Workshop: Making the World Bank more responsive to borrower clients and their citizens

Background information

On Monday 20 March and Thursday 23 March 2023, ODI jointly organised two workshops with Sharing Strategies to discuss ‘How can the World Bank and other multilateral development banks respond to borrowers’ needs?’

The workshops convened a mix of former multilateral development bank (MDB) staff, government officials and thought leaders working in the sector.

To frame the discussions, ODI shared a background document (Annex 1) that drew on a recent survey of about 500 senior government officials and senior staff in MDB country offices from 73 client countries. The workshop paper highlighted five potential areas that MDBs could focus on to be more responsive to clients and proposed some changes to MDB operations to that end.

The World Bank reform roadmap

In recent months, MDBs – and the World Bank in particular – have come under the spotlight as major shareholders have questioned whether their *modus operandi i*s fit for purpose in today’s world. There is a particular concern that MDBs are not providing finance at the scale and speed required to address global challenges like climate change, pandemics, and conflict and fragility.

In January 2023, the World Bank published the first draft of its ‘Evolution Roadmap’. A revised document was published after the workshops at the start of April. The roadmap focuses on three main areas:

- **The mission** of the World Bank and how it could be adapted to more explicitly recognise global challenges.
- **The financial model** of the World Bank and options for scaling up lending.
- **The operational model** of the World Bank and specifically what changes would be required to facilitate investment to address global challenges.

The quality of lending and borrower demand: the missing piece in the reform puzzle?

In reform discussions to date, the World Bank has been relatively silent on issues relating to the quality of its lending and how the operational model can be adapted to better respond to the demands of client countries. There is an almost implicit assumption in the roadmap that the World Bank's operating model is working well, apart from an insufficient focus on climate change.

The ODI survey highlights that clients do indeed highly value much of what the World Bank and other MDBs have to offer. The ODI discussion paper brought five issues to the fore:

1. Greater alignment of MDB support with borrower priorities
2. More agile (and faster) lending operations
3. Better coordination across MDBs
4. More responsive technical advice
5. More effective mechanisms to promote accountability to borrowers

However, participants noted that these are not necessarily new issues. They were described as belonging to a more classical or 'perennial' agenda that has proven to be stubbornly resistant to change (indeed, it was suggested that more work could be done to better understand why reforms in these areas had not progressed in the past and to identify examples of positive changes to learn from).

While such issues might be long-standing, they are also critical to the current moment. The drastic scaling up of MDB lending to address global challenges like climate change will require greater financial firepower and borrower demand. This is especially the case in middle-income countries where emissions are likely to grow fastest. In recent years, the World Bank has played an important crisis lending role, but demand for its infrastructure lending has diminished.

Workshop participants generally agreed that the World Bank and other MDBs should be lending more, but the discussions and the responses to the ODI paper also raised quite different views on what 'more responsive' lending looks like across different stakeholder groups. These differences were reflected in the discussions and in the response to the ODI paper. Participants noted that what governments want is not necessarily the same as what citizens want. This is true for countries that borrow from MDBs, but is also the case in non-borrowing countries.

Five areas ripe for reform

1. *Greater alignment of MDB support with borrower priorities*

In the ODI survey, aligning finance to national priorities was deemed by borrowers to be the single most important characteristic with regard to how MDBs can effectively enable socio-economic development. The ODI background paper recommended two areas where changes could support improved alignment: i) scaling up sustainable infrastructure (and putting in place the staff and systems to do so) and ii) revisiting conditionality for crisis lending.

However, it was noted in discussions that there is a common perception among borrowers that MDBs are influenced by experts from high-income countries rather than by the needs and perspectives of borrowers. A major concern at present is around the mandate of the World Bank and whether a greater focus on climate change risks squeezing out attention to economic development, job creation and poverty reduction.

One potential approach to addressing these concerns is a significant ramping up of investment in priority sectors that are closely related to climate. The ODI survey highlights that while individual borrowing governments may not necessarily see addressing climate change as a top priority, many of the sectors prioritised by governments (notably energy, transport, and water and sanitation) are strongly climate-related. If additional finance can be provided, there is potential to increase investment for development and climate.

However, the relative share of investment in infrastructure has declined over time. Although the decline in infrastructure lending is relatively well known, the reasons why this is so could be better understood. One participant suggested that the Executive Board of the World Bank should undertake a review of infrastructure lending over the past three decades to better understand the drivers.

Another participant suggested that the relative decline is partly the result of the incentives faced by World Bank country directors who are under pressure to hit their lending targets. It is significantly easier to shift money through development policy operations than to navigate the often complex processes involved in more traditional investment lending operations. Participants noted significant variation across MDBs in this area, and that other regional banks may be better placed to scale up sustainable infrastructure lending.

Another area where priorities can be misaligned relates to crisis lending. During crises, governments are understandably focused on crisis management while traditional development policy lending tends to focus on longer-term policy reforms. It was suggested that specific crisis lending instruments could be developed that are better aligned to the realities of policy-making at times of crisis.

Participants appeared to agree with the overall premise that borrowing countries should be in the driver's seat when it comes to prioritisation. However, certain participants also highlighted that aligning finance with borrower government priorities does not necessarily lead to an alignment with citizen priorities. They argued that marginalised groups should not be excluded from conversations on 'priorities', a distinction made all the more important in the context of a shrinking civil space.

It was also pointed out that the international push to scale up financing is not always in line with citizen demands. The example of Kenya during the Covid-19 pandemic was highlighted whereby civil society organisations asked the IMF not to provide loans to the government as they did not trust the government to use it well. It was argued that since the provision of MDB loans creates a liability that the next generation of citizens will have to repay (unlike grant finance), they should have a say in how such lending programmes are designed.

2. *More agile (and faster) lending operations*

A common frustration among borrowers as highlighted in client surveys is that MDB lending is slow and complex. Participants referred to recent work by Charles Kenny showing that between 2010-2017, it took an average of 465 days for lending to go from the proposal stage to the disbursement stage and that projects falling under Category A for safeguarding required an average of 7.4 years.
The ODI paper put forward five suggestions that could potentially streamline processes for project approval:

1. Making greater use of digitalisation to reduce the transaction costs of loan approvals
2. Implementing single safeguard reviews covering multiple projects in the same country/sector
3. Applying checks as the projects develop, rather than entirely *ex ante*
4. Making greater use of risk-based approaches to project reviews with different approval and oversight depending on the nature of the project (e.g. scale, borrower track record etc)
5. Greater delegation of loan approval authority from the MDB board of directors to MDB management for smaller projects

Of course, there is a stark trade-off between achieving simplicity for borrowers and satisfying legitimate shareholder concerns around corruption and environmental and social safeguards. One participant suggested that in an ideal world, borrowers would determine standards that were appropriate for their context, and that these would be respected by donors, even if they fell short of what donors would apply in their home countries. However, participants emphasised that donor country politics make it difficult for non-borrowing shareholders to settle for anything less than their own standards. This can put a significant strain on borrower countries.

