated more convincingly into national economic policies, as well as into the MDBs' own country assistance strategies. New forms of collaboration and exchanges of information are necessary to ensure the development of responsible projects, and governments should draw civil society into the design and implementation of programs and projects.

9. ***Investing in Infrastructure and Utilities.*** Investment in infrastructure and utilities is vital for growth and poverty reduction. Despite recent increases of private flows to emerging economies, less than 12% of current investment in infrastructure is financed from private sources. Governments are responsible for establishing and maintaining conducive policy and regulatory frameworks, setting environmental standards, and coordinating services across sectors. Private interest in infrastructure investments clearly differs across sub-sectors, even if it is expanding overall. But, well into the future, the requirements of publicly-financed infrastructure will remain large. The MDBs will need to support such ventures as are developmentally important and not yet attractive to private funding.

10. ***Encouraging Private Sector Development.*** Governments need to create the conditions in which private enterprise can flourish and society as a whole feels it has a positive stake in the outcome. These conditions include an effective public administration, efficient legal systems, clear property rights, a fair and transparent tax regime, a functioning and well-supervised banking system and capital market, the curbing of monopolies, and enforceable rules of government and commercial conduct. The shaping of these conditions is a matter for domestic political processes. But, as a core function, the MDBs can provide analysis and technical assistance for improving particular aspects of this environment, in close conjunction with policy-based and other lending programs. The full range of the private sector -- from micro-enterprises through to multinational companies -- will benefit from such services.

11. The case for direct MDB financing of private sector activities needs to be strong. MDB involvement should meet two tests. First, it should be additional in the sense that a productive and profitable activity would not proceed without such support, and the share of the MDB's financial participation is such as not to displace private capital. Second, MDB involvement must contribute to development or transition. An MDB presence should ensure that a private sector investment is economically sound, that the distribution of its benefits is socially acceptable, that it is environmentally benign, and that the choice of technology or location is advantageous to society.

Striving for Results

12. The Boards, managements, and staff collectively have a major contribution to make in changing the focus of organizational culture in the MDBs from approvals to results, i.e., from the quantity of lending to the quality and development impact of loans.

13. ***Upgrading the Role of the Executive Boards.*** Change must start at the top. The degree to which the Executive Directors succeed in guiding the institutions strategically, rather than attend to day-to-day management concerns, differs among the five institutions. To the extent that the MDBs themselves remain different, such variations may be appropriate. However, we judge that there is a common tendency of the Boards to try to exercise control or scrutiny over detailed operational decisions. Instead, the Executive Directors should be encouraged to define better the scope of the MDBs' activities, develop strategies for pursuing them, and ensure the effectiveness of processes and structures to guarantee the quality and efficiency of MDB services. To make this work, the shareholders will need to appoint Board members of stature and the right experience, and the managements must support the Executive Directors in their efforts to play a more strategic role.

14. In their country strategy discussions, the Boards should consider the broad outlines of the future portfolio (including key projects in the pipeline), current implementation experience, and recent post-evaluation results. Boards should consider mid-term evaluation or completion reports on selected projects and ask the staff responsible to account for progress and results. On the basis of commonly accepted benchmarks, the Boards should assess annually the performance of the MDBs' entire portfolios -- both ongoing and completed operations -- as well as their actual or expected development impact.

15. ***Strengthening "Ownership".*** Country ownership must be evident in the political commitment, the design, and the administrative arrangements for sector programs or projects. In some countries, MDBs are taking too much responsibility for designing lending proposals, often under a pressure to achieve commitment targets. One means of striking the right balance between national ownership and the active involvement of MDBs is to have effective field offices. Where strong field offices exist and operational responsibilities have been delegated to them, they facilitate the day-to-day conduct of business, ensure on-the-spot assessments of country needs, tailor technical solutions to local realities, and support in-country coordination of development assistance.

16. ***Learning from Experience.*** All MDBs have tried to improve the design, implementation, and results of their operations. But lessons are not being reflected adequately in new MDB policies and projects. The development of objective indicators of performance is essential for achieving results and for the accountability of the MDBs to shareholder governments, parliaments, and the public. Currently, it is not possible to compare their operational results, or even to describe them in a common language. A common methodology

for evaluating their portfolios should be developed and kept up to date over time, with best practices in evaluation techniques being identified and disseminated.

17. ***Informing and Listening.*** Although much has been done to improve the flow of information about their activities, more is needed. The presumption of disclosure must be a central operational principle for all the MDBs. Increasingly, they have become more open in providing information about individual projects. It would now be useful to extend this role to providing investors, academics, researchers, journalists, and NGOs with information about the economies of their member countries. Governments and MDBs need to develop better ground-rules for this. The MDBs should also receive more diverse information from people in borrowing countries and from international specialists.

18. ***Budgets and Efficiency.*** As they are unique providers of specialized services, there are no immediate yardsticks for judging the efficiency of the MDBs. Greater clarity in the relationship between costs and services is essential. The institutions have taken steps to become more streamlined, but the benefits of such changes, especially at the largest of the institutions, the World Bank, have yet to be felt by many borrowers. Efforts to control costs, discontinue some programs with few benefits, and cut the lead time for services should be intensified. In particular, the managements must ensure that incentives to staff promote the necessary changes in corporate culture.

Enhancing the Impact of the MDBs as a Group

19. Of the five MDBs, only one -- the World Bank -- operates on a global scale. With the exception of the EBRD, there is relatively little functional specialization among them. However, the regional MDBs are not just offshoots or small-scale copies of the World Bank. The establishment of the regional development banks grew out of specific historical and political circumstances. More importantly, where the MDBs operating in a single region are effective, the present system offers choice, sparks innovation, and serves to limit the scope for complacency.

20. Without coordination, their combined presence could become wasteful and self-defeating. If the autonomy and diversity of the current organizational arrangements are matched with efficient coordination and coherent policy guidance, the combination of a global and a regional MDB in each region will continue to serve the international community well. Today, the World Bank brings a global perspective, experience and strength in national and sectoral economic analysis, and an unmatched operational research base. It can engage global resources in response to a local or regional crisis, such as reconstruction needs in Lebanon, economic support for the Middle East peace initiative, or the coordination of reconstruction assistance to the former Yugoslavia. Regional institutions, in turn, are closer to regional realities; as might be expected, at the most senior levels, they have a continuing engagement

with sensitive local issues and with small borrowers. And they are looked to for conceiving well-adapted institutional solutions, including regional cooperation and integration.

21. Coordination among the MDBs exists, but it should be intensified in several respects. First, the main place where coordination must work is at the country level. Here, the need for coordination extends beyond the MDBs to all assistance programs offered to a particular country. Second, more effective and continuous coordination is needed among the MDBs at the working level and that of the chief executives, to avoid duplication, seize opportunities for joint action, and harmonize corporate practices, where appropriate. Third, a need for coordination arises at the level of the owners to enhance the coherence of policy guidance and to monitor the performance of the MDBs as a group.

Major Recommendations

22. The major recommendations of the Task Force are set out below. Not all of these apply equally to all five MDBs.

The Role of the Multilateral Development Banks

23. Official development finance -- including that of the MDBs -- needs to remain an important part of external resource flows to a majority of developing countries. The MDBs must support the policies, the institutions, and the infrastructure necessary to promote broad-based economic growth and efficiency, improve the prospects of the poor, protect the environment, and encourage the development of the private sector. As countries achieve development success, their demands for MDB services are likely to change, and where they gain adequate and reliable access to international capital markets, the MDBs' financial role can be expected to decline.

24. The MDBs should:

- Continue to mobilize international private savings and concessional assistance for sustainable development;
 - Ensure the access of lower-income countries to special resources, linked to credible reforms and positive development results;
 - Initiate the process of financial disengagement in countries having reliable access to private capital, and establish graduation policies for this purpose;
-

- Act as sources of advice, and pools of experience and research, on issues of interest to all their members;
- Support the transition of formerly centrally-administered economies to market systems; and
- Assist in the reconstruction of devastated economies and, following conflicts, help to provide economic support for a lasting peace.

Supporting Sustainable Development

25. ***Reducing Poverty.*** The MDBs' commitment to reducing poverty should be evident in all they do: in their policy advice, their research, their impact on the international development agenda, their support for structural reforms, their sectoral analyses, as well as their program and project activities. They should:

- Focus their assistance on countries demonstrating a strong commitment to reducing poverty as part of a soundly based economic and social reform program;
- Improve further the quality of their lending for basic health and education services, rural infrastructure, clean water schemes, and micro-enterprises;
- Set explicit targets by country for their poverty work, coordinate their programs of assistance, and improve the ways in which actual changes in poverty are measured;
- Expand their operational contacts and collaboration with community groups and non-government organizations active in poverty-related services: and
- Intensify their advice in developing social security arrangements and affordable safety nets that are compatible with a market economy, and support capacity-building for this.

26. ***Promoting Effective Government and a Strong Civil Society.*** The MDBs should help create and maintain an environment of good public sector policy and management. Where countries are committed to reducing poverty and promoting private effort, the MDBs can play an important role in helping government strengthen its own capacities and improve

public services. A narrower but more effective role for government, and the reform of the public sector, will be crucial to success. MDB work includes support for:

- Improving the allocation of responsibility between the central government and local administrations;
- The development of improved accounting and auditing standards;
- The modernization of legal systems;
- Greater clarity and integrity in public administration; and
- Better public communications.

27. ***Making Development Environmentally Sustainable.*** In addition to maintaining their design standards, evolving sustainable development criteria for their country assistance strategies, and refining their environmental impact assessment methodology, the MDBs should:

- Continue to be proactive in encouraging the integration of environmental concerns into public policy and in advancing the emphasis on environmental issues in developing countries; and
- Make a particular effort to encourage good practices across borders and to develop regional plans of action.

28. ***Investing in Infrastructure and Utilities.*** As the requirements of publicly-financed infrastructure will remain large, the MDBs should:

- Support government efforts to implement appropriate regulatory frameworks and attract more private sector participation, including that of the local community;
 - Promote the broadening of domestic financial and capital markets to help mobilize savings for the provision of infrastructure and utility services, regardless of who owns them; and
 - In a world where regional and sub-regional economic integration is gaining in importance, support infrastructure investments which extend beyond national boundaries.
-

29. ***Encouraging Private Sector Development.*** MDBs need to continue helping the private sector to move into the center of the development process by:

- Promoting a framework of public policy and institutions at the national level which encourages fair competition and adherence to contract;
- Supporting policies and strengthening financial institutions to encourage savings, capital market development, domestic enterprise development, and broader access to resources;
- Assisting in privatization;
- Helping to attract private flows from abroad for development purposes;
- Helping to provide adequate infrastructure and reliable public utility services, as essential preconditions for the emergence of a vibrant and efficient private sector; and
- Supporting small and medium-sized enterprises.

