



An Introduction to the World of Development Banks

Workshop, May 2013

WU (Vienna University of Economics and Business)



Private Sector Development in practice

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Outline

Guiding question: How is PSD put into practise?

- ▶ PSD versus investments into firms
- ▶ How do projects ‘emerge’?
- ▶ How are projects implemented?

- ▶ Focus on the World Bank (WB).
 - ▶ Yet, concept generally applicable.

Overview of PSD activities

- ▶ Innovation (new technologies, routines etc.)
- ▶ Regulation, e.g.,
 - ▶ Openness and trade.
 - ▶ Doing business, public sector capacities.
 - ▶ Sector specific regulation (e.g., telecom); competition & non-discrimination.
- ▶ Entrepreneurship, qualifications and skills.
- ▶ Cluster development – SMEs, linkages and aggregation.
- ▶ Infrastructure (e.g., roads, harbours).
- ▶ PPP & optimal provision of public services (regardless of ownership)
- ▶ Access to Finance.
- ▶ (Global) Value chains, e.g.,
 - ▶ Spill-overs to the local economy,
 - ▶ Social and environmental standards.

Etc.

→ Inclusion (gender / poor)



PSD across countries

- ▶ Seeks to support a self-sustaining sector
 - ▶ Provides wages and salaries that are independent from ODA or welfare.
 - ▶ Support differs to direct investment into firms.
 - ▶ Long search for ,ideal‘ intervention design (e.g., Easterly, 2003)
 - ▶ ‘Trial and error‘ that is still ongoing
- The thematic portfolio itself is and must be arguable
- There is no ,one size fits all‘ solution
- Differs strongly across countries & development stage, e.g.,
Middle income vs. least developed
Conflict and fragile states



Project development

- ▶ Who owns the project?
 - ▶ *Country ownership*, aligned with development goals.
 - ▶ *Mutual accountability* of the project's success.
 - ▶ *Transparency. Monitoring and Evaluation.*
 - ▶ Stakeholder participation encouraged.
 - ▶ I.e. Government + WB (IFI).
 - ▶ Also depends on the relations between the WB & the government.
- ▶ Project “development”
 - ▶ What is the link to the country's goals?
 - ▶ Is the project *aligned* with the outcomes of the Country Partnership Strategy?
 - ▶ What are the specific project outputs & outcomes to be achieved?
 - ▶ PSD in the project portfolio.
 - Internal budget allocation processes.
 - ▶ Does the country have sufficient implementation capacity?
 - ▶ E.g., quality of governance indicators.

