

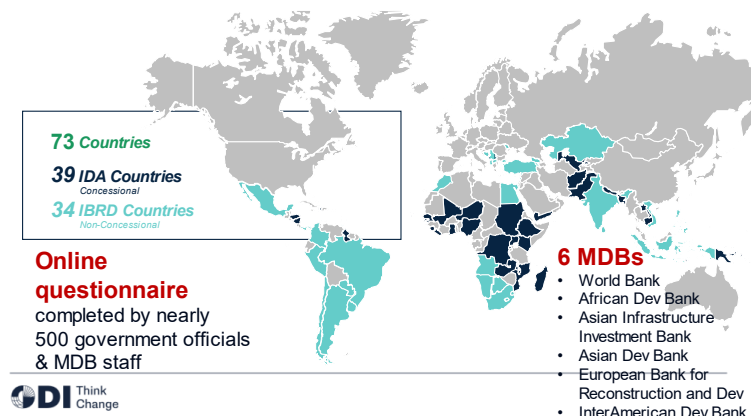
G-24 Virtual Technical Group Meeting (TGM)

Session 2 on Roundtable on the World Bank Group Evolution Roadmap

Friday, 24 February at 08:30 EST

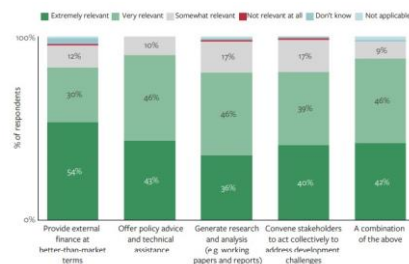
Annalisa Prizzon, Principal Research Fellow, ODI

- One key challenge for the reform agenda of multilateral development banks (MDBs) that is often overlooked in the current debate is whether and how increased financial headroom will translate into higher demand from client countries.
- Many of these issues speak to the reform of the operational model of the World Bank Group (WBG) in its Evolution Roadmap.
- I will make five points, all of which reflect the evidence gathered in an ODI survey published last year: [Country perspectives on multilateral development banks: a survey analysis | ODI: Think change](#). We interviewed nearly 500 government officials (Heads of Resource Mobilisation and MDBs Departments in Finance and Planning Ministries and line agencies) and MDB offices (country directors/managers and country economists) in 73 countries, which constitute half of the WBG's client countries.
- While the survey considered six MDBs (AfDB, AIIB, AsDB, IADB, EBRD, WBG), some of the points I am going to illustrate are applicable across all institutions.



- Let me start by stressing that the vast majority of government officials (at least 80%) found that what MDBs offer is either relevant or extremely relevant for the socio-economic development of their own country (finance at better than market rates, provision of policy advice and technical assistance, knowledge generation and convening power). These results are robust across regions and lending terms. It is worth noting that more than 50% of government respondents from Latin America – representing many IBRD countries with access to capital markets – still think that MDBs offering finance at better than market rates is extremely important for them.

The offer of MDBs remains relevant for client countries



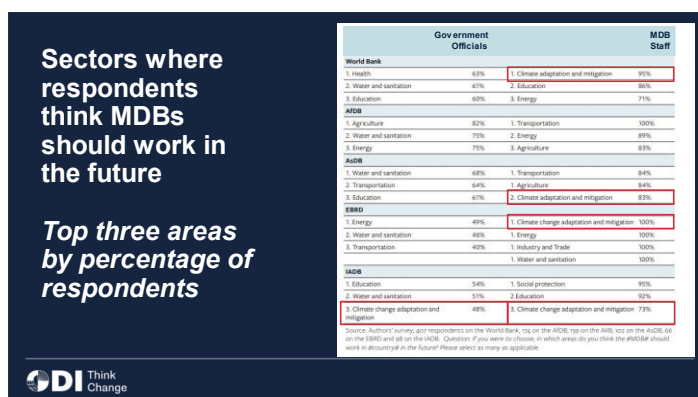
Source: Authors' survey. This refers to answers provided by 487 respondents (rounded figures). Question: How would you rate each of these items in terms of their relevance for the long-term social and economic development of #country#? In the online questionnaire, items were randomised.



- I will make five points to improve incentives for client countries to access MDB lending and technical assistance.