30. In their support of private sector investments and privatization through equity participation and direct lending without government guarantees, the MDBs should:

- Demonstrate that they are attracting additional financing and promoting development or transition, to be defined in concrete and clear terms;
- Ensure a balanced application of financial and development criteria;
- Consider raising the quantitative caps on non-guaranteed lending at some of the regional development banks, or replacing such limits with a more flexible approach;
- Ensure that risk management practices focus on the level of syndicated portfolios; that B-loan syndications are used selectively; and that alternative instruments are considered, such as wider multilateral insurance coverage for private investors; and
- Seek to broaden their support of domestic financial intermediation, including activities aimed at smaller enterprises.

Striving for Results

31. ***Upgrading the Role of the Executive Boards.*** As representatives of the shareholders of the MDBs, Executive Directors need to focus on strategic functions. They should:

- Be the guardians of development effectiveness by requiring a system which sets clear objectives at all policy and operational levels and monitors progress necessary for achieving results.
 - Ensure the continuing relevance of MDB policies, including those necessary for enhancing project quality, and set benchmarks against which the institutions' performance can be judged. These policies should be announced to the public.
 - Discuss and agree on country assistance strategies. An across-the-board review of an MDB's activities in a country should become the central mechanism through which the Boards conduct their oversight and guidance functions, making project approval one stage in a process that involves validation of a country assistance strategy, priorities for project preparation and approval, and review of implementation and results.
 - Make certain that, in the development of lending proposals, the managements implement the agreed country assistance strategies, that operational portfolios are performing well, and that results are being measured in generally acceptable and comparable terms. The Boards should consider new lending proposals on a non-objection basis, following assurances from the Management that they conformed to Board-approved policies and country assistance strategies. Approvals in session could be limited to cases involving an exception to approved policies, and other special or controversial cases.
 - Ensure that the MDBs' administrative resources are appropriate and are used efficiently, and that budget practices promote flexibility and responsiveness.
 - See that the MDBs are attracting and retaining the right people to exercise their mission.
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32. ***Strengthening "Ownership".*** MDBs must foster borrower ownership of reforms, programs, and projects. Staff and managements should encourage borrowers to take the lead on project and sector work, especially on major economic policy reforms. In their field offices, the MDBs should have an operational and decision-making presence rather than just a representative one, and delegate to them, as appropriate, such authority as will improve the quality or reduce the cost of services.

33. ***Learning from Experience.*** A determined effort should be made to harmonize performance indicators and evaluation criteria, taking into account the differing circumstances of each institution. The heads of the five MDB evaluation units should meet on a regular basis to exchange experience, with this purpose in mind. To support this and their regular work, the central evaluation units of the MDBs should be given adequate budgets and staffing. They should also be allowed to issue final evaluation reports to the MDB Presidents and Executive Directors without prior clearance by anyone outside the unit.

34. ***Informing and Listening.*** MDBs and governments need to develop better ground rules for sharing country economic information more widely. The MDBs should also open new channels of dialogue to obtain direct citizen reactions to their work, enhance public understanding of MDB services, and promote better development results.

35. ***Budgets and Efficiency.*** As governments and public institutions around the world reassess their own costs, the MDBs must demonstrate heightened cost-consciousness, and all the more so as their costs are borne largely by the world's developing countries through fees and charges. The MDB managements should:

- Develop a methodology for relating better the costs and results of their services, and modernize their budgetary practices to ensure a results-oriented allocation of resources to core functions and responsibilities.
- Take steps to improve the use of trust funds for consultant services and the deployment of advisory and technical services.
- Review personnel management policies and practices, such as their annual performance evaluations of staff and managers, to ensure that they promote individual contributions in the new directions being proposed.

Enhancing the Impact of the MDBs as a Group

36. Coordination among the MDBs should be intensified at three levels:

- At the country level, by causing recipient countries, with MDB support, to assume primary responsibility for coherence between national and sectoral development strategies and international assistance; inviting donors to aim coordination at sustaining development priorities and enhancing the convergence of their processes and practices; and encouraging in-country coordination beyond the central government to include local government and civil society.

- At the level of the MDBs, by promoting the convergence of corporate and operational policies, standards, criteria, processes, and practices, through the initiatives of the heads of the MDBs as a group; actively pursuing opportunities for joint action and documentation in operational activities and consolidating operational research programs; and harmonizing criteria, techniques, and practices for measuring results among evaluation units.

- For the MDBs as a group, by making arrangements for the provision of coherent policy guidance by the owners of the MDBs on issues of common concern to them; fostering and reinforcing the complementarity of programs and the convergence of operational policies, processes, and practices; and monitoring the institutional performance and development impact of the MDBs.

SERVING A CHANGING WORLD

Report of the Development Committee Task Force on Multilateral Development Banks

Main Report

1. The multilateral development banks face a world vastly different from the one in which they were created. Lower trade barriers and global financial markets have expanded the economic opportunities available to countries, while advances in communications and technology have created whole new industries and helped the operation of integrated markets. A number of developing countries have achieved sustained economic growth, which has permitted major improvements in living standards and substantial reductions in poverty. As a result, there has been a significant expansion in the share of economic activities to East Asia and Latin America. Developing countries have recently accounted for about 75% of the growth in world trade, and six of them are among the ten largest holders of foreign exchange. This growth experience, together with the end of the Cold War, has brought about a greater consensus in thinking on economic policy and development issues.

2. Yet, the challenges of development remain as great as ever. There are still 1.3 billion very poor people in developing countries. Population growth is adding the equivalent of a country the size of Vietnam or Germany (70-80 million people) to the global family every year, compounding problems in the most deprived countries of Asia and Africa. The globalization of economic activities has occurred alongside a widening disparity in economic performance and job creation. Social and economic tensions risk interrupting continued progress, political stability, and the sustainability of development in many countries. Environmental threats are real, both at the national and global level, and there is still much to be done to protect biodiversity and make better natural resources management a global as well as local effort.

3. Approaches to development are changing. There is concern about the nature of growth: How can it be made sufficiently broad-based and sustainable, in economic, social, and environmental terms, to serve a world population which will double by the middle of the 21st century? The importance of the private sector in promoting growth and efficiency has now been recognized in almost every country on earth, even if some governments have yet to allow it to play that role successfully. The role of government is changing. Public authorities in developing countries are no longer seeking to dominate economic transactions and services. But governments remain important in fostering economic stability and social justice, following sound and predictable economic and regulatory policies which reward private effort and investment, and providing essential services. Associated with these changes, the challenge of transition from centrally planned to market economies has been added to the international agenda and reconstruction needs have become important again. Finally, private international capital flows have grown dramatically, but they continue to be focussed on a relatively small number of developing countries. More economies will eventually attract such flows; but, first,

they will need to introduce the right policies, build the necessary institutions and physical infrastructure, and enhance the health and basic education of their people.

The Role of the Multilateral Development Banks

4. Since their creation, the multilateral development banks (MDBs) have served a number of important purposes. Their largest activity has been to act as financial intermediaries, drawing on private international savings. They raise funds through borrowings in international capital markets for sound development purposes which otherwise would not be financed or, if so, on less favorable terms; and they cover their operating expenditures from their earned income and the fees they charge for this service.

5. Since the 1960s, most MDBs have also acted as channels for concessional resources provided from the aid budgets of donor countries to accelerate broad-based development in the poorest countries lacking the capacity to borrow sufficiently in the international private capital markets. The MDBs are able to invest these funds in pursuit of high social and development returns, without regard to national political or commercial considerations, and to bring to this work a unique analytical capacity and experience. Their ability to lend untied funds and to achieve economies of scale provide a distinct comparative advantage. They are a mechanism for sharing the financial burden of such assistance and extending the reach of the limited resources available for this purpose.

6. These intermediation and channelling functions are supported by the MDBs' expertise, experience, and policies, which give direction and focus to the financing provided. They are sources of analysis, guidance, and advice for borrowing countries and instruments of market information. They bring talent, people, and ideas together, act as levers of influence on the international development agenda, and are a clearing-house of information, policy research, and good practices. Many of the developing world's achievements -- the Green Revolution in the 1960s, the emergence of East Asia in the 1970s, the management of the debt crisis and greater trade liberalization in the 1980s, and public sector reform and privatization in the 1990s -- have been supported by the MDBs. They are now deeply engaged in new challenges of aiding countries in transition and in reconstruction, following the end of conflicts.

7. In these ways, MDBs are also instruments of international cooperation. They are key interlocutors with developing country governments and vehicles for improving the coordination of official development assistance. They help underpin an effective international economic system.

8. As private sector flows have increased, the relative share of the MDBs' lending to developing countries has shrunk. Net disbursements by the MDBs (averaging \$10 billion per year in 1989-93) declined from 10% to 5% of total net resource flows to developing countries during that period. But their gross annual commitments remained significant (averaging \$38 billion). Private flows are at present fairly concentrated -- 80% go to ten countries, including China and India. The composition of these flows carries risks. And the depth and duration of private sector interest in emerging economies remain volatile. The long-term financing which the MDBs provide, which is of a kind often not available from private sources, add a major degree of stability to individual countries. For these reasons, official development finance -- including that of the MDBs -- needs to remain an important part of external resource flows to a majority of developing countries.

9. The MDBs are more than financial institutions. Their research, economic and sector work, and advisory services make a key contribution. Because of their broad membership, they are able to take positions representing a global consensus on major issues. Their advice and research is based on unparalleled expertise and broad experience drawn from a wide variety of sources. And their ability to take impartial operational decisions in the face of many pressures is safeguarded by their public status, their collective ownership, and their governance and management arrangements, which make them accountable to their shareholders.

10. The MDBs' contribution is more than the sum of its parts. They are able to seek a clear link between a sound development strategy at country and sector level and public expenditure at all levels which is productive and developmentally effective. Advice which is offered in conjunction with financial support for a country's development carries greater weight, especially when it supports long-term investments and policy reforms which have been developed in close partnership. And objectivity can be of greatest value when expressed in detailed operational judgements that are seen to be supported by teams with direct and continuous field experience and relevant specialist expertise. Offered in combination, the services of the MDBs -- if they are working effectively -- can help member governments achieve difficult policy changes and development objectives that may otherwise be hard to reach.