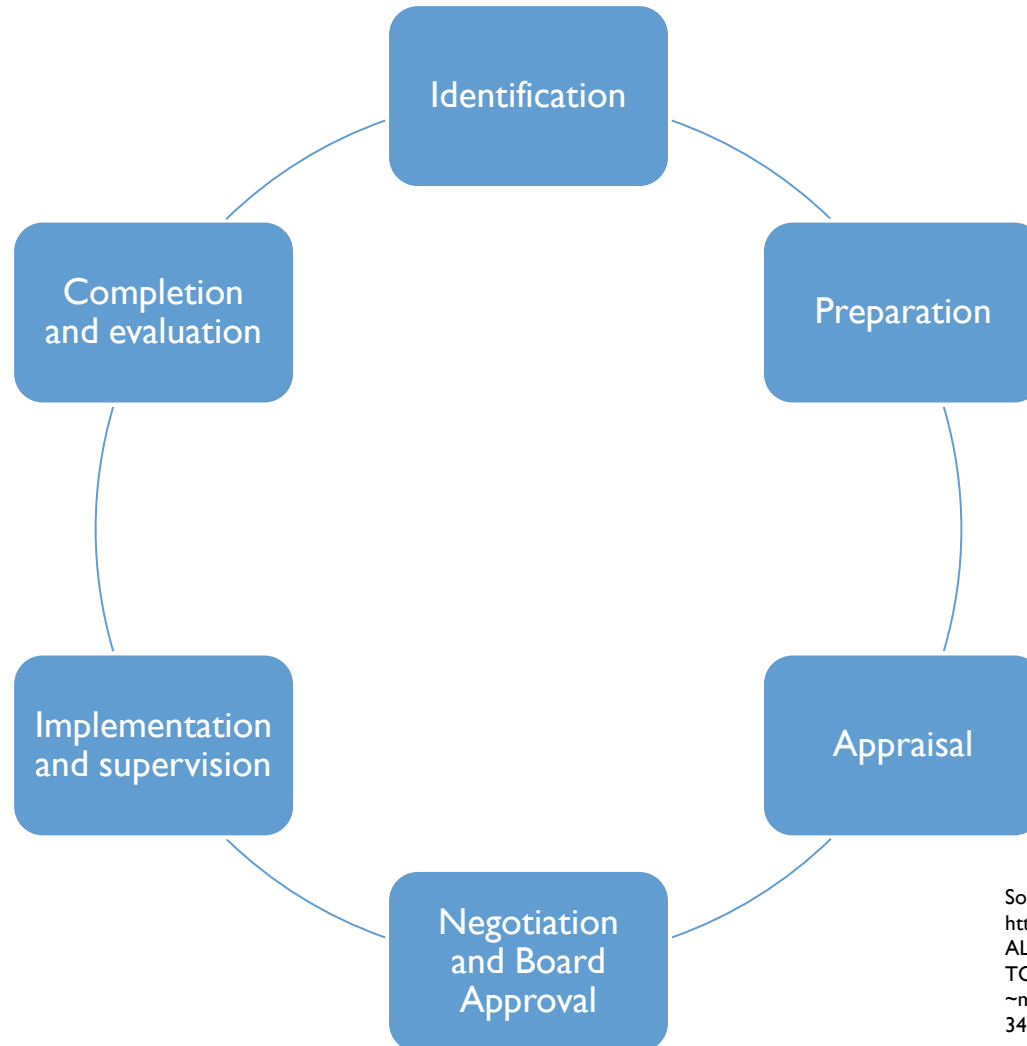


The remainder

- ▶ An investment project in practice.
- ▶ What are the practical issues of the project implementation?
 - ▶ Who designs a project?
 - ▶ Who implements the project?
 - ▶ What are the main stakeholders?
 - ▶ What are the critical steps?
 - ▶ Do social or environmental standards matter?
 - ▶ Are results monitored and evaluated?
 - ▶ etc.



The World Bank's project cycle

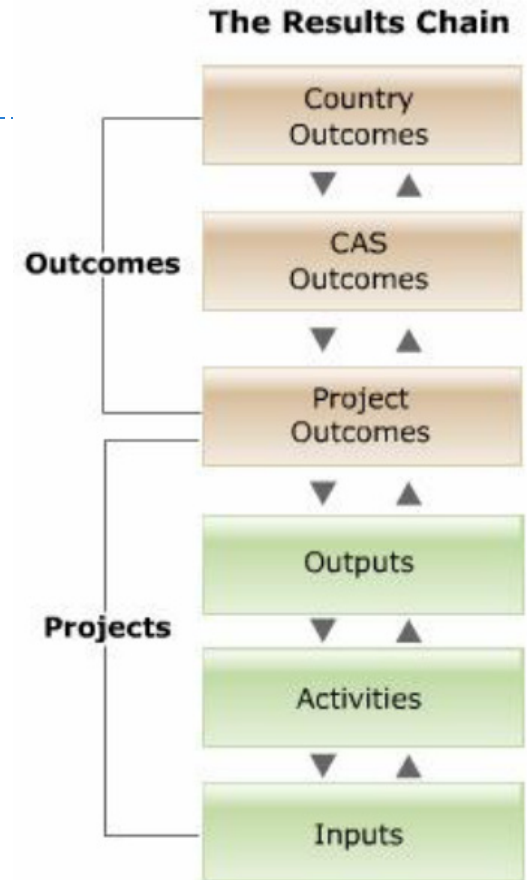


Source: WB;
<http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/AFRICAEXT/EXTAFRREGTOPEducation/0,,contentMDK:21779790~menuPK:5034154~pagePK:34004173~piPK:34003707~theSitePK:444708,00.html>



