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Corporate Management - Breakfast - Jannick Lindbaek - International Finance

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- ☐ Communications with Staff

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- ☐ Calendar
- ☐ Press Clippings/Photos

- ☐ JDW Transcripts
- ☐ Social Events
- ☐ Other

B. SUBJECT: BREAKFAST: JANNICK LINDBAEK, IFC

Venue: JDW's private dining room
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2/26 - CIHAT

DATE: 02/28/96

C. VPU

Corporate

- ☐ CTR
- ☐ EXT
- ☐ LEG
- ☐ MPS
- ☐ OED
- ☐ SEC/Board
- ☐ TRE

Regional

- ☐ AFR
- ☐ EAP
- ☐ ECA
- ☐ LAC
- ☐ MNA
- ☐ SAS

Central

- ☐ CFS
- ☐ DEC
- ☐ ESD
- ☐ FPD
- ☐ FPR
- ☐ HRO

Affiliates

- ☐ GEF
- ☐ ICSID
- ☐ IFC
- ☐ Inspection Panel
- ☐ Kennedy Center
- ☐ MIGA

D. EXTERNAL PARTNER

- ☐ IMF
- ☐ UN
- ☐ MDB/Other IO
- ☐ NGO
- ☐ Private Sector

- ☐ Part I
- ☐ Part II
- ☐ Other

E. COMMENTS:



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SERVING A CHANGING WORLD

Report of the
Development Committee Task Force on Multilateral Development Banks

February 14, 1996

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February 14, 1996

Serving a Changing World

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

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1. The Role of the Multilateral Development Banks

1. The multilateral development banks face a world which is 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 shift in the share of manufacturing production to East Asia and Latin America. Developing countries have accounted for about 75% of the recent 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 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 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. Social and economic tensions risk interrupting continued progress, political stability, and the sustainability of development in many developing 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 being adjusted. 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. Although private international capital flows have grown dramatically, they are 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 enhance the health and literacy of their people. 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 balancing private and public interests, fostering political and social stability, following sound and predictable economic and regulatory policies which reward private effort and investment, and providing essential investments and services when the private sector is unable or unwilling to do so. 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.

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 entire administrative costs from 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 industrial and some developing countries to accelerate development in the poorest countries. The MDBs are intended to invest these funds in pursuit of high social and development returns, without regard to political or commercial considerations, and to bring to this work an analytical capacity and experience which others cannot to the same degree.

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 intelligence. 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.

7. 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 are a mechanism for sharing the financial burden of such assistance, and for substantially leveraging and extending the limited resources available for this purpose. They help underpin an effective international economic system. They also reflect a consensus that international public sector institutions are needed to provide services or mobilize funding which other channels, like the private sector or bilateral government programs, cannot do on their own, or as effectively.

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 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 analytical 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 long-term financing is of a kind often not available from private sources. Their advice is based on unparalleled expertise

and broad experience drawn from a wide variety of sources. And their ability to take disinterested 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. Financing for investments with low rates of return or unproductive public expenditure -- unrelated to a sound country analysis and strategy -- would not be a lasting contribution to the borrower. 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 direct and continuous field experience. 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 remains global, despite the dynamism of many developing economies. Asia still has the largest number of people, 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, without forgoing the valuable policy dialogue and technical support that come with MDB programs.

Supplementing 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 can help to attract them to other countries and regions, like Central Asia and the Middle East. Africa will remain the greatest challenge for the MDBs, owing to the need for better governance, sound public sector management, and self-help before external assistance can be fully effective.

12. The recovery of private sector lending and foreign direct investment implies that the MDBs should restrict themselves increasingly to countries or activities that do not attract private financing readily. At the same time, support for the private sector creates a need for investment -- in infrastructure, policy reform, human development, capacity building, the modernization of public administration, and the environment -- to which MDBs can continue to contribute. There will always be critical development activities where only governments can take the lead. Examples include investments in roads, irrigation and water supply, and health and education facilities in poor communities which cannot be structured to ensure an early return to private investors. Another case is the development of remote provinces -- in some cases larger than whole countries -- 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 the full engagement by governments, if only to strip away policy and regulatory distortions.

13. What, then, is 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. In this way, they will support the policies, the institutions, and the infrastructure necessary to permit economic growth and efficiency, improve the prospects for the poor, protect the environment, and develop the private sector. Uncertainty about the financing of IDA, the prime multilateral concessional fund, is a major threat to the continued effectiveness of the system. Second, they should remain central in ensuring the access of a large number of lower-income countries (e.g., in Africa) to a mix of resources, including highly concessional assistance, debt relief, market-based 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 act as poles of experience, research, and advice on a wide range of issues of interest to member countries, including population policy, labor migration, environmental degradation, and good governance. Fourth, the MDBs (and especially the EBRD in Central and Eastern Europe and the former Soviet Union) 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. And fifth, the MDBs are likely to continue to be called upon to assist with the economic support needed in resolving regional and ethnic conflicts, in reconstructing devastated economies, and in helping to establish the material base for a lasting peace.