11. The need for MDB services is changing; but, despite the dynamism of many developing economies, this need remains global. Asia, with the largest number of people, still has the most poverty and the greatest infrastructure needs. In the transition economies of Eastern and Central Europe, as well as those of Central, South, and East Asia, even the "good performers" cannot yet rely on the external private sector or domestic resources for many of their investment needs, and they benefit from the valuable policy dialogue and technical support that come with MDB financing. Supplementing domestic public resources also allows countries to strengthen health, education, and capacity-building facilities and create or strengthen institutions necessary for the successful transition to market economies. And -- however buoyant private flows are to some countries in Latin America and Asia -- an MDB presence will help to attract them to other countries and regions, like Central Asia and the

Middle East. Africa remains the greatest challenge for the MDBs, owing to the continuing increase in the number of the poor and the need for better governance, sound public sector management, and self-help, all of which are necessary to make external assistance fully effective.

12. As countries achieve development success, their demands for MDB support are likely to change. Greater differentiation among countries, but also among sectors and operational instruments used within countries, is expected to characterize the future market for MDB services. The recovery and expansion of private sector flows is further evidence that successful developing countries are gaining independent access to international capital markets. Where such access is sufficient to provide adequate and reliable access to long-term financing on reasonable terms, the MDBs' financial role can be expected to decline, and eventually disappear; and the need for technical assistance and a policy dialogue will also recede progressively. All MDBs should have formally articulated graduation policies to guide such a transition.

13. The recovery of private sector lending and foreign direct investment should allow the MDBs to focus increasingly on countries and activities that do not readily attract stable private financing. At the same time, a more fertile environment for the private sector requires investment -- in infrastructure, policy reform, human development, capacity building, the modernization of public administration, and the environment -- to which MDBs should continue to contribute. There will always be critical development activities where governments will remain in the lead. Examples include investments in roads and health and education facilities in poor communities which, for the most part, cannot be structured to ensure an early return to private investors. Another case is the development of remote rural provinces where the minimum conditions for private investment have yet to be established and where it is especially important that environmental concerns receive due attention. And fundamental reforms, such as those in financial markets, by definition require active and constructive engagement by governments, not only to strip away policy and regulatory distortions but also to ensure appropriate oversight.

14. What should be the contribution of the multilateral development banks?

First, they should continue to mobilize international private savings and channel concessional assistance to supplement domestic resources for sustainable development, even where countries have some direct access to private capital. In this way, they will support the policies, the institutions, and the infrastructure necessary to permit sustainable and broad-based economic growth and efficiency, improve the prospects for the poor, protect the environment, and encourage development of the private sector. Uncertainty about the concessional financing available to the MDBs is a major threat to the continued effectiveness of their work.

Second, they should remain central in ensuring the access of a large number of lower-income countries to a mix of resources, including highly concessional assistance, debt relief, ordinary multilateral funds, and foreign direct investment, by linking these to credible reforms and positive development results. In time, if these reforms are successful, these countries will secure independent access to international capital markets.

Third, the MDBs will be a key source of policy and technical advice to borrowing countries and act as pools of experience, research, and advice on issues of interest to all their members, including population policy, labor migration, environmental degradation, and good governance.

Fourth, the MDBs should continue to support the transition of the formerly centrally-administered economies to market systems, as well as assist other countries going through major adjustments.

Fifth, the MDBs are likely to continue to be called upon to assist in reconstructing devastated economies and, in the wake of regional and ethnic conflicts, help to provide economic support for a lasting peace.

Supporting Sustainable Development

Reducing Poverty

15. The main challenge of development is to reduce poverty. Thirty percent of people in the developing world still live on less than \$1 per day. This includes half the population of East Asia, South Asia, and Sub-Saharan Africa, a third of the people of the Middle East and North Africa, and a quarter of Latin Americans. In the last ten years, the proportion of people living in poverty has dropped in East Asia and South Asia; increased in Latin America in the 1980s but stabilized since; and risen in Africa and the Middle East because of instability, lagging development, and high population growth.

16. Improvements in basic living conditions, which had been underway in most of the world since the middle of the century, slowed in the 1980s in Africa and Latin America. Developing countries as a group are still advancing; but the rate of change is slower than before and progress is more uneven among regions. In addition, poverty programs have faced a number of obstacles, including the lack of communication between poor people and their governments and local administrations, the top-down nature of project designs, illiteracy, and reluctance to experiment with new technologies if they risked cutting into already meager incomes.

17. Economic growth is fundamental but, by itself, not enough for reducing poverty. Without broad-based development, sound policies, and strong local institutions, the benefits of growth will be uneven. Governments must promote greater employment and income and offer poor people -- including women, rural people, and the illiterate -- the opportunity to acquire the skills, health, and information they need to improve their lives. In countries where growth raised the incomes of the poor but the government paid little attention to health and education services, mortality among children has remained relatively high and primary enrollments low, with the result that poor people are not equipped to take advantage of economic opportunities. In some other countries, health and education services have been strong but the potential for raising the incomes of the poor has been lost as a result of the lack of economic expansion. Higher levels of education and health, smaller families, and more reliable incomes can create virtuous circles leading to lower risks of hardship and greater opportunities for employment and self-help. The region which has done the most to reduce poverty -- East Asia -- promoted growth as well as efficient basic services.

18. In short, the experience of poor countries has been that the proportion of people living in poverty can be reduced only if there is strong, sustained, and broad-based economic growth, a firm Government commitment to reduce poverty, an institutional capacity to design and follow through on appropriate policies and programs and good public sector management that minimizes unproductive expenditures, and a strengthening of essential services -- especially primary education and vocational training, preventive health care, family planning, nutrition, clean water, sanitation, and rural infrastructure. Past experience offers many lessons which still need to be learned and applied. Growth and sound policies, in combination, can create the right conditions to reduce poverty: schooling for girls, literacy for adults, family planning services, but also open investment rules, favorable trade regimes, and fair tax burdens. Without a sound macroeconomic environment, including low inflation and incentives to effort and savings, no investment will make a lasting contribution to helping the poor. At the same time, reducing poverty is a key to achieving sustainable development.

19. MDBs have an important role to play in promoting broad-based growth and supporting efforts to help the poor more directly. They have stepped up their poverty work significantly over the last five years. Success cannot be imported, but the MDBs can bring the benefit of specific countries' experiences to other parts of the developing world and help build the capacity to tackle these issues. MDBs remain intermediaries only. However, they have an important role to play in helping governments create the conditions for reducing poverty in the following ways:

First, the MDBs' commitment to reducing poverty should be evident in all they do: in their policy advice, their research, their impact on the international development agenda, their support for structural reforms, their sectoral analyses, as well as their program and project activities. They should stress that sustainable development requires that high priority be given to labor-intensive growth; food security; income opportunities in agriculture, small-scale enterprises, and the informal sector; equal access to land and credit for men and women; rural

infrastructure; and basic education and health care, especially for girls and women. Such programs have been demonstrated to have direct benefits for the poor and are essential aspects of sustainable progress.

Second, the MDBs should focus their assistance on countries demonstrating a strong commitment to reducing poverty as part of a soundly based economic and social reform program. Performance should be judged on the basis of well-conceived country poverty reduction strategies, as an integral part of country development strategies and plans, and by actual results in reducing poverty and improving basic services for the poor. It is the responsibility of borrowing governments to develop such strategies, in collaboration with the MDBs and other donors, if necessary. But the country assistance strategies and poverty assessments of the MDBs themselves cannot substitute for nationally prepared strategies and programs carried out with a great sense of commitment. The MDBs should help build capacity in the countries to develop, implement, and monitor such strategies.

Third, the MDBs should improve further the quality of their lending for basic health and education services, rural infrastructure, clean water schemes, and micro-enterprises, as well as increase the level of such lending, where this is judged necessary in the light of specific country assistance strategies. Key objectives should be to promote family planning and to reduce excessive population growth, promote health, basic education, job creation, and economic opportunities among the poor, particularly women, and contain the adverse environmental consequences of poverty and population pressure.

Fourth, the MDBs should set explicit targets by country for their poverty work, coordinate their programs of assistance, and measure actual changes in poverty levels. In supporting the coordination of external assistance to particular countries, the MDBs should encourage recipient countries to assess the poverty impact of funding from all sources. At the same time, the MDBs should improve the ways in which poverty reduction is measured and assist developing countries in doing this. Rising life expectancies and falling infant mortality rates, averaged over a long period across countries and continents, are no longer sufficient as a measure of progress. The improved indicators should be country-specific and measure changes in income, health, education, consumption, wealth, and employment over finite periods (e.g., 5 years). Such indicators will facilitate the assessment of country performance, better focus policy-making, and encourage desirable adjustments to programs.

Fifth, the MDBs should expand their operational contacts and collaboration with community groups and non-government organizations active in poverty-related services, in cooperation with local governments. The purpose would be to strengthen their capacity to act as supplementary mechanisms for the delivery of public services where this could be done in innovative ways, where effective accountability could be maintained, and where their involvement would not compromise the local character and initiative of their activities.

Sixth, the MDBs should intensify their advice in developing viable social security arrangements and affordable safety nets that are compatible with a market economy, and support capacity-building for this. The weakening of the traditional extended family and other community-based social security arrangements in the wake of industrialization and urbanization, and the growth of an industrial labor force, will increase the need for innovative social security arrangements in developing countries. Industrial and semi-industrial economies in transition also face a massive restructuring challenge in this respect. The role which the public sector can play will depend on the specific circumstances of a country; but systemic reforms offer considerable potential for enhancing domestic savings.

Promoting Effective Government and a Strong Civil Society

20. Efforts to promote poverty reduction, private enterprise, and a better natural environment require more effective government and the emergence of a strong civil society. Appropriate economic and social policies are important both for stability and for the right kind of growth. At the MDBs, a first step in assessing whether countries should be helped is to determine whether they are committed to development, i.e., seriously interested in, and capable of, promoting sustainable economic growth and a better life for their poor. This commitment does not necessarily depend on the form of government. But there is a relationship between the attainment of good public sector policy and economic efficiency. Good policy includes the rule of law, protection of legitimate economic activities and interests, a government's accountability to its citizens, effective measures to curb corruption, a participatory approach to development, easy access to important information and services, and sound decision-making reflecting the actual needs of people.

21. The MDBs should help create and maintain such an environment. But, as outside actors, they must be at once sensitive and determined. MDBs should be ready to provide assistance when the Government's commitment to sustainable development and good governance is clear, and investments can be designed and undertaken efficiently. Where countries are committed to reducing poverty and promoting private effort, the MDBs can play an important role in helping government strengthen its own capacities and improve public services. A narrower but more effective role for government, and the reform of the public sector, will be crucial to success. The ultimate purpose of such reforms must be to enhance the ability of governments to forge a reliable framework of rules and institutions, to combat corruption, and to ensure the efficient delivery of essential services. The MDBs must be just as involved in the follow-up to such changes as they were in the analysis and consensus-building leading up to them. In recent years, when asked, they have been rightly supporting the strengthening of public administration in some countries. This work includes support for a more rational division of responsibility between the central government and local administrations, the development of improved accounting and auditing standards, the modernization of legal systems, greater clarity and integrity in public administration, and better

public communications. Such services are needed both for economic efficiency and social equity, and they should be strengthened.