Project identification

- ▶ Project concept note
- ▶ What agents are involved
 - ▶ Intended beneficiary, stakeholders
- ▶ Assessment of potential issues
 - integrated, overall risk assessment
 - ▶ Social and environmental safeguards
 - ▶ Fiduciary issues
 - ▶ Corruption
 - ▶ Risks (country, sector, project)
- ▶ Are there knowledge gaps?
- ▶ Project outcomes



Source: WB; FBO

- ▶ Bank typically advises clients on measures needed to ensure compliance with its operational policies. These include,
 - ▶ procurement, financial management, environment, and disclosure.



Preparation and appraisal

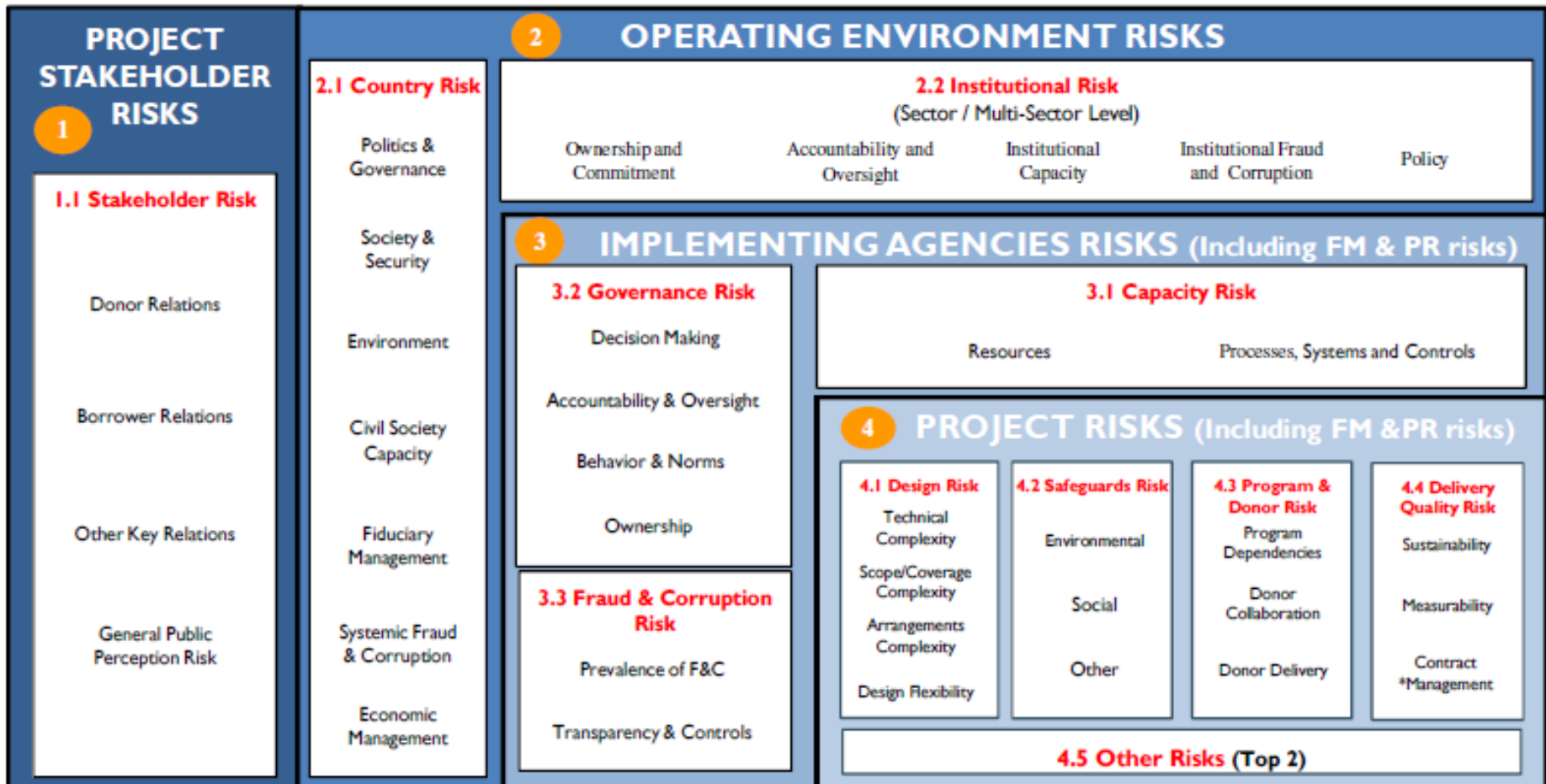
- ▶ Preparation phase conceptualises the project and produces an implementation plan
 - ▶ Consultation with beneficiaries and stakeholder
 - ▶ Feasibility studies, assessment of capacities and safeguards
 - ▶ Mitigate risk of failure and corruption
 - ▶ Development of financial management, procurement, monitoring and evaluation, and project reporting systems
 - What triggers payments?
 - ▶ Agree on institutional arrangements
- ▶ Appraisal assesses readiness for implementation and sets mitigating actions for all risks
 - ▶ Project appraisal document & draft legal agreements