1. Align projects and programmes to policy priorities

- Three-quarters of government respondents value the alignment of development finance to national priorities. However, when we asked government officials which sectors they would like MDB to operate in and what MDB staff think these priorities are, two findings warranted further reflection:
 - First, the data reinforces the idea that there is a division of labour between institutions, especially in Africa, with the WBG prioritising the human capital agenda and climate change on the one hand, and the AfDB focusing on infrastructure and the productive sectors on the other. In the case of the IADB in Latin America, the respondents' top three preferred areas of operation largely overlap with those of the WBG, including programmes on social protection, where the IADB has long-standing expertise. The AsDB falls in between (with a combination of both the social and productive/economic sectors being in the top priorities).
 - Second, in most cases, the overlap between the top-three sector priorities of government and MDB officials was limited. The discrepancy between the sector priorities was especially true for climate change mitigation and adaptation. This sector was among MDB officials' top three priorities (except for staff at the AfDB's country offices), yet it did not feature prominently among government officials. This is an area where incentives should be better structured to boost demand.

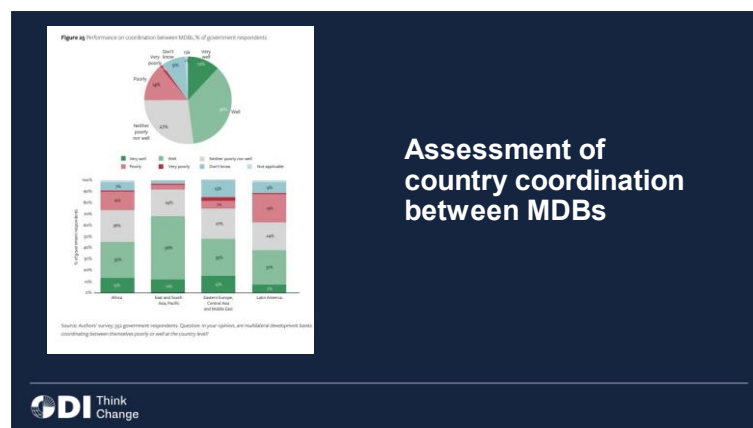


2. Make MDB lending simpler

- MDB lending and procurement rules are complex, for both client and internal stakeholders. Half of government officials found safeguarding and procurement policies to be complex and rigid. The literature also underlines that this can deter future borrowing. Safeguarding and procurement rules might not be a good fit for the context too.
- While there is little appetite and policy space for another review of World Bank safeguarding policies, there should be ways to make the process more efficient without compromising standards, e.g. reducing duplications or increasing delegation authority to management/country offices.

3. Improve coordination among MDBs

- Nearly half of government officials felt that the MDBs operating in their country coordinated well with each other. However, this perception was significantly lower in two regions, falling to 45% of respondents in the selected African countries and to 39% in Latin America. A quarter of government participants based in Latin America explicitly stated their belief that MDBs coordinated their operations very poorly in their country.



4. Improve the delivery of technical assistance

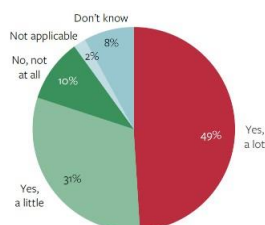
- With regard to the technical assistance and policy advice offered by MDBs, government respondents valued this function's ability to fill capacity gaps in government and its high level of specialisation. They also rated it as being high quality, highly demand-driven and led by knowledgeable staff.
- However, while long-term impact was considered to be the most relevant characteristic for technical assistance and policy advice, this was the area where MDBs received the lowest performance rating among characteristics offered in the survey. Though a clear priority for government officials, the long-term impact of technical assistance was underestimated by MDB staff.
- An unexpectedly low percentage of respondents considered the technical assistance and policy advice of MDBs to be good value for money or less expensive than other providers.
- This dimension does not feature prominently in the Evolution Roadmap agenda. There is a clear need for policy advice and technical assistance to have a longer-term impact, with a

shift in emphasis from the reliance on international consultants to local capacity building and a better understanding of the local context.

5. Reconsider policy conditionality

- Policy conditions imposed on new grants and loans were among the main constraints cited by government officials when negotiating new assistance programmes offered by MDBs. The vast majority of government respondents (four in five) indicated that policy conditions (e.g. macroeconomic reforms attached to assistance) impacted their decision about borrowing from MDBs for development policy financing. Nearly half of government respondents (49%) felt that policy conditions greatly affected their decision. These findings were consistent across regions and lending terms.
- This finding calls for a reconsideration of policy conditions on new lending to meet clients' demand for the flexible use of funding. While client countries valued the flexibility of development financing, they also gave the lowest rating to MDBs' performance in this area. A desire for the flexible use of funding also suggested a strong preference for instruments akin to budget support. In general, however, government officials would opt for investment project finance if that was the only option available. This financing modality is not flexible, but it does not come with conditions that require policy reforms. In the future, MDBs may have to accept that their ability to use finance to directly influence policy through conditions will become increasingly limited.

Impact of policy conditionality on borrowing decisions



Source: Authors' survey; 352 government respondents. Question: In your opinion, does the existence of policy conditions (e.g. macroeconomic reforms) affect your decisions about borrowing from MDBs?