Making Development Environmentally Sustainable

22. A separate but related part of the MDBs' efforts to fight poverty and encourage private enterprise should be a continued emphasis on fostering the policies, building the institutions, and strengthening public support for better management of a country's natural resources. Although they are often forced by the lack of economic alternatives to despoil their immediate environment, the poor are the first victims of bad policy and practice. No one suffers more from excessive population growth, pollution, deforestation, erosion, and over-farming. The need to improve the situation of women deserves special attention, as in many countries they are the most involved in the use of scarce natural resources. The circumstances of indigenous people also need particular consideration.

23. MDB attention to environmental concerns dates back to the early 1970s and was centered on the physical and social impacts of major infrastructure projects. Since then, and particularly since the mid-1980s, the MDBs have broadened their work and made respect for the environment one of the key aspects of their mission. Not only are they trying harder to prevent unfortunate side-effects from traditional investments; they are also supporting activities and institutions which are closely linked to the better management of natural resources. Although there have been some dramatic and well-publicized failures, the MDBs have learned from their mistakes and have introduced a number of changes in their staffing and operational approaches. But much remains to be done.

24. Environmental concerns -- including global ones -- still need to be incorporated more convincingly into national economic policies as well as into the MDBs' own country assistance strategies, policies, and operations. In particular, there is a need for greater emphasis on energy efficiency, water resource use, environmentally sound transport, conservation of fragile ecosystems, and consistency with the Conventions on climate change and biodiversity. New forms of collaboration and exchanges of information are necessary to ensure the development of responsible projects. Governments should draw civil society into the design and implementation of programs and projects.

25. MDB design criteria for projects with major risks, like power generation, have already become world standards and need to be kept up-to-date. New sustainable development criteria should be developed for inclusion in MDB country assistance strategies. The process of refining environmental impact assessment methodology and criteria needs to be continued; and the results of such work should be reflected in operational decisions. The MDBs should continue to be proactive in encouraging the integration of environmental concerns into public policy and in advancing the emphasis on environmental issues in developing countries. And

there should be a particular effort to encourage good practices across borders and to develop regional plans of action.

Investing in Infrastructure and Utilities

26. Investment in infrastructure and utilities is vital for growth and poverty reduction. In most countries, this used to be an exclusively public sector responsibility, financed mainly from the national budget. Recently, private capital has been attracted to some of these undertakings. But, in both cases, sound public policy, effective regulatory frameworks, and good management are essential for success. Despite recent increases of private flows to emerging economies, less than 12% of current investment in infrastructure is financed from private sources. Governments and official development assistance continue to fund the major share of such investments. Given the constraints on official financing and the limits on public savings in developing countries, these proportions will have to change if infrastructure investments and utility services are to keep pace with the needs of rapidly developing economies. The private sector has demonstrated an active interest in large-scale participation in such activities, provided the conditions are right, the risks are manageable, and the returns are competitive. Governments are responsible for establishing and maintaining conducive policy and regulatory frameworks, setting environmental standards, and coordinating services across sectors. The private sector continues to value the presence of MDBs because of their expertise and experience in this area and their ability to help design public-private partnerships. Many governments and private sector participants also look to the MDBs to provide long-term financing consistent with the cash-flow requirements of operating entities.

27. Private interest in infrastructure investments clearly differs across sub-sectors. Utilities such as power generation, telecommunications, and urban transportation have been attracting private investors, and the range of infrastructure that is undertaken privately has been expanding. But, well into the future, the requirements of publicly-financed infrastructure will remain large, and the MDBs will need to support such ventures as are developmentally important and not yet attractive to private funding. Among other things, they should support government efforts to implement appropriate regulatory frameworks and attract more private sector participation, including that of the local community. The MDBs should promote the broadening of domestic financial and capital markets to help mobilize savings for the provision of infrastructure and utility services, regardless of who owns them. And, in a world where regional and sub-regional economic integration is gaining in importance, the MDBs should support infrastructure investments which extend beyond national boundaries.

Encouraging Private Sector Development

28. MDBs need to continue helping the private sector to move into the center of the development process by: first, promoting a framework of public policy and institutions at the national level which encourages fair competition and adherence to contract; second, supporting policies and strengthening financial institutions to encourage savings, capital market development, domestic enterprise development, and broader access to resources; third, assisting in privatization; fourth, helping to attract private capital flows from abroad for development purposes; fifth, helping to provide adequate infrastructure and reliable public utility services, as essential preconditions for the emergence of a vibrant and efficient private sector; and sixth, supporting small and medium-sized enterprises. The full range of the private sector -- from micro-enterprises through to multinational companies -- will benefit from such services.

29. Governments need to create the conditions in which private enterprise can flourish and society as a whole feels it has a positive stake in the outcome. These conditions include an effective public administration, efficient legal systems, clear property rights, a fair and transparent tax regime, a functioning and well-regulated banking and capital market system, effective anti-monopoly measures, and enforceable rules of government and commercial conduct. The shaping of these conditions is a matter for domestic political processes. But, as a core advisory function, the MDBs can provide analysis and technical assistance for improving these framework conditions, often in conjunction with policy-based and other lending.

30. Small and medium-sized enterprises, in particular, offer important prospects for employment creation, flexibility, and responsiveness to changing opportunities. In many countries, there remains the need to develop a financial sector that offers adequate rewards to risk-taking, generates and channels domestic savings, as well as retails external capital, to productive purposes. Until the early 1980s, between 15 and 20 percent of the MDBs' annual commitments were channeled to private enterprises through loans to public sector development finance companies, which involved guarantees from the recipient country government. Such lending has declined as a result of the adverse effects of subsidized and targeted credit and the often poor management and political abuse of these publicly-owned financial intermediaries. The lessons of this experience remain valid. However, the need for effective domestic capital markets and financial intermediation and the channelling of external resources is of central importance as enterprise formation and privatization proceeds. The MDBs should support the search for innovative delivery channels, with sound prudential norms. The development of such channels should strengthen market-oriented economies by lessening the recourse to public subsidies.

31. Attention should be given to supporting micro-enterprises. The key role of MDBs should be to orient the private banking system to such potentially viable clients, and help develop non-traditional retail mechanisms. Community groups, informal savings

associations, and other forms of mutual self-help are examples of the kinds of activities that deserve attention. While micro-enterprises and easing restrictions on the informal sector can contribute significantly to reducing poverty, particularly for women, they must be fostered by government policies promoting the interests of the poor. Micro-enterprises will not flourish where health and education services and the protection of property are given low priority.

32. Direct financing of private sector enterprises without government guarantees presents the IFC and regional MDBs with important opportunities but also special challenges. These MDBs can directly encourage private capital flows through lending, direct participation in private sector and privatization projects, and financial arrangements such as syndication and partial or performance guarantees. These instruments are essential for attracting private investment; but care should be taken not to preempt, or substitute for, private financing. MDBs are called upon to help shape an attractive investment environment, and ensure a level playing field. They enjoy privileged access to finance, regulatory authorities, and government decision-makers; and they need to exercise care not to extend these privileges to particular private parties. The need to balance these concerns requires clear and transparent criteria for governing the MDBs' operations in this area. Organizational arrangements also need to reflect these concerns.

33. Recognizing this challenge, the EBRD in 1994 prepared detailed guidelines and criteria for observing sound banking principles and achieving additionality in supporting transition in its borrowing countries. In November 1995, the IFC also adopted revised guidelines for its operations, following consultations with the private sector. The Corporation is not to compete with capital and skills that are provided by the market at reasonable costs. It will seek to stimulate the flow of private capital to emerging markets. It will collaborate with private investors, financial institutions and advisers. These principles are an important adjustment to a changed international environment.

34. The case for MDB financing of private sector transactions must be strong. This makes it essential that MDB private sector activities be fully integrated into country assistance strategies. MDB financing should meet two tests. First, it should be additional in the sense that a productive and profitable activity would not proceed without such support, and the share of the MDB's financial participation is such as not to displace private capital. Second, MDB involvement must contribute to development or transition. An MDB presence should ensure that a private sector investment is economically sound, that the distribution of its benefits is socially acceptable, that it is environmentally benign, and that the choice of technology or location is advantageous to society.

35. There is potential tension between the objective of additionality and the financial targets aimed at for private sector activities. Larger transactions tend to have lower unit costs, and reliable borrowers located in stable and creditworthy countries entail lesser risks. Accordingly, financial considerations alone would tend to skew portfolios towards larger enterprises and low-risk countries unless efforts are made to offset such bias and ensure that additionality is achieved.

36. The existing MDB mandates offer considerable potential for mobilizing private sector support for infrastructure and utility development (see also paras. 26-27). The IBRD has revived the use of its partial risk and performance guarantee instruments; the use of these instruments does, however, require a host country counter-guarantee. The IFC has begun to build an impressive portfolio in syndication to support in particular public utility projects. The EBRD stands out for its ability to work creatively with the private financial community. And the Asian Development Bank and the Inter-American Development Bank have taken steps to engage actively in lending to the private sector. Regional MDBs, like the IFC, under their charters, can extend loans, equity, and guarantees without host country counter guarantee.

37. The use of performance and credit guarantees increases the access of developing countries to international capital markets. These guarantees must still be backed by MDB capital which would otherwise be available to support direct lending. Where a host country's counter-guarantee is required, the government's borrowing power is attached, and the government becomes a party at interest to the operation. These instruments, however, provide the opportunity to engage the private sector on the basis of guaranteeing selected risks only while supporting broader regulatory and policy reform. Where no counter guarantee is required, as in the case of the regional banks, this vehicle adds to the flexibility with which MDBs can respond to the comfort needs of private investors. Performance guarantees involve an MDB in selected aspects of the overall concept and concession arrangements between the parties and hence limits the MDB's assumption of risk. These considerations suggest that the guarantee instruments are valuable components of the menu of instruments available to attract private participation.

38. Another means by which MDBs have begun to support private sector flows on a larger scale -- especially at the IFC -- is syndicated loans. This activity has expanded recently: from about \$500 million per year in 1990 to nearly \$3 billion in 1995 for the IFC alone. It is also an instrument of importance at the EBRD. These loans consist of two parts: the A-loan retained for the MDB's own account and the B-loan sold to commercial banks through participation agreements. The MDB remains the lender of record for the total amount. This arrangement protects the private participants from the transfer risk that foreign exchange will be unavailable for debt service, but maintains their exposure to their share of the commercial risk.