Risk assessment

Source: WB, ORAF

PROJECT DEVELOPMENT OBJECTIVE(S)
(Key Results)

Risks to Project  Development Objective(s)



Negotiations and board approval

- ▶ Finalisation stage in the preparation
- ▶ Government and the WBG agree on the Development Credit Agreement in negotiations.
 - ▶ Resolution of any remaining issues outstanding from appraisal.
 - ▶ Agreement on the procurement plan, disbursement letter, performance monitoring plan (including key performance indicators), and the General Procurement Notice.
 - ▶ Agreement on co-financing arrangements (if applicable).
 - ▶ Agreement on any special terms and conditions pertaining to the project.
 - ▶ Agreement on public disclosure of the project appraisal document.
- ▶ The Board of Executive Directors (i.e. owners).
 - ▶ review the project documents to confirm Bank financing.
 - ▶ All projects must be approved by Executive Directors.
 - Affects the independence of Bank's operations.

Project implementation and supervision I

- ▶ The implementing agency carries out the project activities.
 - ▶ Implements project activities according to the agreed work plan.
 - ▶ New or pre-existing agency.
 - ▶ Monitors project outcomes and their impact on beneficiaries.
 - ▶ Uses this data to evaluate effectiveness of the project's interventions.
 - ▶ Reports regularly on project activities to both the government and the Bank.
 - ▶ Ensure adequate fiduciary controls.
 - ▶ Implement agreed environmental and social mitigation plans.
 - ▶ Responds to project delays and unexpected events.
 - ▶ Reallocation?
 - ▶ Restructuring?
 - ▶ Carry out mid-term review of project progress.

Project implementation and supervision II

- ▶ The Bank team provides support.
 - ▶ Meets regularly with the implementing agency during supervision visits
 - ▶ Confirms that operational policy requirements have been met
 - ▶ Reports on its findings
 - ▶ Implementation Status and Results Report (ISR)
 - ▶ Aide memoires (i.e. reports on mission activities)
- ▶ Interventions in the implementation process.
 - ▶ Supervision by task team, IEG and Inspection Panel.
 - ▶ In extreme cases, a project halt is possible. E.g., when
 - ▶ Arising safeguards issues are not addressed.
 - ▶ Non-compliance with the Development Credit Agreement.