2. Supporting Sustainable Development

Reducing Poverty

14. 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.

15. 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 the last decade, only East Asia and South Asia have had rapid per capita GDP growth. 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, reluctance to experiment with new technologies (if they risked cutting into already meager incomes), and the difficulty of applying high-cost solutions to raising skills and incomes on a broader basis.

16. Growth is fundamental for poverty reduction -- but not enough. Without the right kind of growth, sound policies, and strong local institutions, the benefits of growth will be uneven. Governments must adopt measures which will promote employment and offer poor people 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 and efficient basic services.

17. 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 (and not wait for the benefits of growth to "trickle down"), an institutional capacity to design and follow through on appropriate policies and programs, and a strengthening of essential services (especially primary education and vocational training, preventive health care, family planning, nutrition, clean water, and sanitation). 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.

18. MDBs have an important role to play in promoting broad-based growth and supporting efforts to help the poor more directly. Although there are limits on their capacity to intervene, 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 other countries' experiences to the people and institutions needing encouragement. MDBs remain intermediaries only. However, they can help 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 agricultural growth, income opportunities (in agriculture, small-scale enterprises, and the informal sector), access to land and credit, rural infrastructure, and basic education and health care for all (especially 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 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.

Third, the MDBs should improve further the effectiveness of their lending for basic health and education services, clean water schemes, micro-enterprises, and housing, 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 reduce population growth when this is excessive, promote health, literacy and economic opportunities among women, and contain the adverse environmental consequences of poverty and over-population.

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 each 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. 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, while their comparative advantage will always lie in large-scale activities and projects associated with policy advice and reforms, the MDBs should experiment with providing small amounts of direct grant financing from their administrative budgets to community groups and non-government organizations active in poverty-related services. This 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 these activities. Bilateral development agencies may have a greater experience and advantage in supporting NGOs, but there is also scope for the MDBs to work more closely with NGOs in cooperation with local authorities as implementing agencies for projects supported through lending programs. This type of financing would be particularly useful in developing NGO capabilities. At the same time, such contacts would deepen the MDBs' dialogue with the local civil society.

Sixth, the MDBs should intensify their advice in developing social security arrangements and affordable safety nets that are compatible with a market economy. 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 portable 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 system reforms also offer considerable potential for enhancing domestic savings.

Promoting Effective Government and a Strong Civil Society

19. 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 the 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. At a minimum, this includes a government's accountability to its citizens, the rule of law, a participatory approach to development, protection of legitimate economic activities and interests, easy access to

important information and services, and reasonable decision-making reflecting the actual needs of people.

20. The MDBs can 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 smaller but stronger 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 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 (including the training of judges and magistrates), 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 continue.

Making Development Environmentally Sustainable

21. 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 the constituencies (especially local ones) 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 information needs of women -- who are the "managers" of the household in many countries and most involved in the use of scarce natural resources like water and fuelwood -- require special consideration.

22. 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. Despite some dramatic and well-publicized failures, the MDBs deserve credit for the positive changes which they have made in their staffing and operational approaches. But much more remains to be done.

23. 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. New forms of collaboration and exchanges of information are necessary to ensure the development of responsible projects. Civil society (particularly in developing countries) should be drawn into the design and implementation of programs and projects, where they have relevant expertise and views.

24. 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 incite good practices across borders and to develop regional plans of action.

Investing in Infrastructure and Utilities

25. 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 from the national budget. Recently, private capital has been attracted to some of these

undertakings. But, in both cases, good governance and conducive public policy are essential for success. Despite recent increases of private flows to emerging economies, less than 10% of current investment in infrastructure is financed by private sources from abroad. 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 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 help finance such services, especially to close funding gaps in ways which will ease the burden on the cash-flows of operating entities. In these cases, an operationally meaningful MDB involvement may well approach 20-30% of the investment.

26. Private interest clearly differs across sub-sectors. Utilities such as power generation, telecommunications, and urban transportation are usually more attractive to private investors than power distribution, water supply, sanitation, and waste disposal. Some transportation infrastructure which can be organized as commercial undertakings is also of

interest. MDBs need to support infrastructure that is developmentally important but beyond the commercial range and remain alert to the possibilities of attracting more private sector participation, including that of the local community and civil society. At the same time, the MDBs should promote the broadening of domestic financial and capital markets to help mobilize savings for the provision of infrastructure and utility services, irrespective of who owns them.