39. Syndicated loans have the advantage of placing a part of the commercial risk with private lenders. But the preferred status they give to the private sector participants in relation to transfer risk could discourage other private sector lending to the recipient country without such status. It is therefore desirable that the volume of syndicated loans to individual countries not become too large. Alternative market-based instruments for attracting private participation should also be considered to enlarge the menu of instruments available and enhance the flexibility to attract private flows originating under a variety of regulatory and banking supervisory conditions. One alternative would be the extension of multilateral insurance coverage of non-commercial risks to debt held by private participants in MDB-supported private sector ventures.

40. In their support for the private sector, the internal procedures of the MDBs and, possibly, their corporate structures will be tested. There is a clear potential for conflicts of interest between sound policy advice to governments and making investments as attractive as possible to private parties. Resolving such issues within the MDBs requires a country strategy guiding assistance to both the public and private sectors. Other issues include possible differences between public and private projects in information which can be made generally available, varying procurement policies, and the need to train and motivate personnel for two very different types of activity.

41. At the World Bank Group, guaranteed and non-guaranteed lending are separated, as the IBRD itself cannot lend to private parties without a host country guarantee; at the EBRD and the other regional banks, they are combined on the same balance sheet. Thus, at the World Bank Group, there is a clear separation of risks and functions. The IFC is essentially transaction-oriented and generally offers policy advice to governments in limited areas such as privatization and capital market development. The EBRD focusses support on the private sector and those parts of the public sector in transition to the private sector. The potential for conflict of interest within the EBRD has been limited further by refraining from policy dialogue in macroeconomic matters and accepting the Bretton Woods lead responsibilities in this respect. The cost of organizational separation in the World Bank Group has been a lack of coordination of overall strategy, and the new President is moving to introduce greater coherence in IFC and IBRD activities in support of the private sector. The EBRD approach would seem to make sense, given the heavy emphasis on partnership with the private sector. Whether these activities are separate or consolidated, the MDBs' may want to give consideration to separating financial accounts into private sector and public sector transactions in ways which would provide for transparency, and allow the assessment and management of costs, risks, and returns separately for public and private assets.

42. Our main conclusion is that the MDBs should encourage private sector development by promoting a conducive framework of public policy, encouraging savings and capital market development, assisting privatization, helping to attract private flows from abroad, supporting adequate infrastructure and utilities, and promoting small and medium-sized enterprises. In their direct financing of private sector investments without government guarantees:

First, the MDBs should demonstrate that they are attracting additional financing and promoting development or transition, to be defined in concrete and clear terms.

Second, the Boards should ensure a balanced application of financial and development impact criteria for the private sector operations of the MDBs. To the extent that a greater emphasis on development or transition impact entails greater risk, the shareholders should accept the consequences, including higher provisioning, a possible requirement for earlier capital increases, or a lower level of activity.

Third, if regional MDBs were to expand their non-guaranteed lending significantly, the quantitative caps on such lending (5% of annual lending at the IDB, 2-3% of portfolio at AfDB, and 5-6% at the AsDB) would need to be reviewed. Alternatively, these caps could be replaced with more stringent performance criteria for particular operations and appropriate risk management policies for the institutions. MDBs are in different positions, serving vastly different markets. Particular care would be necessary in the case of the AfDB. At the EBRD, over 70% of new commitments are now going to the private sector.

Fourth, MDB Boards should ensure that risk management practices focus on the level of syndicated portfolios in particular countries. "Comfort" to private parties should rest, in the first instance, on the presence of the MDB. B-loan syndications should be used selectively, in cases where the introduction of private participation requires such a material link. Consideration should also be given to extending multilateral insurance coverage to commercial debt incurred in association with MDB financing as a means of more transparently protecting private credits against political risks.

Fifth, the private sector "windows" of the MDBs should seek to broaden their support of domestic financial intermediation, including activities aimed especially at small and medium-sized enterprise and at potentially viable micro-enterprises.

Striving for Results

43. So far, this report has discussed the changing context in which the MDBs are operating, the role which they can be expected to play, and the priorities which they should follow. But how they deliver their services is also important, especially as issues of public policy and governance gain prominence and the portfolios of the MDBs become more oriented to human development projects and capacity-building as well as support for private sector development, which do not lend themselves to a "blueprint" approach. Concern in recent years over the quality of the MDBs' operations, and whether their projects are really improving the lives of the poor, demonstrate the need for ways to substantiate their impact. The MDBs have developed policies concerning almost all aspects of development. However, these policies are not always reflected in the operational practices of the institutions, and operational directives can be more rigid and cumbersome than effective. The emphasis at all levels of the institutions must shift to serving the clients effectively. In particular, the Managements must ensure that incentives to staff promote the necessary changes in corporate culture. The introduction of new indicators for annual performance evaluations of staff and managers should reinforce these incentives.

44. The Boards, managements, and staff collectively have a major contribution to make in changing the focus of organizational culture in the MDBs from approvals to results, i.e., from the quantity of lending to the quality and development impact of loans. In this, the

role of the Board is particularly important. To serve their clients better, the MDBs must be more concerned with country ownership of development ventures and determined to learn from experience. To be accountable to the shareholders, they need to inform and listen better and demonstrate effectiveness and efficiency in the use of resources.

Upgrading the Role of the Executive Boards

45. Change must start at the top. Executive Boards have a major impact on shaping the organizational culture of the MDBs. The degree to which the Executive Directors succeed in guiding the institutions strategically, rather than attend to day-to-day management concerns, differs among the five institutions. To the extent that the MDBs themselves remain different, such variations may be appropriate. However, we judge that there is a common tendency of the Boards to try to exercise control or scrutiny over detailed operational decisions. Instead, the Executive Directors should be encouraged to define better the scope of the MDBs' activities, develop strategies for pursuing them, and ensure the effectiveness of processes and structures to guarantee the quality and efficiency of MDB services. To make this work, the shareholders will need to appoint Board members of stature and the right experience and the Managements must support the Executive Directors in their efforts to play a more strategic role.

46. As the representatives of the shareholders of the MDBs, the Executive Boards need to focus on a number of key strategic functions. First, they should be the guardians of development effectiveness by requiring a system which sets clear objectives at all policy and operational levels and monitors progress necessary for achieving results. Second, they should ensure the continuing relevance of MDB policies, including those necessary for enhancing project quality, and set benchmarks against which the institutions' performance can be judged. These policies should be announced to the public. Third, they discuss and agree on country assistance strategies. Fourth, they should make certain that, in the development of lending proposals, the Managements are implementing the agreed country assistance strategies, that operational portfolios are performing well, and that results are being measured in generally acceptable and comparable terms. The Boards should consider new lending proposals on a non-objection basis, following assurances from the Management that they conformed to Board-approved policies and country assistance strategies. Approvals in session could be limited to cases involving an exception to approved policies, and other special or controversial cases. Fifth, they should ensure that the MDBs' administrative resources are appropriate and are used efficiently, and that budget practices promote flexibility and responsiveness. And sixth, the Boards should be satisfied that the MDBs are attracting and retaining the right people to exercise their mission, but refrain from promoting the special interests of staff or trying to influence personnel matters reserved for Management.

Strengthening "Ownership"

47. The MDBs must foster the borrower's national ownership of reforms, programs, and projects -- which is the basis of successful development. Country ownership must be evident in the political commitment, the design, and the administrative arrangements for the sector program or projects. In some countries, MDBs are taking too much responsibility for designing the lending proposals, often under a pressure to achieve commitment targets. Staff and managements should encourage borrowers to take the lead on project and sector work, and especially on major economic policy reforms. The latter affect a large number of people, need more widespread support, and can be explained adequately only by governments that are fully committed to the reforms. At the same time, the MDBs remain accountable for ensuring that loans proceed only where there is an adequate policy framework and institutional capacity to achieve their objectives. Early MDB involvement in program design is desirable for new-style sector loans and projects (e.g., social services, financial sector reforms, environmental operations) where the MDBs and countries are learning together. Moreover, projects with the local private sector necessarily involve strong national ownership through the involvement, and indeed originating role, of local sponsors.

48. One means of striking the right balance between national ownership and the active involvement of MDBs is to have effective field offices. Strong service and good results imply local knowledge and a local presence. Of the older institutions, only the IDB has country offices in all of its borrowing member countries; recently, it has assigned a large number of technical staff to these and made them key actors in country operations. As part of its reorganization, the EBRD has significantly strengthened the operational role of its representative offices. And, at the opposite end of the spectrum, the AfDB closed all of its field offices in mid-1994. The organizational and budgetary implications of field offices are highly specific to each institution and have been the subject of numerous studies. But where strong field offices exist, and operational responsibilities that can be delegated have been decentralized to them, they facilitate the day-to-day conduct of business, ensure on-the-spot assessments of country needs, and tailor technical solutions to local realities. Field offices should also be a major instrument for supporting in-country coordination of development assistance and closer monitoring of implementation. Hence, field offices should have an operational and decision-making presence in the country rather than just a representative one.

Learning from Experience

49. All MDBs have tried in the past few years to improve the design, implementation, and results of their operations, by changing the project cycle to make it more dynamic and responsive to local circumstances. They have also tried to open the institutions to the views and ideas of others, especially those affected by development activities, to incorporate past lessons into future work, and to account better for performance. But lessons are not being adequately reflected in new MDB policies and projects. The use of objective indicators is crucial for MDB accountability. They are needed to define economic, financial, and social goals in specific terms -- including the desired impact on poverty, the environment, institutional development, and the lives of the beneficiaries -- and are essential if managements, Boards, and shareholders are to make meaningful and realistic assessments of the effectiveness of operations. At the program and project level, it is important to set development objectives for a loan in measurable terms before approval and obtain early objective information on the prospective impact of an operation. These indicators can temper the often optimistic judgments that otherwise tend to be made about project progress, based solely on flows of inputs and the project's physical outcomes. Such information can also allow for project objectives and designs to be adjusted, if necessary, in the light of initial results.

50. The development of objective indicators of performance is also essential for the public accountability of the MDBs and their ability to justify their use of public resources to shareholder governments, parliaments, and the public. Currently, it is not possible to compare their operational results, or even to describe them in a common language. Major public sector institutions like the MDBs must be able to account for their efforts in readily understood terms. A common methodology for evaluating their portfolios should be developed and kept up to date over time, with best practices in evaluation techniques being identified and disseminated. A determined effort should be made to harmonize performance indicators and evaluation criteria, taking into account the differing circumstances of each institution. The lessons learned from these evaluations should be shared among the MDBs with a view to applying them quickly in new operations.