A further issue that was raised relates to the ownership of safeguarding processes. The World Bank’s reforms in 2016 clearly transferred the ownership of the environmental and social safeguarding framework to borrowing governments. However, borrowers state they do not have the resources and expertise to properly ‘own them’. This also adds to the implicit cost of borrowing from MDBs.

Numerous participants raised concerns about the proposals in the ODI paper looking at options to streamline current safeguarding approval processes. They suggested that the paper overstated barriers from safeguarding procedures and that ultimately, they reduce the possibility of investing in bad projects. It was also suggested that long-drawn out safeguarding reviews and approval processes were often the result of badly prepared projects, rather than flaws with the processes themselves. Certain MDBs seem to be able to manage their own internal safeguarding processes more effectively than others and so participants suggested there would be benefits to better understanding and learning from these differences.

Other participants argued that setting up safeguards for a 'tug of war' between borrower and donor countries can be unhelpful as they play a critical function. They proposed an alternative line of enquiry looking at how safeguarding teams could play more of a problem-solving role through the whole project cycle, rather than simply performing a gate-keeping function prior to approval. This reimagined role for safeguarding teams would likely require different approaches to resourcing as well as different career incentives. Safeguarding teams are often viewed within the World Bank as an impediment to lending at speed rather than an ally to support better implementation.

Procurement rules were also deemed to be designed with non-borrowing shareholders' concerns primarily in mind, rather than delivering development impact. It was suggested that non-borrowing shareholders tend to care first and foremost about driving down the risks of rules not being followed and achieving the lowest price for contracts. This approach to procurement means issues such as development impact and the building capacity of suppliers tend to be neglected.

It was suggested that the World Bank should allow greater flexibility in its approach to procurement based on borrowers' own procurement standards, their track record and the inputs being procured. The Bank's 'one-size-fits-all' approach to procurement may have made sense fifty years ago, but today borrower capacity varies significantly, as do the types of inputs being procured (not just bricks and mortar, for instance, but complex software solutions that require agile approaches to design).

Although speed is clearly important, participants cautioned against conflating it with agility. It was noted that agility is important for impact, not just for serving senior government needs (after all, governments change). This requires rethinking what instruments the World Bank needs at its disposal that can enable programmatic approaches to addressing complex problems that cannot be resolved in one political cycle.

3. Better coordination across MDBs

The ODI background paper suggested that a lack of coordination between MDBs and other financiers is a barrier to upscaling lending. The paper made three proposals:

1. MDBs should establish targets for co-financed operations among themselves
2. MDB partnerships with national development banks (NDBs) in borrower countries should be enhanced through joint projects
3. MDBs' private sector operations should be used to catalyse private investment

These proposals were discussed less during the workshops. Certain participants acknowledged that the harmonisation of certain processes might be useful. There were also examples where MDBs were working well with each other and with other financiers. The Clean Technology Fund was highlighted as a good example of a common financing platform. It was suggested that useful lessons could be learned from what worked well (and less well) with cooperation between the World Bank and GAVI on vaccine deployment.

There was some scepticism about the prospects for coordination, with a view that ‘more is often said than done’; efforts to set up improved coordination mechanisms often quickly dissipate. At the country level, it was suggested that many finance ministries are stepping back from convening consultations ostensibly aimed at coordinating external actors.

Doubts were raised about whether coordination across MDBs is always necessarily a good thing. For instance, the co-financing of projects across legacy MDBs can potentially add transaction costs. It was also highlighted that competition has its advantages, namely contributing to improving the accountability of MDBs towards borrowers, and that cooperation varies significantly across regions.

Participants were more positive about MDBs working closer with NDBs. There are country examples where this is already going well (in Rwanda, for instance). However, it was also acknowledged that there is significant variation across NDBs and so the ability to coordinate is not entirely within the control of the MDBs.

The workshop document and discussions only briefly touched upon prospects for coordination with the private sector and it was suggested that this required much more granular attention in the reform roadmap. Certain participants suggested that the World Bank is more effective in crowding in private investment through its more traditional sovereign lending tools (e.g. support for policy reform, public investments that alleviate certain bottlenecks etc) than through the IFC.

4. *More responsive technical advice*

The ODI paper noted that while World Bank and MDB advice and expertise are highly valued, borrowers find that they are not responsive to local priorities. The paper made four proposals:

1. To provide an offer based on transformative ideas rooted in client demands (around long-term industrial policy advice, for instance)
2. To ensure that technical assistance and policy advice are tailored to the needs of different borrowers
3. To produce easily digestible products and data tailored to policy-makers
4. To contribute to building analytical skills locally

There was consensus that the nature of MDB technical advice had not sufficiently adapted to today’s world. Too much time, money and prestige are spent on preparing lengthy reports (that clients may not even read). It was widely agreed that there is significant scope to make advice fit better to the rhythms of how policy is actually made.

It was suggested that changing the approach to technical advice would require a change in the suite of World Bank instruments. The World Bank has three main instruments at its disposal: investment lending, programmes for results and development policy operations. None of these is well suited to the types of long-term, responsive analysis and advice that draw on global knowledge but seek local system change. The nature of advice also relates to deeper issues of organisational incentives. Analytical work tends to be geared towards delivering large loans.

One participant suggested that changing the culture of technical advice would require changing recruitment practices as well approaches to rotating staff and leaders across different roles. They argued that the lack of diversity in MDB staffing could explain the lack of responsiveness in technical advice. This 'lack of diversity' relates not just to issues of race, but also to the background and training of staff recruited to the Bank. Reference was made to the dominance of economists in analytical work and narrow economic training.

5. *More effective mechanisms to promote accountability to borrowers*

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MDBs have multiple accountability mechanisms, but the ODI paper argues that they often tend to focus more on ensuring rules are followed than delivering effective programmes and projects. The paper put forward three proposals:

1. To provide more transparent information about lending practices and performance
2. To adopt a common project classification system across MDBs and a stricter classification of projects
3. To adequately resource and staff independent MDB evaluation offices and undertake monitoring to consider borrower perspectives

There was widespread agreement that MDBs could be doing more to make information on their performance easily available. For instance, the World Bank's client surveys are a useful form of information, but data is hard to access. Information on approval times is no longer being made publicly available. It was also agreed that there were opportunities to make better use of new technologies to collate administrative data on how projects are administered throughout the project cycle. The World Bank has undertaken a great deal of work aimed at strengthening administrative data collection in governments and should follow its own example here.

It was also suggested that the World Bank does have very good information on the performance of programmes through the Independent Evaluation Group (IEG). Understanding why the IEG recommendations did not more routinely inform programming decisions should be the focus of attention rather than seeking to create new accountability processes.

