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Financing for Development

Using Independent Evaluation to Turn Aspirations into Achievements

Introduction

Background

2015: A Year of Historic Decisions. The Spring Meetings of the International Monetary Fund (IMF) and the World Bank Group in April were used as a platform to present the collective position of the multilateral development banks (MDBs) on development finance with the goal of transforming development finance to deliver on the sustainable development goals (SDGs). The discussions are one input to prepare the ground for the international conference in Addis Ababa where participating heads of states, ministers, and others, are expected to agree on financing the development agenda for the next 15 years.

From Monterrey to Addis Ababa. The first such conference took place in Monterrey, Mexico, in 2002, after the Millennium Development Goals (MDGs) had been agreed two years earlier. Many things have changed since then, but, 13 years ago the Monterrey Consensus was insightful in urging countries and multilateral institutions to fund development that would reduce poverty, raise living standards for many, and do so in a sustainable manner. These objectives have become even more urgent today, as the world will commit in September 2015 to SDGs that include eradicating poverty, reducing inequality, and leaving no-one behind in environmentally sustainable ways in spite of greater threats from more volatile climate events. How then will the global community ensure that the Addis Ababa Accord will be a "Monterrey PLUS," not just on paper, but in action, and, more importantly, in outcomes?

The Potential for a Historic Shift. The direction in which the global community is moving bears the potential for a historic shift in the understanding of development—one that envisions countries around the world taking charge of their development processes; mobilize, manage, and account for resources – from all sources: public and private, domestic, and international—that are employed to achieve greater development outcomes. This opportunity will be lost should the discourse revert to a discussion of financing for development assistance as aid programs and the machinery to deliver them.

More Players, More Interests. Compared to 2002, the group of stakeholders has become much larger: more countries have become donors bilaterally or through (new and old) MDBs. Countries – at various stages in their development – are driving their development decisions. The private sector is recognized as an essential partner in generating solutions and finance. Private foundations have become major players in the pursuit of specific goals and innovation. And civil society is part of the conversation.

Feedback and Learning. In addition, the development community is increasingly accepting the importance of evidence, feedback, and learning. Some of which is generated through research, monitoring, and self-evaluation during policy-making, program design, and implementation. Others come from feedback from people directly affected by interventions who have gained a greater voice, be it through third-party feedback mechanisms, social media, beneficiary surveys, or otherwise. And, there is independent evaluation. At the World Bank Group, the Independent Evaluation Group (IEG) has over the past years deepened the evidence that can help development finance succeed in translating the SDGs into actions and results. This paper brings together insights from a cross-section of relevant evaluations that cover various aspects of the large, multifaceted agenda of the SDGs and their financing needs.

Framing the Agenda

Talking About the Resource Gap. Much is being written about development finance. The challenges are immense, and so are the resource requirements. They call for innovation and transformation, as many recognize. And, they are needed for many different purposes; with different authors, stakeholders, papers drawing attention to priority needs, strategic approaches, and new ideas to leverage funding.

Learning as We Innovate. Great minds are working together to innovate for the future and develop transformative financing models. As evaluators, we do not compete with them. Instead, evaluation looks at the past to draw lessons from experience and adapt them to the future. What concerns evaluation are questions like: what works and how can we replicate success even under changed circumstances? What hasn't worked and how do we make sure we avoid repeating mistakes?

Evaluating Monterrey? There has not been one evaluation of the Monterrey Consensus or of how institutions like the World Bank Group engaged in it. Instead, the many different dimensions of financing development have been covered, to greater or lesser extent, in a number of completed and forthcoming independent evaluations. This paper extracts and presents findings from IEG evaluations in as much as they are relevant to financing development.