Completion and evaluation I

- ▶ The government and the WB evaluate the project outcomes
- ▶ The most important indicator of project success is whether it achieved its development objectives.
 - ▶ Transparency and accountability.
 - ▶ Critical success factors: monitoring, coordination, design, training, and institutional environment (Ika et al., 2010)
- ▶ The WB team
 - ▶ Reviews the final project outcomes and compare them to the expected results.
 - ▶ Identifies lessons learned.
 - ▶ Reviews the institutional arrangements needed to sustain the project outcomes.
 - ▶ Assesses the improvements in institutional capacity due to the project.
 - ▶ Provides a final assessment of the compliance of the project with Bank operational requirements.

Completion and evaluation II

▶ Closure:

- ▶ Implementation completion and results report if project was successfully closed
 - ▶ It assesses (a) the degree to which the project achieved its development objective and outputs as set out in the project documents; (b) other significant outcomes and impacts; (c) prospects for the project's sustainability; and (d) Bank and borrower performance, including compliance with relevant Bank safeguard and business policies.
- ▶ ICR is then assessed by Independent Evaluation Group (IEG); <http://ieg.worldbankgroup.org/content/ieg/en/home.html>

▶ Project follow-up dynamics

- ▶ Priorities for a follow-up project should be decided in the context of the CAS.
- ▶ Completing all project activities on schedule is an indication of successful implementation, but it is not a guarantee that the project achieved its objectives.



ANNEX



PSD, economic development and poverty

- ▶ Economic development a non-linear process.
 - ▶ Macro-economic stability plus micro development.
 - ▶ Aspired spill-overs to the (quality of the) public sector.
 - ▶ Waves of development and the advantages of backwardness (e.g., Gerschenkron, 1962).
 - ▶ Joint development of various growth factors (e.g., technology, skills, finance), network effects, critical mass (e.g., Easterly, 2001)
 - ▶ Finance and conditionality are only one component. Leverage?
- ▶ Link to poverty non-linear, often weak.
 - ▶ Growth is a necessary, but not sufficient condition to reduce poverty (e.g., OECD, 2010);
 - ▶ How does growth + qualitative change (Peneder, 2012) affect poverty?
 - ▶ Trickle down hypothesis
 - Long history of thought (e.g., Kuznets, 1955; Alesina and Rodrik, 1994; Deininger and Squire, 1996; Kraay, 2006; Hull, 2009; Fuso, 2010 ...)
 - Partly holds, but strong cross-country variance.
 - Supporting policies / institutions necessary to reduce poverty.