Numerous participants also called for a more systematic approach to citizen engagement and civic space analysis in country strategies (as reflected in this Oxfam paper for example). It was proposed that citizen engagement tends to be done on a fairly *ad hoc* basis and sits apart from project appraisal and evaluation processes. There were calls for improved data on community groups and how they approach projects.

What the ODI paper and discussions missed

For all the current attention on MDB reform, there are limits to what MDBs can do

The discussions were very much focused on what reforms MDBs might usefully undertake. There was a concern, however, that the institutional environments in which MDBs operate within a given country were missing from the discussion. It was argued that while MDBs might be resource-intensive to deal with, many of the problems raised largely fall away in countries where there is a clear commitment to socio-economic development. Ultimately, MDBs are institutions that dispense money, and what that money achieves depends significantly on the environment. MDBs alone are not the solution to all global challenges and socio-economic development.

Issues of MDB governance are political and require political fixes, not just technical tweaks

Participants made the point that MDB priorities are set by the largest (typically non-borrower) shareholders. This is the reason why MDBs are not responsive to their borrowers and why there is demand from borrowers for better representation on boards and changes to voting rights.

Understanding why change does and does not happen

A third related point is that there is a long history of efforts to reform the World Bank and other MDBs. Understanding why reforms have not happened (and even more importantly, where they have), as well as the incentives, systems and processes that underpin a fairly resilient set of instruments that the Bank has used since its inception, could help sharpen recommendations on how to incentivise more radical change.

Conclusions

The workshop and accompanying document were intended to stimulate dialogue and reflection on how the World Bank and MDBs can improve. Publishing the discussions and the workshop document are part of that process. Too much of the debate on World Bank reform continues to happen behind closed doors. At times, this gives off the impression of a political game, rather than an open and critical self-reflection on how MDBs need to adapt to meet contemporary challenges.

The issues raised are not necessarily new, nor easy to resolve. The differing viewpoints of participants in part reflects the complex set of interests that MDBs have to navigate. Some of the recommendations discussed seem to be potentially more amenable to reform than others: modernising the World Bank’s technical assistance offer, using technology to help streamline processes, properly resourcing units to support project implementation (especially in more resource-constrained economies), and making administrative information more easily available. Increased competition will also likely force some change on MDBs.

While the reforms many be difficult, this should not diminish their urgency. There is a real risk at present that the World Bank’s reform comes to be perceived as a ‘G7 agenda’. This would be a real shame: the World Bank and other MDBs clearly cannot resolve the world’s challenges on their own, but they can play a much more significant role. Making some concrete suggestions as to how the World Bank will address long-standing borrower concerns could help to make the reform process more inclusive.

Annex 1: ‘How can the World Bank and other multilateral development banks respond to borrowers’ needs?’ (ODI workshop discussion paper)

Contents

Multilateral development bank reform: what is the issue?

The World Bank and other multilateral development banks (MDBs) have been major players in international development for nearly eight decades. By building infrastructure, supporting growth and reducing poverty, these institutions have made significant gains in improving the lives of millions. However, challenges such as climate change, Covid-19, spiralling debt and mounting inflation threaten to reverse these gains, and call for a new *modus operandi* for MDBs.

Under pressure to reform from its main stakeholders such as the United States, the World Bank has produced a reform roadmap. While this is a World Bank initiative, there is an expectation that other MDBs, facing similar pressures, will follow suit.

The reform roadmap focuses on three areas: mission, finance and operations. On the mission, the roadmap calls for a greater focus on climate change and other global challenges to serve all the Bank's clients, including middle-income countries (MICs). On finance, it suggests that the Bank will look at ways to offer more finance through different modalities, both for low-income countries (LICs) and MICs. On operations, the roadmap investigates what changes would be required to strengthen its instruments and facilitate increased borrowing, including mobilising private finance.

Within these reform efforts, however, the World Bank has been relatively silent on issues relating to the demand for finance, particularly whether and how increased financing will effectively serve the interests of borrower countries and their citizens.

The first and most important function of MDBs is that they provide long-term finance at lower rates relative to capital markets. MDBs also give policy and technical advice, and are a source of valued technical knowledge and expertise. Recent ODI work has shown that MDBs remain a trusted source of relatively low-cost finance, technical knowledge and policy advice for many borrowers.

Despite these strengths, borrowers see some challenges with the way MDBs operate. MDB finance is burdened by complex, rigid or unfamiliar procurement and safeguarding rules. Lending approval and disbursement takes a long time. Advice and ideas are not always tailored to what countries need. Policy conditionality creates barriers to borrowing, and can shift priorities away from what the countries want. All of these challenges are not recognised, let alone addressed, by the World Bank reform roadmap. This is worrying, as it may mean that even if all the reforms are implemented, countries may still choose to borrow limited amounts from MDBs.

At the heart of these concerns is a particular 'social contract' between the MDBs, the shareholders, borrower governments, citizens and the private sector. Although all might profess a common interest in development and improving the lives of citizens in borrower countries, different stakeholders have quite different views on how that might be best achieved. All MDBs, and the World Bank in particular, have multiple interests to satisfy: their shareholders, civil society organisations in shareholder countries, borrower governments, and citizens in countries that are intended beneficiaries of MDB support. As banks whose mandates require them to generate income to address development goals, MDBs also have their own internal organisational objectives.

This social contract is coming under renewed scrutiny particularly in relation to global challenges like climate change. The delays and utilisation rates of MDB vaccine procurement programmes during the COVID-19 pandemic highlighted some of the challenges of MDB country-focused models in addressing problems that span national borders. While climate change is threatening development prospects around the world, individual countries are understandably concerned about seeing their financial allocations reoriented away from poverty reduction efforts towards emission reductions.

Amidst debates over the future role of MDBs, there is a real risk that the reforms will be seen as being all about addressing certain concerns of the richest shareholders, while long-standing questions about how MDBs can more effectively respond to the needs of borrowers and their citizens are ignored. There is a risk that reforms increase the financial headroom of banks, but countries critical to addressing major global challenges choose to borrow from other sources.

This background document explores some solutions to how MDBs could adapt their operations to better respond to borrower concerns without a fundamental (and unlikely) reimagination of the overall social contract within which these institutions operate. The document puts forward some proposed ideas for reform that the banks could take on to address long-standing concerns. We argue it is critical not only to focus on high-level issues of mandate and/or on increasing capital availability, but also to work hard on restructuring the operational model of MDBs, making them better at their core business and more responsive to their clients' needs. In other words, MDBs need to become better both at lending and at developing and sharing ideas that work for their clients.

In this background note, we focus on five issues and provide five sets of proposed reforms that could increase the uptake of MDB lending by borrower countries: aligning MDB support with borrower needs; streamlining project approval; improving coordination and partnerships; providing more responsive advice and expertise; and strengthening accountability and oversight.