Encouraging the Private Sector

27. There are three ways in which the MDBs can help to move the private sector into the center of the development process: first, by promoting a framework of public policy and institutions at the national level which encourages fair competition and the swift enforcement of contracts; second, by supporting policies to encourage savings, domestic enterprise development, and broad access to investment resources; and third, by helping to attract private capital flows from abroad for important purposes, such as infrastructure and certain other public services, and for supporting the emergence of a profitable and efficient private sector. As the MDBs' clients are increasingly diverse, the services they receive should be tailored accordingly.

28. Only Governments pursuing the public interest can 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 reasonable 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 provide analysis and technical assistance for improving particular aspects of this environment, in close conjunction with policy-based and other lending programs.

29. For the MDBs and their affiliates, a particular priority should be the promotion of resilient domestic private sectors in developing and transition economies. Small and medium-sized enterprises, in particular, offer important prospects for employment creation, flexibility, and responsiveness to changing opportunities. In many countries, there is still a need to develop a domestic financial sector that provides adequate rewards to risk-taking and can generate and channel domestic savings, as well as external capital, to productive purposes. Special attention should be given to supporting micro-enterprises. National government agencies are not ideal providers of direct services to small businesses. Accordingly, the MDBs should aim to help orient the private banking system to such potential clients, as well as support the development of non-traditional "retail" mechanisms operated by NGOs and others, where appropriate. Community groups, informal savings associations, and other forms of mutual self-help are examples of the kinds of activities that should be encouraged. Another objective must be to draw micro-enterprises from the margins of society into the heart of the "formal" economy: among other means, this can be done by ensuring that administrative procedures and tax burdens are reasonable for them. While micro-enterprises and easing

restrictions on the informal sector can contribute significantly to reducing poverty, particularly for women, they must be underpinned by continuing government policies that promote the interests of the poor. Micro-enterprises will not flourish where health and education services and the protection of property are given low priority.

30. Until the early 1980s, between 15 and 20 percent of the MDBs' annual commitments were made to the private sector through loans to public sector development finance companies or development banks, 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 intermediation and the channelling of external resources remains, and the search for innovative delivery channels should be pursued actively by the MDBs. More widespread use of such channels would foster the emergence of much more market-oriented economies with prices better reflecting real costs and a greater reluctance to provide public subsidies. But direct financing of private sector enterprises without government guarantees presents the MDBs with an important challenge, involving risks which need to be well understood.

31. A strong private sector promotes growth and efficiency and thus eventually benefits society as a whole, including the poor. The MDBs can directly encourage private capital flows through participation in private sector projects and financial arrangements, but

they need to be careful that they do not preempt, or substitute for, private financing. The 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; but they also need to be careful that they do not extend these privileges to private parties. The need to balance these concerns must be reflected in clear and transparent criteria for governing the MDBs' operations in this area. Their organizational arrangements also need to take them into account.

32. Recognizing this challenge, the IFC adopted in November 1995 a new set of guidelines for its operations. 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. And it will collaborate with private investors, financial institutions and advisers. These principles are an important adjustment to a changed international environment. In 1994, the EBRD also announced guidelines and criteria setting out the need to observe sound banking principles and achieve additionality in supporting the transition of its borrowing countries.

33. The case for MDB financing of private sector transactions must be very strong. In the past, it has been recognized that such funding should meet the test of additionality, but this test has often been applied loosely. It should now be tightened. MDB involvement should be "additional" in two senses. First, financing should be provided only where an otherwise deserving activity would not proceed without such support. In other words, as the new IFC

guidelines suggest, MDBs and their affiliates should not compete with capital provided by the market on reasonable terms, including maturities compatible with the nature of the investment. And, second, MDB involvement must serve the public interest. That an investment contributes to growth and thus the welfare of society as a whole does not by itself justify using public sector resources in support of private sector gain. Instead, it must meet particular development needs. The presence of an MDB should be proof that a private sector investment is economically sound, that it is environmentally benign, that the choice of technology or location will be advantageous to society, and that the distribution of its benefits is socially acceptable, or its assets as widely held as possible. Such tests should also affect the size of individual loans: each should be only as large as necessary to fulfill the MDB's combined role as promoter of private participation and sponsor of the public interest. The MDBs' private sector activities also need to be integrated into their assistance strategies for the country concerned.

34. There is inevitably some tension between the objective of additionality and the financial targets set by the MDBs for their private sector activities. For example, the IFC is expected to earn an 8% return on assets and mobilize six times more from other sources than it invests in an operation. Larger transactions tend to have lower unit administrative costs, and more reliable borrowers entail less risk. Accordingly, financial considerations by themselves would tend to lead managers to skew their portfolios towards larger enterprises and low-risk countries already attracting greater foreign investment. Greater efforts need to be made to offset this bias and ensure that genuine additionality is achieved, so that the MDBs' private sector activities serve a true development role.

35. The existing MDB arrangements offer considerable potential for mobilizing private sector support for infrastructure and utility development (see also paras. 25-26). The World Bank has revived the use of its performance guarantee instrument, and the IFC has begun to build an impressive portfolio in syndication to support such projects, though mainly in less risky countries. 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.