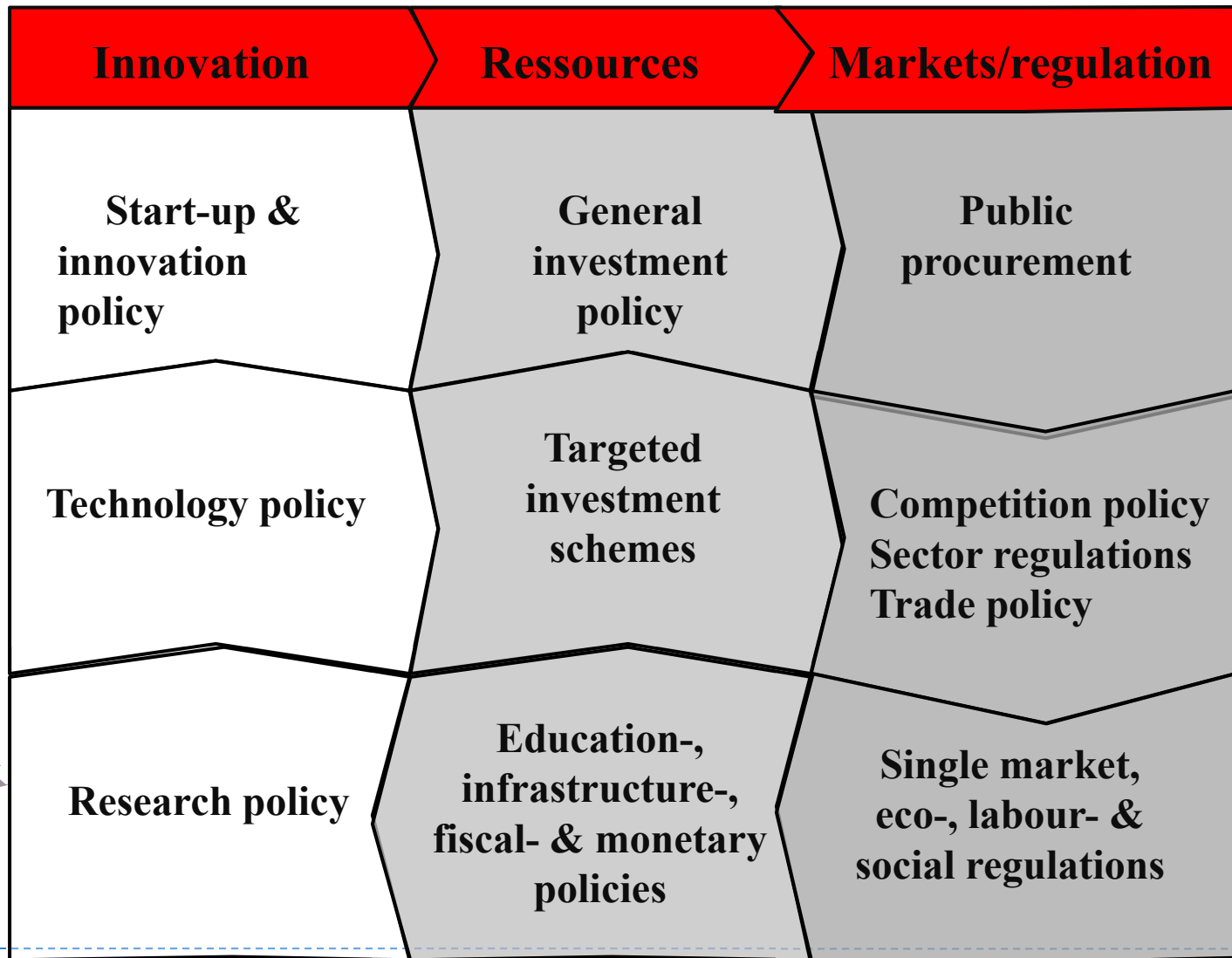


Motivating PSD conceptually

- ▶ Resembles the rationale of ,Industrial Policy‘ (Peneder, 2012)
 - ▶ Depends on self-organising capacity of the economy
 - ▶ Less relevant for developed economies that typically have a high quality public institutions, broad industrial base, critical civil society
 - ▶ LDCs and conflict countries more affected.
 - ▶ Ideally interventions are based on opportunity costs
 - ▶ What if private sector can do it?
 - ▶ A positive effect by the intervention is not necessarily sufficient.
 - ▶ Unresolved issue of public sector efficiency and risk taking
- ▶ Strengths and weaknesses of markets and government
 - ▶ Market failure vs. government failure vs. systemic failure



Overview of Industrial Policy



Further Reading

- ▶ IFC et al. (2012). Internationale Entwicklungsorganisationen und Entwicklung durch den Privatsektor.
- ▶ Fuso, K. (2010). Growth, inequality and poverty reduction in developing countries: recent global evidence.
- ▶ Commission on Growth and development (2008). The growth report.
- ▶ Easterly, W. (2001). The elusive quest for growth.
- ▶ World Bank (2008). Development Economics through the Decades.
- ▶ World Bank (2011). The World Bank and Aid Effectiveness.
- ▶ Prahalad, C.K (2004). The Fortune at the Bottom of the Pyramid.
- ▶ Simon, D. (ed.; 2003). 50 key thinkers in development.
- ▶ Peneder, M. (2012). Industrial Policy – towards a dynamic rationale.