We do not expect these proposals to be the last word on this topic. We are sure that others could help refine and improve upon the proposed ideas. We suspect there might be other areas like digital innovation where there is room to do more. We hope this document stimulates others to come up with other ideas with a view to MDBs being better and not just bigger.

Aligning multilateral development bank support with borrowers' priorities

What is the issue?

Who is responsible for setting out the priority sectors for the MDBs' client countries? Few would argue that it should be the MDBs themselves, or even worse, their top shareholders. Borrower countries should have the ability to determine which sectors and projects they want to prioritise. This is reflected in the views of borrowing country officials, who care about the fact that MDBs listen to them and value their priorities. In an ODI survey, 96% of the government officials interviewed saw the alignment between MDBs and domestic development priorities as 'very important' or 'extremely important'. MDBs do not perform badly in this area – as the same survey found, almost 80% of government respondents thought that the projects funded by MDBs were actually well aligned with their own priorities.

However, some of the priorities that the World Bank is pushing forward in its reform do not necessarily go in this direction. A case in point is climate change. While this is considered a priority by many countries, the same countries may not want this to be a key feature of the reformed World Bank portfolio. As some have argued, climate change is a priority for many high-income countries and MICs, but not necessarily for LICs. The ODI work we already cited shows that borrowing country officials see climate adaptation and mitigation as one of the main sectors in which the World Bank should work, on a par with education, health, and water and sanitation. Strikingly, for other MDBs, climate change features even less prominently among the borrowing countries' priorities, surpassed by agriculture, infrastructure and education (Table 1).

Table 1: Sectors where respondents think MDBs should work in the future (top three areas by percentage of respondents)

Government officials		MDBs	
World Bank			
1. Health	63%	1. Climate adaptation and mitigation	95%
2. Water and sanitation	61%	2. Education	86%
3. Education	60%	3. Energy	71%
AfDB			
1. Agriculture	82%	1. Transportation	100%
2. Water and sanitation	75%	2. Energy	89%
3. Energy	75%	3. Agriculture	83%
AsDB			
1. Water and sanitation	68%	1. Transportation	84%
2. Transportation	64%	1. Agriculture	84%
3. Education	61%	2. Climate adaptation and mitigation	83%
EBRD			
1. Energy	49%	1. Climate change adaptation and mitigation	100%
2. Water and sanitation	46%	1. Energy	100%
3. Transportation	40%	1. Industry and Trade	100%
		1. Water and sanitation	100%
IADB			
1. Education	54%	1. Social protection	95%
2. Water and sanitation	51%	2.Education	92%
3. Climate change adaptation and mitigation	48%	3. Climate change adaptation and mitigation	73%

Source: Authors' survey; 407 respondents on the World Bank; 174 on the AfDB; 139 on the AIIB; 102 on the AsDB; 66 on the EBRD and 98 on the IADB. *Question: If you were to choose, in which areas do you think the #MDB# should work in #country# in the future? Please select as many as applicable.*

Source: Elaborated from Prizzon et al. (2022)

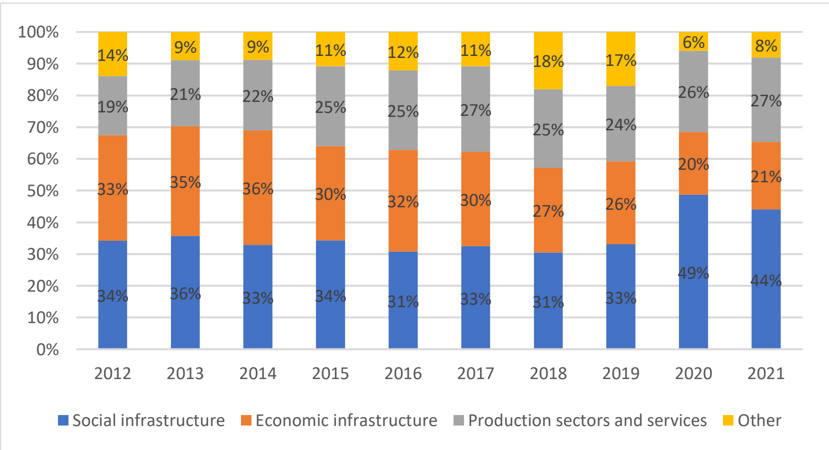
World Bank data confirms these findings: for instance, the most recent World Bank country opinion survey in India shows that the stakeholders interviewed believed the World Bank should focus its efforts on job creation, education and health. Similarly in China, the World Bank survey shows that stakeholders wish for the Bank to engage in agriculture and education, with climate change trailing far behind. This creates potential tension between a World Bank with a greater top-down focus on global challenges, and borrowers for whom these top-down challenges may not be a priority.

MDBs can support development in a climate-changed world, irrespective of one's view on whether addressing climate change should be a distinct mission of MDBs. Two key areas stand out as particularly important examples: i) sustainable and resilient infrastructure and ii) responsive crisis lending.

To achieve both development objectives and address global climate concerns, there needs to be a major push for sustainable infrastructure in MICs. The focus on sustainable infrastructure is key as it ties development efforts together with global challenges such as climate change.

MDBs are well positioned to lend for infrastructure: they can offer 'patient capital' at lower-than-market rates and are able to support infrastructure at scale. Yet in recent years, MDB lending for infrastructure has declined as a share of total lending. Since the 1990s, the World Bank has moved away from physical infrastructure towards lending for social sectors, with the hope of achieving a greater impact on poverty reduction. Figure 1 shows that economic infrastructure covered 33% of the portfolio of selected MDBs in 2012, with $24 billion devoted to infrastructure over a total of $70 billion in lending. In 2021, this declined to around 21% (or $27 billion) over a total of $129 billion in lending.

Figure 1: Loans and grants by sector, selected MDBs (% of total annual portfolio)



Source: OECD Creditor Reporting System

Note: data covers nine MDBs (African Development Bank, Asian Development Bank, Asian Infrastructure Investment Bank, Development Bank of Latin America, European Bank for Reconstruction and Development, Inter-American Development Bank, Islamic Development Bank, International Bank for Reconstruction and Development, and International Development Association). Economic infrastructure sectors include transport and storage, energy and communications. Social infrastructure sectors include education, health, population policies and programmes, water and sanitation, and government and civil society.

And yet, the appetite for infrastructure finance is not declining in LICs and MICs. Debates on infrastructure finance gaps in Africa and Asia, however imperfect, highlight the need to provide more finance towards infrastructure goals. Borrowers want MDBs to be responsive to their needs, but this is not always the case. In the aforementioned ODI survey, for example, over 60% of respondents saw grants and loans from MDBs as helpful in filling financing gaps, but only around 50% felt that such finance matched the government's needs and priorities. If MDBs can offer more finance, they should also consider how to align their offer with domestic requests.