36. The provision of performance and credit guarantees can increase the access of developing countries to international capital markets by exposing countries and financing sources to one another; but they can also have disadvantages. The extension to a private sector financier of a guarantee against non-performance by the host government offers limited benefits to anyone other than the recipient of the guarantee. The guarantee must still be backed by MDB capital which would otherwise be available to back direct lending. Moreover, where a host country's counter-guarantee is required, the government's borrowing power may be constrained, while the government again becomes an interested party to the operation of the project. This may run counter to the objectives of private sector operation and could complicate the government's task of protecting the public interest, e.g., in ensuring the reasonable pricing of services, requiring private parties to match technological advances elsewhere, or preventing discriminatory practices in the procurement of capital goods. In addition, performance guarantees involve an MDB in selected aspects of the overall concept and concession arrangements between the parties and hence limits the MDB's role as honest

broker. These considerations suggest that the guarantee instrument needs to be used cautiously and only where special circumstances apply.

37. 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.

38. There are two major but different risks in these syndications: the commercial risk (i.e., that the investment will fail) which is shared in proportion to the various parties' participation, and the "political" risk that a country will interrupt the transfer of foreign exchange or debt service. It is this latter risk that may create a potential for shifting private costs to public parties. The orders of magnitude currently involved are not significant at the global level. But, in specific countries, the structure of the national debt may soon be such as to make the B-loan portions of syndications more prominent and, if debt rescheduling occurs, give rise to questions about the various lenders' places in the queue. As the MDB is formally the lender of record, any subordination of these obligations could not be limited to the B-loan portions. This could set a precedent and threaten the general acceptance of the preferred creditor status of the MDBs. The potential for such risks will grow if the MDBs (including the IFC) are encouraged to emphasize development objectives more plainly in their portfolios.

The umbrella function of extending preferred creditor status to B-loan participants could thus cause additional costs to the MDBs and shift risks to the taxpayer. Such risks now need to be reviewed by the MDB Boards. Alternative market-based instruments for attracting private participation should be considered or reviewed. 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.

39. 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. Such tension will always exist in a market economy. Reconciling any conflict within the MDBs requires a country strategy guiding assistance to both the public and private sectors. Other issues may also be more straightforward to resolve with a separate corporate identity for private sector activities. These include possible differences between public and private projects in information which can be made generally available (at least during project preparation), varying procurement policies (with open bidding normal for public sector projects and not for private ones), and the need to train and motivate personnel for two very different types of activity.

40. At the World Bank Group, guaranteed and non-guaranteed lending are separated (as the World Bank 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, 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 experience of a combined staff is too short to permit conclusions, but this 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' financial accounts should be separated into private sector and public sector accounts in ways which would provide for transparency and allow the assessment and management of costs, risks, and returns separately for public and private assets.

41. Our conclusions are that the MDBs should, first, develop clear ways of demonstrating that their support for private sector investments attracts additional financing and is in the public interest. Similarly, performance and credit guarantees should meet a public interest test.

Second, the shareholders should review the performance criteria for the private sector arms of the MDBs. If they wish an individual institution to strike a different balance between financial prudence and development-impact, they need to recognize that this may imply an acceptance of greater risk and provisioning, with a consequent requirement for earlier capital increases, or a lower level of activity.

Third, if the regional MDBs were instructed to expand their non-guaranteed lending to private parties, this would require a review of the quantitative caps on such lending (2-3% of total portfolio at the IDB and AfDB and 5-6% at the AsDB), with a view to raising them significantly. Alternatively, these caps could be removed entirely and replaced with more stringent performance criteria for particular operations and appropriate risk management policies for the institutions. The MDBs are in different positions, and 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, the MDB Boards should review the merits of extending preferred creditor status to private lenders or investors. "Comfort" to the private party should rest on the presence of the MDB rather than any shifting of risk or any indirect subsidization. Consideration should 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 micro-enterprises.

3. Striving for Results

42. 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 like large physical infrastructure projects. Concern in recent years over the quality of the MDBs' operations and whether their projects are really improving the lives of the poor must give way to clear evidence of their impact. The emphasis at all levels of the institutions must shift from preoccupation with internal procedures and controls to serving the clients effectively. Incentives to staff must be altered accordingly. The introduction of new indicators for annual performance evaluations of staff and managers, and the recognition of individual contributions (including successful service in the field), should help move the MDBs in the new directions proposed.

43. Collectively, the Boards, Managements, and staff all 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 Boards of Directors

44. Change must start at the top. 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 existence 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 the right stature and experience and the Managements must support the Executive Directors in their efforts to play a more strategic role.