51. The heads of the five MDB evaluation units have agreed recently to begin meeting on a regular basis. We suggest that they be charged with elaborating common evaluation standards, including performance indicators; exchange experience with evaluation techniques, share results; and become the repository of best evaluation practices. Its immediate task would be to develop, within a specified period, methodology and criteria for assessing and rating the MDBs' operational performance and development effectiveness.

Informing and Listening

52. In recent years, the MDBs have been subject to much criticism. Some of this criticism has been justified and allowed them to improve their operations. To some extent, too, this reflects the lack of objective indicators by which they could demonstrate their achievements and rebut criticism, as well as a corporate culture that has responded only gradually to changing public expectations. Although much has been done to improve the flow of information about their activities, more is needed if they are to persuade shareholder governments, parliaments, and publics of their continuing need for resources. During the last ten years, the MDBs have begun to recognize the need to explain their activities better and have begun to open their doors to a large number of interested individuals. The presumption of disclosure must be a central operational principle for all the MDBs. They have also tried to explain their work in language which will appeal to non-specialists. They have become more open in the provision of information about individual projects. It would be useful to extend this role to providing investors, academics, researchers, journalists, and NGOs with information about the economies of their member countries. The MDBs are understandably prudent about how they handle data given to them in confidence by governments; but much economic information is less sensitive than traditions suggest, and country information could be one of the most useful services which the MDBs can provide. Governments and MDBs need to develop better ground-rules for this.

53. The MDBs should also receive more diverse information from people in borrowing countries and from international specialists. To achieve this, new channels of dialogue need to be opened. All the MDBs have experimented with ad hoc advisory arrangements, but more systematic solutions may be desirable. An effort to obtain direct citizen reactions to their work will enhance public understanding of MDB services and promote better development results. Such channels would need to be managed so as not to become simple "debating clubs". Formal advisory councils or citizens' committees could quickly lose their independence, become politicized, especially in countries where representative institutions are weak, and interfere with -- rather than encourage -- local "ownership".

54. Where the interests of people directly affected have been harmed by the failure of the MDBs to follow their own operational policies, this needs to be corrected. The World Bank, the AsDB, and the IDB have each recently established an inspection mechanism. These mechanisms differ, and experience with them so far is limited and will be reviewed soon. Our preliminary consideration of the value they can add suggests that they have played an important role in bringing to Management and the Boards the results of an independent review of controversial projects. They are not intended to set policy or to manage quality, and their competence to hear cases should be limited to policies promulgated by the Executive Boards. Procedures should also be developed to handle complaints addressed to more than one MDB in co-financed operations. The principal result of a finding that a complaint has merit should be to correct the design or implementation of the operation concerned; the responsibility for any compensation should rest with the borrower.

Budgets and Efficiency

55. The multilateral development banks are large. Together, they employ 12,000 people and have a combined operating budget of \$2 billion a year. As they are unique providers of specialized services, there are no immediate yardsticks for judging their efficiency. This makes it all the more important that the Boards and managements remain alert to the danger of letting costs -- especially staffing costs -- get out of hand. Furthermore, the scale of their operations must not be allowed to inhibit the efficient flow of corporate information and expeditious decision-making. As governments and public institutions around the world reassess their own costs, the MDBs must demonstrate heightened cost-consciousness, and all the more so as their costs are borne largely by the world's developing countries through fees and charges.

56. Greater clarity in the relationship between costs and services is essential. Budget practices have been modernized in some MDBs; time recording arrangements have been established or refined; and task-specific budgeting has been introduced. Where such systems exist, managers have become more aware of the cost implications of their activities. Recently, the World Bank has introduced a cost accounting system which is intended to relate expenditures more explicitly to individual services. Moving further with this approach across the MDBs would help identify areas where resources can be better used. Tighter budgetary controls and more modern practices are needed to allocate adequate resources for operational goals on the basis of past results, and would also facilitate more meaningful comparisons among the MDBs.

57. Controlling costs is not enough: the ultimate judgment of the MDBs' efficiency will be based on the outcome of their operations. A more common approach to establishing evaluation standards, criteria, and methodology would help in assessing the MDBs' operational performance and development impact; but, to measure efficiency, it would still be necessary to relate these results to the costs of their varied business products and services. This will be complex to do, but the managements should develop a methodology to respond satisfactorily to increasing questions about the cost and impact of their work. Such an assessment must not stop at the operational activities of the MDBs. It needs to be extended to other activities, such as research, grant programs, the work of the financial departments, and the functioning of the Boards.

58. The institutions have taken steps to become more streamlined, and three of the five MDB budgets are declining in real terms. Progress has been made in simplifying project processing, without shortchanging careful preparation or committing funds prematurely; however, procedures still seem unnecessarily cumbersome in some cases. And the benefits of changes, especially at the largest of the institutions, the World Bank, have yet to be felt by many borrowers. Efforts to control costs, discontinue programs with limited benefits, and cut

the lead time for services should be intensified. Budget practices should give managers at all levels the information, tools, and authority to control the cost of activities for which they are responsible. Operational processes should be lightened further. And, while there should be greater delegation on day-to-day operational matters to working-level staff and to field offices, the managements must ensure that staff and budgetary resources remain concentrated on core functions and responsibilities. The size and frequency of operational missions and the use of consultants deserve special attention. World Bank missions tend to be larger and more frequent than those of regional MDBs.

59. Another budget-related matter is the increased use of "trust funds" for consultant services, which are provided by individual governments to promote certain policies (e.g., participation) or the use of their nationals in MDB work. These resources can be a welcome addition to the administrative budgets of the institutions. Where they are provided unconditionally with respect to procurement of consultant services, they can offer important support to MDB services and borrowing countries. The Asian Development Bank decided some time ago no longer to accept procurement-tied funds for consultant services, but does draw on resources designated for particular purposes, such as human resource development (e.g., the Japan Special Fund). But, when too many conditions are attached, these trust funds can complicate the application of institutional priorities. At all the MDBs, the best course of action would be to administer these resources transparently so as to serve explicit institutional priorities, and they should be subject to centralized management with sound administrative controls.

60. The advisory and technical services provided by the MDBs alongside their lending are very important elements of what makes them effective development institutions. New needs for such services are emerging, such as support for environmental impact studies, modernizing public administration, introducing better tax systems, and improving social security systems. We believe that each MDB should put systems in place by which such services could be identified and costed separately. This practice would be the first step towards possibly budgeting and charging for them separately from lending, while giving to the borrowing authorities more discretion in deciding whether to take these services. It would introduce a market test and promote greater ownership of the technical assistance by the borrowers.

61. To strengthen MDB accountability for service and results, the following steps should be taken:

First, in their country strategy discussions, the Executive Boards should consider the broad outlines of the future portfolio (including key projects in the pipeline), current implementation experience, and recent post-evaluation results. Boards should consider mid-term evaluation or completion reports on selected projects and ask the staff responsible to account for progress and results. An across-the-board review of an MDB's activities in a country should become the central mechanism through which the Boards conduct their

oversight and guidance functions, making project approval one stage in a process that involves validation of a country assistance strategy, priorities for project preparation and approval, and review of implementation and results.

Second, on the basis of commonly accepted benchmarks, the Boards should assess annually the performance of the MDBs' entire portfolios -- both ongoing and completed operations -- as well as their actual or expected development impact. To support this and their regular work, the central evaluation units of the MDBs should be given adequate budgets and staffing. They should also be allowed to issue final evaluation reports to the MDB Presidents and Executive Directors without prior clearance by anyone outside the unit.

Third, the five heads of the MDB evaluation units should meet on a regular basis to exchange experience and harmonize their methodologies and approaches.

Fourth, the MDBs should review their personnel management policies and practices, such as their annual performance evaluations of staff and managers, to ensure that they are designed to promote individual contributions in the new directions being proposed.

Fifth, the MDBs should decentralize to field offices, where appropriate, such decision-making authority as will improve the quality or reduce the cost of services.

Sixth, the managements should develop a methodology for relating better the costs and results of their services, and modernize their budgetary practices to ensure a results-oriented allocation of resources to core functions, and responsibilities. Steps should also be taken to improve the use of trust funds for consultant services and the deployment of advisory and technical services.

Enhancing the Impact of the MDBs as a Group

The Value of Diversity

62. Today, there are five major MDBs, of which one -- the World Bank -- operates on a global scale. With the exception of the EBRD, there is relatively little functional specialization among them. Their ownership reflects the geographic focus of each institution. However, the regional MDBs are not just offshoots or small-scale copies of the World Bank. Indeed, the idea of establishing an Inter-American Development Bank was first suggested at the Pan American Conference of 1889 -- fifty-five years before the creation of the World Bank. The establishment of the regional development banks grew out of specific historical and political circumstances and a sense that an enhanced regional identity was desirable. This process continues with the establishment of the Middle East and North Africa Development Bank. This explains the current pluralism and occasional appearance of competition. The considerations that led to today's diversity remain valid. More importantly, where both institutions are effective, the present system offers choice, sparks innovation, and serves to limit the scope for complacency.

63. In each region where the MDBs are lending, there are usually two MDBs plus a varying number of other international financial institutions, such as sub-regional development banks, and bilateral donors presently operating. Without coordination, their combined presence could become wasteful and self-defeating, causing duplication and overlap, reducing effectiveness, and blunting responsiveness to country needs. The two MDBs in each region can be expected to serve their members more efficiently if they pool their respective strengths. However, a pre-determined division of labor among MDBs across all countries of operation could lead to rigidity and inertia, breeding, in turn, inefficiency and obsolescence. If the autonomy and diversity of the current organizational arrangements are matched with efficient coordination and coherent policy guidance, the combination of a global and a regional MDB in each region still promises to serve the international community well.

64. As MDBs adjust and continue to build on their relative strengths in specific subject areas, there is adequate room for growing specialization. For example, the EBRD serves a special market to which some of the recommendations of this report (like those on poverty reduction in para. 19) apply only partially. The African Development Bank has undergone major difficulties during the last five years but is taking decisive action to redress the situation, with the result that we hope it, too, can soon respond to the challenges which the system of multilateral development finance as a whole is facing. It is in everyone's interest -- not least the MDBs themselves -- that the system as a whole remain as flexible as necessary yet coordinated where possible to ensure both timely services and public confidence. Where a collective approach makes sense -- even in deciding where it does or does not, the MDBs should coordinate their operations and corporate policies very actively, while the owners may wish to guide them as a group.

65. Today, the World Bank brings a global perspective, experience and strength in national and sectoral economic analysis, and an unmatched operational research base. It can engage global resources in response to a local or regional crisis, such as reconstruction needs in Lebanon, economic support for the Middle East peace initiative, or the coordination of reconstruction assistance to the former Yugoslavia. Regional institutions, in turn, are closer to regional realities; as might be expected, they frequently have at the most senior levels a continuing engagement in sensitive local issues and with small borrowers. And they are looked to for conceiving well-adapted institutional solutions, including regional cooperation and integration.