Another function of MDBs is the provision of balance of payment support to help cushion borrowers from the impact of crises. Not all crises, however, are born equal. During Covid-19, for instance, MDB sovereign commitments increased by 39% from $87 billion in 2019 to over $120 billion in 2020. Yet this pales in comparison to the 77% increase in commitments during the global financial crisis. As risks of cross-border shocks rise, the need for this type of support will likely intensify, not decline. Demand for crisis lending is likely to increase in the future. Borrowers are already feeling the effects of a climate-changed world.

The World Bank currently tends to deploy 'development policy operations' to play this role. Disbursement through such operations is conditional on the borrowing government achieving specific targets and indicators, or reforming sectors and introducing new or different policies. Some of these conditions may be difficult to achieve, and borrowing countries often state that MDB finance comes with too many 'strings attached'.

Academics and scholars from borrowing countries have often been critical of the external imposition of policy conditions. Policy conditions are only effective if they are 'owned' and embraced by the governments acting on them. In other words, the government must be committed to implementing these policies and not just see them as a means to obtain financing.

Unpopular with borrowers, conditionalities are a way for MDBs to marry the various interests of lenders, borrowers and civil society. Conditionalities are even more problematic at times of crisis. Recent analysis has shown that unlike the IMF, the World Bank did not adapt the use of conditionality during the Covid-19 pandemic. Nor has it sufficiently adapted its development policy operations to a crisis setting. Financing was contingent on policy reforms even during a pandemic – these reforms were often not pandemic-related, but rather part of a long-term structural agenda. This partly reflects the perceived division of labour among Bretton Woods institutions, where the IMF is understood to be responsible for addressing temporary short-term macroeconomic stability challenges while MDBs support investment in long-term development through 'development policy operations'.

The reality is that these roles have become more blurred. Over time, the IMF has adopted more long-term lending instruments (the Poverty Reduction and Growth Trust or the Resilience and Sustainability Trust, for instance). Concurrently, MDBs have become critical lenders at times of crisis, providing lines of credit to governments and private companies. For lower-income countries, the World Bank's relief financing is especially valuable, as International Development Association (IDA) funding is more concessional than IMF credit lines.

What are some of the potential remedies?

The MDB financing model is well suited to sustainable infrastructure lending, but to be able to disburse finance, it is important to invest in staff who have the necessary expertise to support project preparation and delivery, and who can help governments navigate complex MDB regulations. This may require intensifying support in areas such as procurement, operations and safeguards. These individuals can help governments understand World Bank procedures.

Some MDBs such as the European Bank for Reconstruction and Development (EBRD) and the Asian Development Bank (ADB) are regarded as particularly effective at delivering infrastructure finance. Some useful lessons could therefore be drawn from looking at their procedures.

The World Bank should follow the IMF's lead and develop lending operations that can be deployed at times of crisis, with streamlined approval processes and no conditionalities. This would be much closer aligned to the vision of collective responsibility that is needed to respond quickly to climate disasters.

More agile lending operations

What is the issue?

Complex financial and procurement rules

Borrowing from MDBs can be complicated because of their complex financial management and procurement rules. Approving an infrastructure project and disbursing funding involves many steps. Within the MDBs, going from project identification to approval necessitates several country missions, each requiring lengthy preparation and multiple internal reviews. For each of these, documents need to be prepared and circulated in advance. The final decision and 'rubber stamping' are the responsibility of the MDB boards. This is especially the case for large MDBs such as the World Bank, with many stakeholders wanting a say in the process.

Similarly to project approval, MDBs have complex procurement policies that affect the disbursement stage. Procuring locally can be an excellent way of boosting the income of domestic businesses, leading to increased multiplier effects of infrastructure lending. However, procurement needs to follow specific rules to avoid the mismanagement of funds and corruption. Procurement contracts must follow complex regulations that even MDBs themselves struggle to monitor. The already-cited ODI survey of nearly 500 borrowing country officials and MDB staff found that half of the respondents deemed MDB procurement rules to be 'extremely rigid and complex', while fewer than half of the government officials surveyed were satisfied with the levels of local procurement by MDBs.

The complexity of these procedures means it takes a lot of time and resources to approve and disburse funding. Some MDBs like the World Bank and the ADB take over two years to finalise the procedures that lead to the first disbursement, while the others such as the African Development Bank (AfDB) and the Inter-American Development Bank (IDB) take a little less time. However, these are average figures. Large and complex projects are likely to require far more time to go through the entire approval process. This toll on time and financial resources raises the effective cost of borrowing from MDBs.

Moreover, the technical excellence of MDBs means that they expect the best project design and specifications possible. Yet these are sometimes regarded as excessive by borrowers, who may prefer speed and agility over excellent but costly specifications. Borrowers view these as impositions by the MDBs, resulting from the needs and requests of their headquarters rather than from cooperation. These problems are more acute among global rather than regional MDBs, as the latter are seen as 'closer to the ground' with a greater understanding of the local context.

Stringent safeguards

At the project implementation stage, MDBs apply environmental and social safeguards. Developed in the 1980s and 1990s in response to the demands of local communities (and later given voice by global NGOs, safeguards have helped to improve the design and implementation of MDB projects, providing transparency to local communities that may be vulnerable to the potentially negative impact of these projects. Safeguards are particularly useful in countries with weak regulations, and in many cases they supersede national laws and introduce minimum common standards among borrowers.

While useful to protect vulnerable groups and the environment, safeguards are problematic because they sidestep and replace legal frameworks in countries altogether instead of supporting their creation. Safeguards are also costly to implement. A study by the Independent Evaluation Group of the World Bank found that for borrowing countries, the average cost of safeguards is around $13 million, increasing to an average of $19 million for Category A projects (the most risky). These costs can represent a considerable share of the total loan. Moreover, safeguards have become increasingly stringent over the years. There has been a tendency to respond to any problems related to project implementation with the introduction of additional safeguards, rather than to simplify or streamline them, as demonstrated by the 'series of lessons' prepared by the ADB.

Implementing MDB safeguard rules requires borrowers to invest large amounts of time and resources. Borrowing countries must learn how to navigate all of the rules set up by the MDBs. These are different for different lenders and change over time. Moreover, safeguards impose financial costs as borrowers must conduct specific studies, often by hiring external consultants. Depending on the size and risk category of the project, the cost of the whole process can reach the tens of millions, while preparation, public disclosure and consultations can take months. Some scholars have argued that safeguards have become so stringent that they might act as a deterrent to future borrowing.