45. As the representatives of the shareholders of the MDBs, the 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 should make certain that Managements are implementing effective country assistance strategies, that operational portfolios perform adequately, and that results are being measured in generally acceptable and comparable terms. Fourth, they should satisfy themselves that the MDB lending proposals within countries reflect the agreed assistance strategies. 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 guarantee 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. More specific suggestions for strengthening their strategic role are contained in para. 60.

Strengthening "Ownership"

46. 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 administrative arrangements for the sector

program or project. In some countries, MDBs are taking too much responsibility for designing the lending proposals, often under a pressure to achieve commitment targets. Although it will take more time, staff and managements should accept the need for giving borrowers 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.

47. A good means of helping to strike the right balance 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. 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 can also be a major instrument for supporting in-country coordination of development assistance, especially where

the MDBs have an operational and decision-making presence in the country rather than just a representative one.

Learning from Experience

48. All MDBs have tried in the last 24 months to improve the quality, implementation, and results of their operations, by changing the project cycle to make it more dynamic and responsive to changes on the ground. 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 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.

49. 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. The most practical way of initiating this process would be to form an Evaluation Coordination Committee.

50. The Committee would be charged with elaborating a common evaluation methodology, including performance indicators, exchange experience with evaluation techniques, share results, and become the repository of best evaluation practices. The Committee would consist of the heads of the Evaluation Units of the five MDBs, as well as a chair to be appointed on their recommendation. An independent chair of appropriate qualifications is considered desirable to provide objective leadership and reasonable continuity. The Committee would meet at regular intervals. 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

51. In recent years, the MDBs have received rather poor publicity. In large measure, this reflects the lack of objective indicators by which they could demonstrate their achievements and rebut criticism. 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 become a central operational principle for all the MDBs. They have also tried to explain their work in language which will appeal to non-specialists. In this process, 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 dispose of 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.

52. 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".

53. 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 and the IDB have each recently established an inspection mechanism, and the Asian Development Bank is moving in the same direction. Experience of these mechanisms is limited so far, 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 monitor project quality, and their competence to hear cases should be limited to policies formally 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 primary responsibility for any compensation should rest with the borrower.

Budgets and Efficiency

54. The multilateral development banks are large. Together, they employ 12,000 people and spend \$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 adopt high standards of cost-consciousness, and all the more so as most of their costs are borne by the world's developing countries through fees and charges. Greater clarity in the relationship between costs and services is essential. Recently, the World Bank has introduced a cost accounting system which is intended to relate expenditures more explicitly to individual services. Generalizing such an approach across the MDBs would help identify areas where resources can be better used.

55. 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 unreasonably long in some cases. 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. 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 reduce costs, discontinue some programs before starting new ones, 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 to working-level staff and to field offices on day-to-day operational matters, the Managements must ensure that staff and budgetary resources remain concentrated on core functions and responsibilities.

56. The size and frequency of operational missions, the use of consultants, and the scope of the institutions' operational research programs deserve special attention. World Bank missions tend to be larger -- often much larger -- and more frequent than those of regional MDBs. The World Bank's travel costs reflect this: \$130 million in 1994, or more than 9% of their total budget, which is 50% higher than the relative share of such costs in the other MDB budgets. General cost considerations at the MDBs have led to the increased use of consultants, as they are about half as expensive as regular staff. The World Bank hires 12,000 consultants a year -- about 1,200 of them on long-term contracts -- and only 200 replacements for departing regular staff. Consultants perform about a quarter of the operational work and as much as 40-50 percent in some departments. But high dependence on consultants also entails disadvantages for institutional memory, the internal dissemination of lessons, and commitment to corporate goals. And some of the MDBs -- especially the World Bank -- have research

programs which were once regarded as a necessary corollary of their development work but have now attained a scale which deserves serious review. Tighter budgetary controls and more modern practices which would allocate adequate resources for operational goals on the basis of past results would also allow for more meaningful comparisons among the MDBs.

57. Reducing 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. An additional budget problem has been the increased use of "trust funds" for consultant services. These are provided by individual governments promoting certain policies (e.g., participation) or the use of their nationals in MDB work. Their use is at the complete discretion of operational managers and is often supply-driven. While these arrangements compensate to some extent for the reduction in administrative budgets, they can entail hidden costs and can affect priorities, regionally and sectorally. They should be administered in ways

to serve explicit institutional priorities and be subject to systematic budgetary control. The MDBs should each combine these funds in a central Trust Fund account, and the funds made available to support the operations of the institutions on the basis of clear criteria. The World Bank is now bringing these trust funds under central control; this process should be completed and followed, as appropriate, at the other banks.

59. 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 will emerge, 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.

60. 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. The autonomous evaluation units of the MDBs could provide background briefings to the Boards for such discussions.

Second, the Boards should consider new operations 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.

Third, 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 scope in decisions on their own budgets, staffing, and work programs. They should also be allowed to issue final evaluation reports without prior clearance by anyone outside the unit.