66. Coordination among the MDBs exists, but it should be intensified in several respects. First, the main place where coordination must work is at the country level. Here, the need for coordination extends beyond the MDBs to all assistance programs offered to a particular country. Second, more effective and continuous coordination is needed among the MDBs at the working level and that of the chief executives, to avoid duplication, seize opportunities for joint action, and harmonize corporate practices, where appropriate. Third, a need for coordination arises at the level of the owners to enhance the coherence of policy guidance and to monitor performance of the MDBs as a group.

Country-Level Coordination

67. The operational coordination of external assistance programs should primarily be the responsibility of the recipient country, and where it lacks the necessary capacity to do this, it may need to rely on support from an MDB of its choice. Proper coordination at the country level should lead to the better sharing of information among multilateral and bilateral donors (including the U.N. agencies) and each recipient country, improved decision-making about the use of external assistance, a greater harmonization and convergence of donor practices and procedures, enhanced development results, and greater public support for a country's efforts. Currently, the effectiveness of country-level coordination is rather mixed.

68. Sound coordination starts with a government-owned country development strategy, based on internal analysis and broad-based public consultation, rather than on documents "ghost-written" by MDBs or other external donors. National ownership of a country strategy that reflects both local public preferences and sound development practices is essential for sustained and wholehearted implementation of projects and programs. Country-level coordination should undertake a regular assessment of the collective experience of donors and government to permit the identification of best practices, e.g., impact in reducing poverty. Coordination efforts should focus on reaching a common understanding of assistance needs and a division of multilateral and bilateral donor efforts reflecting their comparative strengths and experience.

69. Country coordination should also include attention to technical assistance issues. There is a major gap in the coordination of technical assistance work, both in defining design criteria and specifications for feasibility work and in determining the nature and modalities of the deployment of technical assistance from abroad. And it is in this area that administrative overload on recipient countries and conflicting requirements, practices, and advice can be costly and difficult to manage.

70. Existing channels for coordinating country assistance strategies -- the MDB-chaired Consultative Groups and Consortia and the UNDP Round Tables -- are intended to be the apex of a pyramid of consultations about international assistance at various levels, including continuous and informal contacts within countries. In fora for coordinating assistance, MDBs currently play a lead role for a number of reasons. Their ability to engage in policy dialogue, unencumbered as institutions by national foreign policy or commercial interests, is critical to their credibility as intermediaries between donor and recipient. Their country knowledge and technical skills, the sense of ownership and access which developing countries have in these institutions, and their ability to act as an independent voice on behalf of development, make them acceptable. Improvements have been introduced to make these fora more business-like, encourage a wider array of opinions and views, broaden participation (e.g., to the private sector), allow for spontaneity in discussion, and emphasize problem-solving as well as consensus-building. There remains scope for giving these exercises more focus by aiming at more convergence of donor practices, reviewing country development results and portfolio performance, and agreeing on priorities in the implementation of country strategies.

71. These Groups and Consortia are complementary to efforts within recipient countries to ensure coherence between assistance strategies and the country development strategy at national and sectoral levels. This work needs to be intensified and to reach beyond the central government to other participants in development: local government, business, research establishments, and community organizations. The international community as a whole -- not just the MDBs -- must foster ownership of this national coordination process by the host country. As a matter of principle, continuing efforts should be made to pass the primary responsibility for regular coordination within the recipient country -- including the chairing of formal meetings -- to the country authorities. MDBs should remain available to assist governments on request and accept lead responsibility for coordination only in special circumstances, such as a broad-based international response to reconstruction needs, resolving a major conflict, or an explicit request for assistance by the host country. As a matter of priority, the MDBs active in each region should discuss with their major borrowers appropriate changes in current coordination arrangements, so as to emphasize the need for host country leadership and identify steps by which this can be achieved in the reasonably near future.

Coordination and Cooperation Among the MDBs

72. Tighter coordination of MDB activities in a single country -- particularly in analytical and assessment work -- should reduce the administrative burden on the country, add to the complementarity of MDB operations, enhance coordination efforts for other donors, and in consequence improve development effectiveness. Countries should exercise their choice in coordinating MDB activities as well as those of other donors. Nevertheless, these institutions, on the basis of the realities of countries they serve and the resources and experience they command, must decide for themselves the current and future strengths of their organization. MDBs should make a determined effort to base their respective country assistance strategies on coordinated, if not joint, economic and sector reports, poverty assessments, environmental profiles, and private sector analyses. In all these areas, better cooperation between MDBs offers considerable opportunities for the reduction of duplication. And, as a rule, they should prepare joint appraisal, completion, and audit reports for all of their co-financed operations. Such practices would have training and team-building effects on both sides and promote a common sense of mission.

73. There are also opportunities for increased cooperation between the MDBs and the International Monetary Fund. For example, the World Bank and the IMF announced in September 1995 a very constructive initiative to undertake joint public expenditure reviews in order to ensure greater complementarity between overall fiscal management objectives and funding for specific sectors and purposes. To reduce duplication of activities and improve coordination in the field, the regional MDBs should expand cooperation between themselves and the Bretton Woods institutions to include joint missions and an appropriate division of labor on macroeconomic and sector work.

74. Beyond operational coordination at the country level, which is mainly the responsibility of the staffs and managements of the MDBs operating in the same region, the chief executives of these institutions meet informally at least once a year to compare notes on issues of common interest. These meetings are occasions to increase mutual awareness and form shared positions on significant issues. Recent agendas included: portfolio quality assessment, disclosure policies, governance, inspection panels, and promotion of the private sector. These interactions are obviously important tools of coordination. Their agendas may well extend to promoting operational cooperation in the respective regions and the coordination of policies and practices, such as those on procurement and their adaptation to private sector participation, procedures for ensuring the greater effectiveness of technical assistance, research agendas, and public relations work. Although such coordination is very important to enhance inter-institutional harmonization at the country level, it does not concern itself with strategic and broad orientations of the group as a whole in the areas of international development priorities, public resource allocation, and other important issues requiring guidance for ensuring institutional performance to achieve results. These directions can only be provided by the owners of the institutions.

Coordination at the Level of the Owners

75. Growing public interest in the institutions' work, in the appropriateness of their policies, and in the coherence of their activities with those of other international organizations cannot be satisfied just at the country level or that of the Boards and Managements. A more encompassing collaboration is needed among the MDBs as a group and their owners, to permit a debate on issues concerning the system as a whole. Such a debate should at the same time provide broad policy guidance for effective delivery of their mandate in the broadest sense and reflect the priorities and areas of emphasis of the international development community.

76. Issues to be addressed at this level should remain highly selective and be confined to topics relevant to the governance, management, and operations of all the MDBs. Issues covered might be: further evaluation of mechanisms for attracting private sector flows for development (guarantees, financing, insurance, and policy-based approaches), the treatment of the non-performing assets of the MDBs, multilateral debt relief for highly indebted low-income countries, eligibility criteria for concessional assistance, graduation policies and practices, the comparative performance of the MDBs, and the relationship of the MDBs as a group with other parts of the international community such as the UN system and the World Trade Organization. These issues are of obvious relevance to all MDBs, and decisions on them must remain the prerogative of the existing hierarchies of institutional governance. But such decisions could be better informed through more deliberate owner review across the MDBs as a group. This process should be designed so as not to add layers of bureaucracy.

77. We do not advocate the creation of a new standing body to fill this need. It should be readily met by a suitably placed and existing entity. One approach would be for the Development Committee to take on this responsibility. Many relevant topics already occupy the Committee in relation to the Bretton Woods institutions. Others may need more preparation at working level before they can be considered by the Committee and recommended for action by the respective Boards of Governors. Depending on the topic, the Committee could appoint an ad hoc group -- as it did with the present Task Force -- to pursue enquiries for their subsequent consideration; or it could invite the Heads of the MDBs to consider specific topics and make agreed proposals. This proposal responds to the invitation of the G-7 Halifax Summit to the Task Force, as well as that of the Chairman of the Development Committee, to suggest ways in which the Committee's work could be strengthened. It would be important, however, not to reverse recent Development Committee reforms that have resulted in a less formal and more effective group for deliberations and providing guidance to the Bretton Woods institutions. Looking at issues involving the MDBs as a group need not conflict with these improvements; the Committee's agenda could continue to include items specifically directed to the World Bank as well as broader items.

78. The work of this Task Force is the first time such an effort has been made. We believe that consideration should be given, in 4-5 years, to undertaking a similar broad-based review. This would allow a coordinated assessment based on an open exchange of views among representatives of all owners and managements. The representation of both donors and recipients could add realism, a sense of shared responsibility for the outcome of policy guidance, and greater credibility to the process. Another review of the development impact of the institutions' activities would ensure that their efforts at cooperation remained effective.

How to Make Coordination Work

79. Successful coordination is a challenge which the MDBs cannot be expected to meet by themselves. However, they can make a major contribution and initiate a process that carries prospects for securing significant efficiency gains for the countries they serve, for their organizations, and for the international development community. To sustain momentum, such processes must receive the support and continued encouragement of their shareholders and recognition from other interested parties. For that to happen, such initiatives should be aimed at demonstrably enhancing development impact at the country level, and at accounting for it in readily understandable and commonly acceptable ways.

80. With these objectives in mind, the MDBs and their owners should take action to intensify coordination at three levels:

a) At the country level, by causing recipient countries, with MDB support, to assume primary responsibility for coherence between national and sectoral development strategies and international assistance; inviting donors to aim coordination at sustaining development priorities and enhancing the convergence of their processes and practices; and encouraging in-country coordination beyond the central government to include local government and civil society.

b) At the level of the MDBs, by promoting the convergence of corporate and operational policies, standards, criteria, processes and practices through the initiatives of the heads of the MDBs as a group; actively pursuing opportunities for joint action and documentation in operational activities and consolidating operational research programs; and harmonizing criteria, techniques, and practices for measuring results among evaluation units.

c) For the MDBs as a group, by making arrangements for the provision of coherent policy guidance by the owners of MDBs on issues of common concern to them; fostering and reinforcing the complementarity of programs and convergence of operational policies, processes and practices; and monitoring the institutional performance of the MDBs in terms of development impact.

These steps should be accomplished in ways that reduce administrative costs and effort, by re-focussing attention on possible synergies arising from the provision of MDB services as a group.

Development Committee
Task Force on Multilateral Development Banks

Its Origins, Terms of Reference and Composition

The Development Committee agreed to establish the Task Force on Multilateral Development Banks (MDBs) at its meeting of April 1994. The terms of reference were prepared by the Executive Directors of the World Bank in July and approved by the Development Committee at its meeting in Madrid in October 1994.