Moreover, safeguards are universally applied based on the project risk level, but they may not be a good fit in all contexts. For instance, safeguards regarding the protection of indigenous people may not apply in the African context, where the category of 'indigenous people' has limited utilisation, or even carries negative connotations related to the recent past (think the genocide against the Tutsi in Rwanda). Again, applying rigid categories to all contexts may discourage borrowing.

'Hassle factor' and long lead times

Financial and procurement rules and safeguards create 'hassle' for borrowers and result in long lead times. The top shareholder-dominated model of MDBs is at least partially responsible for this. In layperson's terms, this means that the main contributors to MDBs hold the greatest sway in decision-making and that whenever something is criticised or goes wrong in an MDB's operations, further regulations, procedures and safeguards are added to appease the top shareholders and their constituencies. This may not be what borrowers want: while recognising the importance of a certain level of safeguards, many borrowers see these as 'externally imposed' by the lenders. This contributes to overly bureaucratic, rigid and rule-driven lending, which may discourage further borrowing.

Complex business procedures and safeguards cause long lead times – and borrowing countries do not like it. In some cases, long lead times do not match with electoral cycles, preventing incumbent governments from 'showing results' in time for the next election. In other cases, they simply do not respond to the immediate developmental needs of many LICs and MICs. Either way, complex procedures and safeguards do not respond to the priority for speedy delivery that many borrowing countries have.

What are some of the potential remedies?

Several steps could be taken to make MDB lending more borrower-friendly. For instance, while there is no appetite to reopen a time- and energy-consuming safeguard review process, there may be some practical approaches to streamline it. MDBs could take a risk-based approach to project approvals, with certain decisions to be delegated at the country office level, rather than be taken by the board. Alternatively, MDBs could implement single safeguard reviews covering multiple projects in the same country or sector, and make more use of the country platforms that are in place in some borrowing countries. Moreover, rather than entirely *ex-ante*, checks could be applied as the project develops to make sure the cost is spread throughout the life of the project. MDBs could also make better use of technology, moving away from paper-based systems (where still in place) to develop a paperless loan approval system, digitising all paperwork and project approval steps, and providing an interface to keep the borrower country's ministry of finance updated on loan status.

There are also questions over who should bear the costs for undertaking safeguarding reviews. At the moment, there is an expectation that borrowers should bear the full cost of meeting world-class standards despite major resource constraints.

Improved coordination across multilateral development banks

What is the issue?

Strong coordination among MDBs in infrastructure lending activities is key to pooling available resources in the MDB system and to achieving greater developmental impact in borrower countries. In recent years, MDBs have attempted to coordinate their activities more closely by organising meetings involving the heads of MDBs at least three times a year, as well as regular meetings involving operational and nonoperational departments, and close donor coordination with member country offices and government agencies. These efforts have yielded some results. For instance, after the Asian Infrastructure Investment Bank (AIIB) was established in 2016, it began country operations by jointly financing several infrastructure projects in borrowing countries with the World Bank and the ADB.

Borrower countries argue that coordination problems among MDBs act as a significant constraint to upscaling infrastructure lending. The World Bank and regional development banks do not work together as a system to leverage their comparative advantages and skill sets to finance large infrastructure projects, including those involving sustainable infrastructure. Rivalries between the operational departments of different MDBs, the limited transferring of innovative financing tools and sharing of project-level information and analytical work, and the incompatibility of project approval processes mean that relatively few major infrastructure projects in developing countries are jointly financed by MDBs. Each MDB has incentives to operate as an isolated entity to secure capital to undertake projects individually, using their own unique systems and processes. Sub-optimal cooperation between MDBs is detrimental to the sustainability interests of developing countries and their poor populations.

Lacklustre coordination also exists between MDBs and other key actors such as private finance and NDBs in the infrastructure space. The World Bank and regional development banks have played a limited role in mobilising the vast pool of global private finance through their private sector operational arms. A 2019 study by ODI found that on average, for every $1 of MDB and Development Finance Institutions (DFI)' resources invested, the amount of private finance mobilised comes to just $0.37 in LICs, $1.06 in lower-middle-income countries and $0.65 in upper-middle-income countries. Leverage ratios are low across sectors, with a slightly higher ratio in the social sectors and the lowest ratios in LIC and MIC infrastructure. The public sector dominates MDB activities; in 2020, its share of portfolios accounted for 89% of that of the World Bank, 93% of the ADB, 91% of the AIIB and 77% of the AfDB.

Likewise, MDBs can build stronger partnerships with the large number of NDBs who mostly operate domestically in borrower countries. The lending activities of NDBs are sometimes below the radar but can bring several notable advantages to this partnership, including strong local knowledge, deep pockets of new finance and local currency financing, and the ability to have some influence on the development of investment-friendly and green policies.

What are some of the potential remedies?

Several potential remedies should be considered to improve coordination across MDBs and other actors like private finance and NDBs.

First, the World Bank and other MDBs should publicly announce that a predefined share (e.g. 25%) of the value of their portfolios will be co-financed with other MDBs (by 2028, for instance) and direct their operational departments to implement measures that work towards this target (for example, the sharing of technical studies and project preparation documents and joint missions to borrower countries).

Second, the private sector operations of MDBs should be used to catalyse private investment in the transition to low-carbon infrastructure in borrower countries. This can be achieved via guarantees, blended finance instruments, public-private sector partnerships (PPPs), support for capital market development in borrower countries, and policy work to liberalise the entry and operation of private investment.

Third, MDBs should enhance their partnerships with NDBs in borrower countries through joint projects, leveraging their access to local capital markets and initiatives such as the Finance for Common Initiative to accelerate climate finance.

Responsive advice and expertise

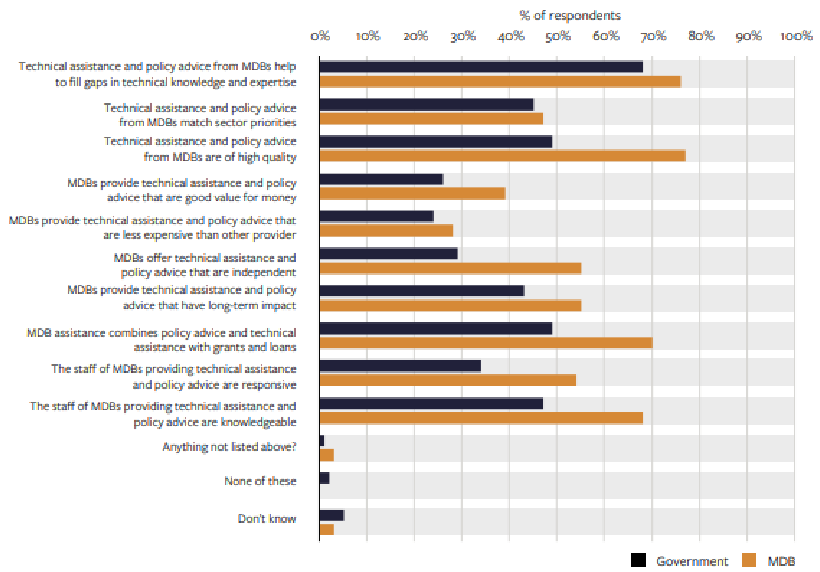
What is the issue?