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Fourth, an Evaluation Coordination Committee should be established.

Fifth, the MDBs should review their personnel management policies and practices (such as their annual performance evaluations of staff and managers) to ensure adequate recognition for individual contributions in the new directions being proposed.

Sixth, the MDBs should decentralize to field offices such decision-making authority as will improve the quality and reduce the cost of services.

Seventh, the Managements should develop a methodology for relating better the costs and results of their services, with particular reference to the size and frequency of operational missions, the use of consultants, and operational research, 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.

4. Enhancing the Impact of the MDBs as a Group

The Value of Diversity

61. 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 specialization among them. Their ownership varies and normally reflects the geographic focus of each institution. However, the regional MDBs are not just offshoots or small-scale copies of the

World Bank. For example, 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 a regional development bank in any one region grew out of specific historical and political circumstances and a sense that an enhanced regional identity was desirable to complement the presence of the more globally-oriented Bretton Woods institutions. This process continues with the establishment of the Mid-East Development Bank. This explains the current pluralism and occasional appearance of competition. The concerns 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.

62. But pluralism, unchecked, could lead to unreasonable results. 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.

63. 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. 18) apply only partially. The African Development Bank has undergone such major management difficulties during the last five years that it is not in a position to respond quickly 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 as a group should coordinate their operations and corporate policies very actively, while the owners may wish to guide the group as a system.

64. 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, 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.

65. 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. 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. 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 system as a whole.

Country-Level Coordination

66. Proper coordination at the country level should lead to the better sharing of information among donors 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.

67. Sound coordination should start with a country development strategy, based on government 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. MDBs themselves will want to elaborate their respective country assistance strategies (including country investment programs). Technical assistance can play a critical role in this, especially in pre-investment work supporting development strategies. But 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. Country-level coordination should include attention to technical assistance issues. It should also undertake a regular assessment of the collective experience of donors and government to permit the identification of best practices. Coordination efforts should focus on reaching a common appreciation of the assistance process and a division of donor efforts reflecting their comparative strengths and experience.

68. Existing formal arrangements for coordinating country assistance strategies -- the World Bank-chaired Consultative Groups and Consortia and the UNDP Round Tables -- are intended to be the apex of a pyramid of consultations^u 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, allow for spontaneity in discussion, and emphasize problem-solving as well as consensus-building. There remains scope for giving these formal 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.

69. 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 development 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. Vesting lead responsibilities in the MDBs or some other

international entity should be reserved for 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.

Coordination and Cooperation Among the MDBs

70. As mentioned earlier, it would be a mistake to prescribe an ex ante division of MDB efforts in a particular country. Countries should exercise their choice in coordinating MDB activities as well as those of other donors. Nevertheless, the managements of these institutions, on the basis of the realities of countries they serve and the resources and experience they command, must decide for their institutions the current and future strengths of their organization. Tighter coordination of MDB activities in a single country -- particularly in analytical and assessment work -- should reduce inconvenience to the country, add to the complementarity of MDB operations, enhance coordination efforts for other donors, and in consequence improve development effectiveness. 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.

71. 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 (and similar ones) meet informally at least once a year to compare notes on issues of common interest. These meetings, usually timed to coincide with the Annual Meetings of the IMF and the World Bank, 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 coordination in the respective regions and the harmonization or convergence 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 system 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

72. 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 forum, assembling the MDBs and their owners, is needed 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. The work of this Task Force is the first time such an effort has been made. The Development Committee must judge whether the results justify repeating such work.

73. We believe that similar reviews should be undertaken from time to time, perhaps every four or five years. 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. A regular review of the development impact of the institutions' activities would ensure that their efforts at coordination remained effective. But moving towards a "system" of multilateral development finance, without losing the advantages of diversity, demands a more systematic approach to broad policy coordination and guidance at the level of the owners.

74. 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 development 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.

75. To begin with, it would not appear advisable to advocate the creation of a new standing body to fill this need. It should be readily met by expanding the mandate of a suitably placed and existing entity. One approach for the Development Committee to consider would be a revision of its own mandate. The present membership covers between 40 and 70% of the votes of the individual MDBs, and this share is increasing. Many of the topics on the proposed agenda 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. The Committee is currently supported by a small Secretariat that should suffice to handle logistics and administrative matters for the Committee. Depending on the topic, the Committee could appoint a group -- as it did with the present Task Force -- to pursue ad hoc enquiries for their subsequent consideration; or it could invite the Heads of the MDBs to address these and make agreed proposals. A proposal to enlarge the mandate of the Development Committee along

such lines is in accordance with the invitation of the G-7 Halifax summit to the Task Force to suggest ways in which the Committee could be revitalized. 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. Enlarging the Committee's mandate need not conflict with these improvements; the Committee's agenda could include items specifically directed to the World Bank as well as items relevant to the system as a whole.