The Task Force was asked to "assume that there is already a broad consensus between the institutions and among the shareholders on the principal objectives of the development process (for example, sustainable economic growth and poverty reduction) and should concentrate on how this is to be applied in practice by the Banks. It will also take the fullest possible advantage of recent works in the Banks, such as the Wapenhans Report in the World Bank and the similar reports recently completed in the other Banks, and the papers recently produced for the fiftieth anniversary of the World Bank. On this basis, and within the framework of the existing constitutions of the MDBs, the Task Force will:

1. Assess the implications of economic change for the development priorities, instruments, operations, and management of the five principal MDBs, and consider whether improvements could strengthen their impact on the development process:
 - Particular attention should be accorded to identifying 'best practice' successes in reducing poverty for possible replication elsewhere.
 - It should also consider how the MDBs can best support the development process at a time when the private sector is playing a bigger role than in the past.
 - Efforts underway in each of the MDBs to improve portfolio performance should be reviewed, with the view to identifying where 'best practice' successes and other lessons learned by individual MDBs in improving portfolio performance can be replicated throughout the MDB system.
2. Evaluate procedures and practices for coordination among the MDBs and other members of the development community, and consider whether it is possible to make any improvements on a regional, country or sectoral basis:

Particular attention should be given to identifying the respective missions and strengths of each institution and to their present dialogue and cooperation."

At its first meeting, the Task Force agreed that it would not enter into a discussion of institutional financial resourcing, trade and exchange rate issues. It was also agreed that the Task Force would not deal with the issue of multilateral debt since analyses and discussions were already underway on this topic in other fora.

The Task Force was constituted in December 1994; it consisted of 17 officials from member countries and was chaired by Mr. Abdlatif Al-Hamad, Director General of the Arab Fund for Economic and Social Development, based in Kuwait. The individuals, and their affiliations, serving on the Task Force are listed in the attachment to this Annex.

The MDBs were represented by:

Delphin Rwegasira	-	African Development Bank
Shoji Nishimoto	-	Asian Development Bank
Nicholas Stern	-	European Bank for Reconstruction and Development
Euric Bobb	-	Inter-American Development Bank
Armeane Choksi	-	World Bank

The IMF Observer was Jack Boorman and Chanpen Puckahtikom served as his deputy.

The Task Force Secretariat was headed by Mr. Willi A. Wapenhans, supported by a core staff consisting of Messrs. Robert Calderisi, Hans Eberhard Köpp, and Baelhadj Merghoub. The Secretariat retained Messrs./Mmes. Marcel Belanger, Makarand Dehejia, Dieter Hartwich, Garry Jewett, Raymond Love, V. Krishnaswamy, Jean-Pierre Le Boudier, Lucy Nichols, and Nena Vreeland as short-term consultants who also contributed background notes and working papers on specific topics. The North-South Institute, Ottawa, Canada, and Organizing for Development - An International Institute (ODII), also provided services and background analyses. Lester Nurick served as the legal advisor to the Secretary. Administrative and budgetary matters, conference organization, graphics, document preparation and the establishment of a reference library were handled by Mmes. Rama George, Sophia Maroon, and Marie Zenni.

The Secretariat was based at the headquarters of the Inter-American Development Bank in Washington, D.C. and greatly benefited from the support and hospitality which it received there. The Task Force enjoyed the full cooperation of all MDBs and the IMF as well as the effective support from their managements.

Members of the Task Force

The individuals listed below were the principal members of the Task Force as appointed by their authorities and - as indicated- their alternates (A) in one or more of the meetings. An asterisk (*) after a name indicates attendance at the Task Force's final meeting, on March 1-3, 1996, in Washington D.C., at which the report was completed. The members affiliations are those on record but not necessarily their present positions.

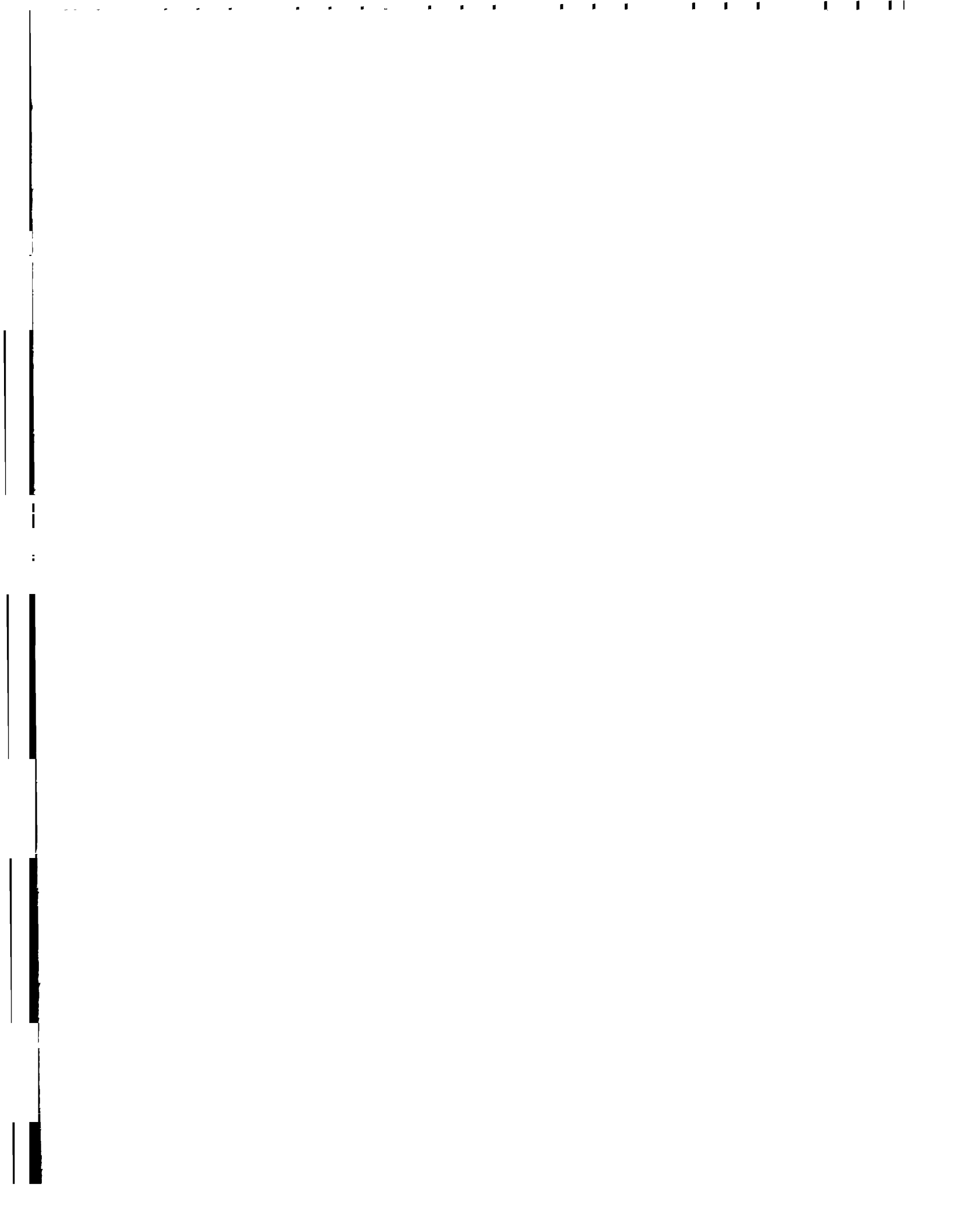
Abdlatif Al-Hamad	Kuwait	Chairman, Task Force; Director General Arab Fund for Economic and Social Development
Montek Singh Ahluwalia	India	Finance Secretary Department of Economic Affairs Ministry of Finance
Shankar Acharya* (A)		Chief Economic Advisor Ministry of Finance
NK Singh (A)		Additional Secretary Ministry of Finance
Robert M. Ainscow*	United Kingdom	Deputy Secretary Overseas Development Administration
Laszlo Akar*	Hungary	State Secretary Ministry of Finance
Jobarah Al-Suraisry*	Saudi Arabia	Deputy Minister of Finance for International Economic Cooperation Ministry of Finance and National Economy

Alhaji Abubakar Alhaji*	Nigeria	Nigerian High Commissioner United Kingdom
Victor Komla Alipui*	Togo	Regional Director BCEAO
Tom Bernes*	Canada	Assistant Deputy Minister International Trade and Finance Department of Finance
Allan Gill (A)		Director, International Finance and Development Division Department of Finance
Sergio Silva do Amaral*	Brazil	Spokesman for the President of the Republic
Roberto Jaguaribe (A)		Head, International Desk Ministry of Budget and Planning
Nicolás Flaño C.*	Chile	Associate Researcher Corporacion de Investigaciones Economicas para Latinoamerica (CIEPLAN)
Haruhiko Kuroda	Japan	Deputy Director-General International Finance Bureau Ministry of Finance
Hideichiro Hamanaka ^{1*} (A)		Deputy Director-General International Finance Bureau Ministry of Finance

¹ Mr. Hamanaka replaced Mr. Kuroda (then Deputy Director General, International Finance Bureau) after the first two meetings and following the latter's promotion.

Joop B. Hoekman*	Netherlands	Ambassador Ministry of Foreign Affairs
Neil Hyden*	Australia	First Assistant Secretary International Economy Division Department of the Treasury
Zhang Junyi	China	Ministry of Finance
Liqun Jin ² (A)		Assistant to the Minister of Finance Ministry of Finance
Alexander A. Khandruev	Russia	Deputy Chairman of the Board Central Bank of Russian Federation
Francis Mayer*	France	Assistant Secretary for International Affairs Department of the Treasury Ministry of Economy and Finance
Bertrand de Mazière (A)		Deputy Director, Treasury Ministry of Economy and Finance
Ole Lonsmann Poulsen*	Denmark	State Secretary Ministry of Foreign Affairs
Jeffrey Shafer*	United States	Under Secretary for International Affairs Department of the Treasury
Lionel Johnson (A)		Deputy Assistant Secretary for International Affairs Department of the Treasury

² Mr. Jin replaced Mr. Junyi at the last meeting.





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The Development Committee was established in 1974. It is known formally as the Joint Ministerial Committee of the Boards of Governors of the World Bank and International Monetary Fund on the Transfer of Real Resources to Developing Countries. The Committee's 24 members, usually Ministers of Finance, represent the full membership of the World Bank and the International Monetary Fund. The Committee maintains an overview of the development process. It advises and reports to the Bank and IMF Boards of Governors on all aspects of the broad resource transfer issue. It also makes suggestions regarding the implementation of its conclusions.