One of the main strengths of MDBs is their ability to provide technical assistance and policy advice. Technical assistance is provided to facilitate the implementation of specific projects, while policy advice is broader: it covers policy and strategy design and implementation, and strengthens the institutions responsible for policy-making. Given their global and regional expertise accumulated through dedicated, decades-long research, MDBs are well placed to provide this kind of support. The ODI survey found that 92% of the government officials interviewed saw MDBs' technical assistance and policy advice as crucial to the long-term development of their country. Middle-income economies (including large economies like China and India) value technical assistance and policy advice more than the MDBs' competitive financial offer.

Ideas and research are powerful tools through which MDBs can support and influence policy in borrower countries. It appears that the World Bank has had greater influence in shaping the policy directions of borrower countries through its non-lending instruments (i.e. advisory and analytical services) than through its financial offers.

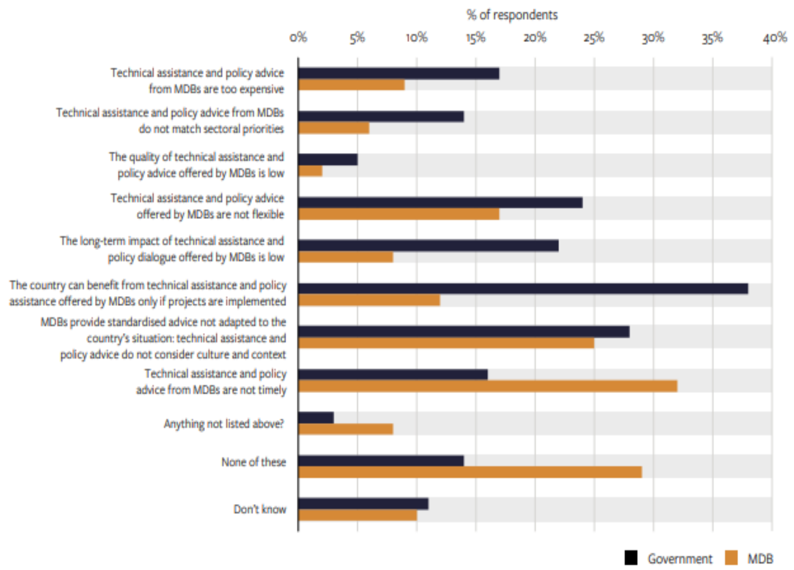
However, the ODI survey on MDBs and their clients shows that MDB advice may not always be responsive to client demands. MDBs are seen to impose their own agendas and quality metrics. Only around half of the stakeholders surveyed felt that MDB financing matched domestic priorities (Figure 2 and 3). Moreover, the same survey shows that less than 40% of the government officials interviewed and just over 20% of MDB staff believed that one of the advantages of MDBs is their respect for national sovereignty.

Figure 2: The advantages of technical assistance and policy advice offered by MDBs (% of respondents)



Source: Prizzon et al. (2022)

Figure 3: The disadvantages of technical assistance and policy advice offered by MDBs (% of respondents)



Source: Prizzon et al. (2022)

Government officials in borrowing countries lamented the fact that MDBs propose funding for projects and sectors that interest the bank or its board, rather than asking the government what its domestic priorities are. This is reflected through a focus on priorities that countries may not want MDBs to take the lead on. It can also heighten the perception of MDBs as being unresponsive, with their priorities influenced by top shareholders in the Global North rather than by the borrowers they claim to assist.

Then there is the issue of knowledge creation. This is one of the most essential functions of MDBs, and of the World Bank in particular, but it is not always up to scratch. Some have noted that MDBs' policy research may lack the nuance needed to address practical policy problems. For example, despite a high-level acknowledgement that politics matter, the World Bank continues to offer 'best practice' off-the-shelf policy advice, rather than tailored solutions.

There could be many reasons for this, and several of these may be linked to the way MDBs lock global and local dimensions together. While the global or international nature of MDBs means they are well suited to understanding large-scale issues and to considering solutions that could be applied in different countries, they can nevertheless struggle to adapt to local realities, each with its own features. This 'global versus local' tension is also reflected in the discrepancy between what shareholders and borrowers want from MDBs, as the research may be focusing on areas of concern for funders rather than clients.

Other issues may have to do with the inner workings of MDBs. For instance, since the financial operations of MDBs are an important part of their day-to-day work, much of their effort may focus on how to handle these funds, including their research and technical assistance. In addition to providing finance, they may support research on public financial management and assist governments on how to manage the funds to deliver projects effectively. Instead, borrower governments may have more pressing questions about the implementation of infrastructure projects or specific economic policies.

In practice, this means that MDB technical assistance and policy advice are not always fine-tuned to the local context in the borrower countries where they are supposed to be applied. Top-notch expertise and knowledge are highly valued by MDB staff but may not be the best fit for the local context. Moreover, this leads to the prioritisation of ideas and advice that come from the headquarters at the expense of the front-line expertise and knowledge of local MDB staff and clients.

What are some of the potential remedies?

This is a difficult area to reform as subjective judgements about MDB advice and technical assistance are involved. One remedy is to ensure that MDB advice and technical assistance are carefully tailored to the needs of diverse types of borrower countries. This means ensuring that the advice reflects the current development needs of borrowers, 'future-proofing' the approach by avoiding solutions that 'lock in' the need for international consultants under lengthy contracts, and supporting local inputs instead. In the field of public finance, for instance, off-the-shelf digital solutions may be the best practice, but they could also entail expensive maintenance. A simpler, locally-developed system may prove more robust over time. Therefore, rather than relying on so-called best practices, a more effective solution may be to invest in the knowledge, ideas and innovations that have worked in lower-income country contexts.

Another solution is for MDBs to focus more on the questions that policy-makers ask of them, rather than purely considering funder priorities. This could include embracing big, transformative ideas on how to restructure the economy and revisiting some lessons from the past. For instance, the return of industrial policy on the development scene, and the renewed interest in the manufacturing sector demonstrated by many LICs and MICs, should not be ignored on ideological grounds, and should form a core part of MDBs' renewed offer in the future. To do so, MDBs may need to invest in developing deep knowledge in a variety of topics, beyond just 'development expertise'.

MDBs should also revise the type of products and services provided to borrowers. Lengthy technical reports with a long publication lag may be useful to advance knowledge on development issues, but they are less user-friendly to busy senior-level policy-makers. Short policy briefs distilling key insights and lessons, as well as intangible knowledge products such as support, dialogue and convening (known to be a particular strength of MDBs), could be more valuable. Similarly, MDBs should improve data production, especially those that permit cross-country comparisons briefly, but should also move away from the standardised diagnostics that measure all countries against some ideal benchmark. These standardised diagnostics have shown cracks, and have outlived their usefulness.