How to Make Coordination Work

76. 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.

77. 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 cooperation beyond central government and including 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 at the regional operating level; and harmonizing criteria, techniques, and practices of measuring results among evaluation units.

c) For the MDBs as a group, by making arrangements for the regular provision of coherent policy guidance by the owners of MDBs on issues of common concern to them; fostering and reinforcing complementarity of programs and convergence of

operational policies, processes and practices; and monitoring institutional performance of 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 system.

The Task Force: Its Origins and Approach

The Development Committee agreed to establish the Task Force 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 assess the implications of economic change for the development priorities, instruments, operations, and management of the five multilateral development banks: the African Development Bank, the Asian Development Bank, the European Bank for Reconstruction and Development, the Inter-American Development Bank, and the World Bank. Particular attention was to be given to how to strengthen their work in reducing poverty, supporting the private sector, and improving the quality of their project portfolios. The group was also asked to evaluate procedures and practices for coordination among the banks and with other members of the development community.

At its first meeting, the Task Force agreed that, as the subject matter assigned to it was already considerable, it should not enter into a discussion of trade and exchange rate issues. Since a number of other analyses and initiatives were already underway in that area, it was also agreed that the group would not deal with the problem of debt.

The Task Force met seven times, in Washington, D.C. on December 6-7, 1994, in Kuwait on March 30-31, 1995, in London on July 10-11, 1995, in Washington, D.C. on October 12-14, 1995, in Manila on December 1-2, 1995, in Abidjan on January 11-12, 1996, and in Washington, D.C. on [March 1-3, 1996]. On these occasions, the group heard presentations from the chief executive officers of the five institutions. Representatives of the MDBs, as well as the IMF, attended the first four meetings as observers; the last three sessions were devoted to drafting the report.

In addition to preparing discussion documents, the Secretariat consulted interested parties such as the OECD's Development Assistance Committee, the United Nations Development Programme, the European Union, the European Investment Bank, the international contracting industry, commercial bankers, and selected non-government organizations (NGOs). Three brainstorming sessions were held with NGOs based or represented in the United States, and a separate consultation was held with international community groups originating in Europe and the developing world. In April and October 1995, the Chairman and Secretary of the Task Force were invited to meet with the heads of a number of international financial institutions (including the four regional MDBs) at the Inter-American Development Bank in Washington. In November 1995, a workshop was held in Cape Town to consult African civil servants, intellectuals, business people, and community activists on the services they received from the AfDB and the World Bank.

The Task Force had the following members: Neil Hyden (for Australia), Sergio Silva do Amaral (Brazil), Tom Bernes (Canada), Nicolas C. Flano (Chile), Zhang Junyi (China), Ole Lonsmann Poulsen (Denmark), Francis Mayer (France), Laszlo Akar (Hungary), Montek Singh Ahluwalia (India), Hideichiro Hamanaka (Japan), Joop B. Hoekman (Netherlands), Alhaji Abubakar Alhaji (Nigeria), Alexander A. Khandruev (Russia), Jobarah Al-Suraisry (Saudi Arabia), Victor Komla Alipui (Togo), Robert M. Ainscow (United Kingdom), and Jeffrey Shafer (United States). Mr. Haruhiko Kuroda represented Japan at the first two meetings. The Chairman was Mr. Abdlatif Al-Hamad, Director General of the Arab Fund for Economic and Social Development, based in Kuwait.

The Secretary of the Task Force was Mr. Willi A. Wapenhans. He was assisted full-time by Robert Calderisi, Hans Eberhard Köpp, and Baelhadj Marghoub, and part-time by Marcel Belanger, Roy Culpeper, Makarand Dehejia, Dieter Hartwich, Garry Jewett, Raymond Love, V. Krishnaswamy, Jean-Pierre Le Boudier, Lucy Nichols, Lester Nurick, Turid Sato, and Nena Vreeland. Marie Zenni, Rama George, and Sophia Maroon also contributed.

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.

Gross and Net Flows of Financial Resources to Developing Countries Some Recent Trends and Implications for the MDB System.

Gross and net flows to developing countries have increased steadily between 1989 and 1993. Gross flows have increased by 89%, and net flows by 152% during the period. The bulk of these increases are due to private flows which have almost quadrupled, in net terms, from \$ 41.9 billion in 1989 to \$ 159.2 billion in 1993. Official flows which were of about the same magnitude as private flows in 1989, grew by 27% only during the period.

MDBs flows have remained constant in relation to ODA flows (about 30% and 20% of gross and net flows respectively). They have, however, significantly decreased in proportion to total net flows (from 10% in 1989 to 5% in 1993). Interestingly, MDBs share of gross concessional flows has remained fairly constant of total gross concessional flows (about 11%). In net terms MDBs have not been able to sustain the growth pace achieved by the private flows. This reflects their less important intermediation role for emerging economies, but still a key role for channeling resources to less developing countries.