Building on Common Grounds. To make sure that lessons speak to today's agenda, this synthesis builds on three papers:

- The 2014 Sustainable Development Finance report, prepared under the auspice of the United Nations (UN) by an intergovernmental expert group, it presents a menu of policy options for public and private finance, both domestic and international, as well as pooled funding, and is used as an input to the SDG paper;
- The 2015 "From Billions to Trillions: Transforming Development Finance" (B2T), prepared by the MDBs, summarizes the challenges at hand and sets out ways in which existing structures and resources can be used to expand the funding envelope; and
- The (draft) Addis Ababa Accord (AAA) that details commitments that countries will be making in July 2015 when signing the accord, which also details some of their expectations of MDBs.

All three papers have a number of points in common:

1. The **interplay** of public, private, domestic, and international, finance and recognition of the centrality of the domestic public sector as setting the environment (enabling or otherwise) for sustainable development.
2. The importance of **domestic public finance** to sustainably fund development and ensure country ownership of public policies and programs. They converge around measures to improve public financial management, both revenues and expenditure, and emphasize the importance of curbing illicit international financial flows.
3. The essential role of the **private sector** as the engine of growth and jobs and the tax base it provides. It includes domestic micro, small, and medium enterprises; and large, often multinational companies. But, it is public policy and institutions that can help or hinder private sector investments and growth. In addition, private foundations have become a significant driver and financier of specific development issues and innovative approaches.

4. The increasing role of **jointly funded** initiatives, be they various forms of public-private partnerships (PPPs) or global and regional programs that bring together a variety of stakeholders around a common cause, many of them global public goods.
5. **International public finance** works with governments and the private sector – both domestic and international – to enhance policy frameworks, capacities and institutions, and the provision of services, and stimulates private sector investments. The B2T paper speaks of four types of instruments that will be deployed for sustainable development finance: (a) adding, pooling, enabling; (b) debt-based right-timing; (c) risk management; and (d) results-based financing. International public finance, channeled through the World Bank Group has been evaluated by IEG, generating lessons summarized in this paper.

This Paper. This paper uses existing IEG evaluations. It does not generate new evidence. It is designed to present evaluation findings in ways that speak to the current financing development agenda to make evaluation insights easily available to stakeholders. It is structured around points two through four above: domestic public finance, private sector development, and jointly funded investments, both PPP and global programs. The other two points (one and five, above) are embedded in these chapters: the interplay and tensions between public, private, domestic, and international finance (point 1) are an integral part of development work; and the effectiveness of international public finance (point 5), in this case channeled through the World Bank Group, is the main focus of IEG evaluations. The paper synthesizes available evidence, whether it speaks to mobilizing funds, using them effectively and efficiently, or the outcomes that have or have not been achieved with them.

Domestic Public Finance

Well-managed public finance provides benefits to the economy and society: macroeconomic stability, incentives to invest that stimulate growth, measures to correct market failures, and policies that have distributional effects. From a resource angle, public finance generated billions of dollars in 2013, primarily through taxes. The efficiency of tax systems, including fair taxation, and their ability to counter tax avoidance, evasion, and illicit financial flows, plays an important role in public finance, and so does the efficiency of public expenditure. A number of evaluations show that the World Bank's approach to domestic public finance covers the revenue and expenditure sides simultaneously.

Comprehensive Approach to Public Financial Management

By 2006, the World Bank had assisted all of its client countries with analytic work on public sector reforms, including public financial management (PFM) and revenue administration. The 2006 Public Sector Reform (PSR) evaluation found that it took the combination of knowledge work with lending to be successful, and the 2011 evaluation of Governance and Anti-Corruption (GAC) suggested governance outcomes depended on the effective use of different lending instruments for each of the governance challenges. In forthcoming work, IEG finds that the Bank made "a significant and consistent effort" to help improve PFM practices. In doing so, the Bank combined a number of measures across the PFM spectrum. Otherwise, the "absence of commitment to comprehensive PFM reform means that even if there is progress under one PFM component, inefficiency and rent-seeking gravitate to other parts of the government program." However, this finding was contrasted in the 2013 evaluation of assistance to Fragile and Conflict-Affected States (FCS), which found that within the World Bank, coordination between the different parts of PFM—