Finally, MDBs should contribute to building institutions in borrower countries that help develop the critical skills needed for policy research and project management: policy analysis, critical reflection, technical expertise and data collection. Indeed, by establishing economic policy and development think tanks, MDBs can create the requisite capacity to formulate policy ideas to respond to multiple problems, rather than just the technical issues at hand at any given time.

Making multilateral development banks more accountable to borrowers and their citizens

What is the issue?

One of the main challenges that emerges from the way MDBs operate is the tension between the aims and requests of funders and clients. The fact that MDB operations are often guided by their top shareholders raises the question of who MDBs should respond to.

MDBs have multiple accountability mechanisms. For instance, they are accountable to shareholders through their Boards of Directors. MDB boards have multiple problems. ODI research shows that while directors ought to be focusing on strategy and oversight, in reality they spend a lot of time on day-to-day management, and in some cases act as a political counterweight to technical decisions, allowing stakeholders to bring in their national interests. Accountability to borrowers tends to be more compliance-oriented, and aimed at minimising risks: MDBs work to ensure that borrowers follow certain rules and that appropriate grievance mechanisms are in place, and so on.

What MDBs lack is accountability to their borrowers for delivering good projects and good advice, and for responding to their policy needs. Other than bilateral dialogue among MDBs and governments, there is no mechanism in place to ensure that country priorities are respected, and that the advice and assistance provided are compliant with the country's strategies.

Moreover, MDBs do not provide clear information on their performance (for example, the time it takes to agree on projects or on the effectiveness of the services they provide). MDBs have their own independent evaluation offices that report on the performance of thematic, country and sector strategies as well as investment projects according to international evaluation practices. Borrowers complain that such evaluations sometimes rely on desk-based research by international consultants and self-evaluation methods by MDB project or programme officers, rather than on interviews with stakeholders in borrower countries. Borrowers also worry that these independent evaluation offices report directly to the MDB board, which is dominated by top shareholder interests rather than those of borrower countries.

What are some of the potential remedies?

There are several ways in which MDBs can become more accountable to their borrowers.

First, MDBs should commit to making information about their lending practices more easily accessible. The World Bank has a wealth of information that is not well organised, such as the World Bank client surveys: an excellent source of information on client perceptions, but one that is not summarised or made available in an easily accessible format. Similarly, while the information on lending approval times used to be readily available, for several MDBs this is no longer the case. Improving access to this information would strengthen the accountability that MDBs should strive for.

Second, MDBs could adopt a common project classification to compare their work. This would allow borrowers to evaluate and compare their performance and would prompt the MDBs to improve on their offer to clients.

Third, MDBs should properly resource and staff their independent evaluation offices so that they can conduct effective evaluations of strategies and investment projects in borrowing countries and share lessons learnt with MDB staff and officials in borrower countries.

Challenges in borrowing countries

While highlighting the problems with MDB lending processes, one should recognise that the borrowing side faces considerable challenges too. For example, many borrowing countries have very limited capacity to articulate their infrastructure needs and develop a pipeline of projects that MDBs can fund. To be sure, MDBs have complex requests in terms of project preparation, requiring borrowers to sink in substantial amounts of both time and finances before the project is even approved. But at the same time, examples like the Myanmar Project Bank – a costed list of infrastructure that the government needs and that funders can choose to support – are very rare. Some MDBs are already experimenting with different solutions such as working with other entities that are better placed to develop viable pipelines.

Moreover, the political setup and governance model in borrowing countries may not be conducive to the ‘good’ type of lending that leads to productive infrastructure. Infrastructure lending is negotiated by the elites of a country. Whether the elites choose to put forward projects that benefit them (e.g. a road that gives faster access to the airport) or that benefit the whole country and increase productive capacity (e.g. renewable energy generation, roads connecting industrial zones to ports) is a matter influenced by the political economy under consideration.

Proposals

This paper has discussed at length the ways in which MDB lending processes can be improved. We summarise the proposals in Table 2 to help put this thinking into practice. Recognising that the World Bank and other MDBs are political actors with many stakeholder needs to consider allows us to be more pragmatic about what reforms can be achieved.

Table 2: Matrix of proposals

Objectives	Proposals
A. Aligning MDB support with borrower needs	● Invest in staff with the necessary expertise to support project preparation and delivery, particularly in areas such as procurement, operations, and safeguards
	● Learn from the MDBs that excel at infrastructure lending
	● The World Bank should follow the IMF's lead and develop lending operations that can be deployed at times of crisis with streamlined approval processes and no conditionalities
B. Streamlining project approval	● Develop a paperless loan approval system by digitising all paperwork and project approval steps within MDBs, and provide an interface to keep the borrower country's ministry of finance updated on loan status
	● Implement single safeguard reviews covering multiple projects in the same country/sector and make more use of country systems in some borrower countries
	● Apply checks as the projects develop, rather than entirely *ex-ante*, to spread costs and efforts throughout the life of the project
	● Scale up MDB use of risk-based approaches to project review, approval and oversight based on project, sector, quality of government in borrower countries, and innovative approaches
	● Devolve loan approval authority from the MDB board of directors to MDB management within a clear framework of accountability and risk mitigation
C. Improving coordination/partnerships	● Establish targets for co-financed operations. Increase co-financing of large cross-border and national projects by two or more MDBs based on comparative advantages and pooling of technical assistance resources (e.g. sharing technical studies or undertaking joint assessments)

	• Enhance MDB partnership with NDBs in borrower countries through joint projects, leveraging their access to local capital markets and initiatives such as the Finance for Common Initiative to accelerate climate finance
	• Use MDBs' private sector operations to catalyse private investment in the transition to low-carbon infrastructure and energy in borrower countries. This can be achieved through guarantees, blended finance instruments, PPPs, support to capital market development in borrower countries and policy work to liberalise private investment
D. Providing more responsive advice and expertise	• Provide an offer based on transformative ideas rooted in client demands, and draw from a diverse set of expertise to deliver it
	• Ensure that MDB technical assistance and policy advice are carefully tailored to the needs of different types of borrower countries
	• Move away from lengthy reports and standardised diagnostics to provide easily digestible products and data tailored to policy-makers
	• Contribute to building analytical skills locally
E. Strengthening accountability and oversight	• Provide more transparent information about lending practices and performance
	• Adopt a common project classification system across MDBs, a stricter classification of projects (including those on climate) and more timely publication of disaggregate project-level data
	• Adequately resource and staff independent MDB evaluation offices to effectively monitor strategies and investment projects, considering borrower perspectives