Over 80% of the private flows go to 10 emerging economies including China and India. The concentration of these flows has dramatically increased during the period (from 56% in 1989 to 87% in 1993). When excluding China and India, the flows are still over 60% to the remaining countries. It is worth noting that private non-guaranteed flows have increased steadily from 41% to 66% in 1989 and 1993 respectively. If sustained over a longer period of time, this would reflect steady confidence building on emerging economies, now increasingly accessing international financial markets through bond issues, foreign direct investment, and portfolio equity investment. About 71% of the private flows are direct foreign investment (42%) and equity portfolio investment (29%) in 1993. The latter are, however, highly volatile and represent more than four times MDBs net flows in 1993.

When considering the World Bank flows to selected emerging economies, gross flows to these economies have tended to be constant with or when excluding China and India (60% and 40% respectively). In net terms, however, concentration is much less important especially when excluding China and India, reflecting negative flows to few emerging economies in Latin America and East Asia such as: Brazil, Chile, Colombia, Korea, Malaysia, Thailand, and Turkey.

Gross Flows to Developing Countries, 1989 - 1993 (in US\$ Billion)*

	1989	1990	1991	1992	1993
Public	68.1	88.8	90.0	80.7	85.0
Multilateral	23.5	28.3	30.1	28.8	31.2
(of which Concessional)	(6.3)	(7.5)	(8.7)	(9.0)	(8.6)
Bilateral (including debt forgiveness and grant)	44.6	60.5	59.9	51.9	53.8
Private	103.1	110.8	123.6	170.2	238.3
(of which Non-guaranteed)	(42.3)	(49.5)	(63.5)	(96.7)	(156.3)
Total	171.2	199.6	213.6	250.9	323.3
MDBs	21.0	25.0	24.8	23.9	27.3
(of which Concessional)	(5.5)	(6.4)	(6.5)	(7.1)	(6.9)
MDBs/Total Flows in %	12	13	12	10	8
MDBs/Total ODA Flows in %	31	28	28	30	32
MDBs Concessional/Total Concessional	-12	-11	-11	-14	-13
Private as % of Total Flows	60	56	58	68	74
Private Non-Guaranteed/Total Private Flows	41	45	51	57	66
Private Flows to selected Emerging Countries**/Total Private Flows in %	53	58	64	68	80
Private Flows to selected Emerging Countries Excluding China & India as a % of Total Private Flows	40	45	53	52	60
WB flows to selected Emerging Countries/MDB Total World Bank Flows in %	62	61	64	57	66
WB flows to selected Emerging Countries excluding China & India as % of WB Total Flows	40	44	43	37	45

Net Resource Flows to Developing Countries, 1989 - 1993 (in US\$ Billion)

Public	42.6	57.9	61.9	50.3	53.9
Multilateral	11.8	15.2	15.1	12.7	14.5
Bilateral (including debt forgiveness and grant)	30.8	42.7	46.8	37.6	39.4
Private	41.9	45.5	62.9	102.7	159.2
Total	84.5	103.4	124.8	153.0	213.1
MDBs	8.1	12.6	10.2	9.9	10.9
MDBs as % of Total Flows	10	12	8	6	5
MDBs as % of Total ODA	19	22	16	20	20
Private as % of Total Flows	50	44	50	67	75
Private to selected emerging** countries % Total Private	56	74	79	72	87
Private to selected emerging** countries excluding China and India % total private	31	51	63	50	61
WB flows to selected emerging countries % of total WB flows	75	49	69	21	54
WB flows to selected emerging countries excluding China and India % of World Bank flows	28	27	28	-16	17

* Figures do not include Technical Assistance

** Argentina, Brazil, Chile, China, Columbia, Czechoslovakia, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Thailand and Turkey. World Bank means IBRD and IDA only.

Source: World Bank Debt Tables, 1994-1995, and MDB Annual Reports, 1994.

Private Net Resource Flows to Selected Developing Countries in 1993

Private Net Resource Flows for Selected 17 Countries (\$Billion)

Argentina	15
Brazil	13
Chile	2
China	36
Colombia	1
Czech	1
Hungary	5
India	5
Indonesia	2
Korea	9
Malaysia	8
Mexico	22
Peru	2
Philippines	2
Poland	2
Thailand	5
Turkey	7
TOTAL	137

Developing world figure 159
 Selected/Total Private Net Flows 86%

Private Net Resource Flows for Selected 10 Countries (\$Billion)

Argentina	15
Brazil	13
China	36
Hungary	5
India	5
Korea	9
Malaysia	8
Mexico	22
Thailand	5
Turkey	7
TOTAL	125

Developing world figure 159
 Selected/Total Private Net Flows 79%





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