

# ENHANCING COHERENCE AMONGST INTERNATIONAL FINANCE INSTITUTIONS

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*Caroline Heider  
Director General Evaluation  
Senior Vice-President World  
Bank Group*

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This paper was prepared at the request of the Eminent Persons Group (EPG) to inform the discussion of the EPG at its Seminar on Global Financial Governance in December 2017.

It focuses on coherence and complementarity of Multilateral Development Banks (MDBs) and International Financial Institutions (IFIs). A separate paper discusses coherence among IMF and IFIs.

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# Purpose

“...there needs to be deeper **complementarity** so that the IFIs as a system deliver outcomes that are much larger than the sum of their individual contributions.”

**This paper is inspired by the EPG’s aim for greater complementarity in the International Financial and Monetary System (IFMS). It focuses on the MDBs and opportunities to increase coherence among them, as well as with the IMF.**

We suggest that:

- **Efforts should focus on increasing Shareholder, Policy, and Operational Coherence**, as these are interlinked;
- Systemic approaches are needed aimed at **enhancing policy consistency and operational coordination among MDBs and with the IMF.**

The paper discusses coherence across the three dimensions, drawing on evaluation insights where available. The IFMS’s governance structure and evaluation systems, however, leave gaps in assessing system coherence.

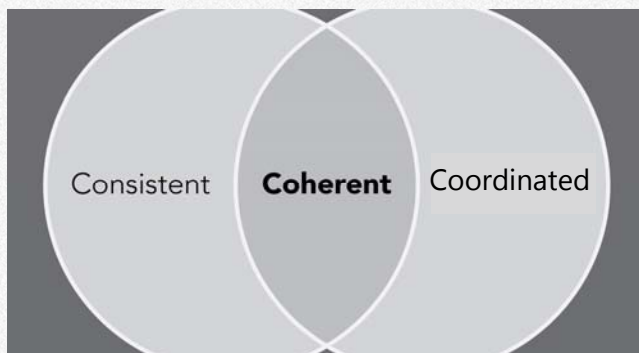
It does *not* propose:

- Specialization among the MDBs,
- Tools that dictate resource allocation choices among MDBs,
- Technical metrics and methods, which would need to be developed if desirable.

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**Incentives will matter more than ever** in influencing the IFMS’s coherence and complementarity. Selecting those that provide the right signals will be essential to overcome past challenges to achieve greater system coherence.

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# Context

Since the first IFIs were created in the 1940s, significant changes have altered the international development landscape, increasing its complexity

- The number of MDBs has risen
- There are more institutions involved in multilateral surveillance and policy coordination
- The number of member countries has increased
- Market financing and the private sector play bigger roles in development finance
- Each IFI plays a relatively smaller role in individual countries and globally
- The mandate and functions of IFIs are often ambiguous and overlaps have increased

This paper therefore poses the questions:

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- In a dynamic world, have existing governance arrangements adequately evolved to respond to the challenges of the new era?
  - Should IFIs coordinate or consolidate efforts to generate more impact, and create economies of scale as was achieved during post-war reconstruction in the mid-40s and 50s?
  - Does competition lead to innovation and should it be stimulated?
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# Policy Coherence

The EPG asks:

*Looking at the IFIs collectively and within a system of national and international bodies, is there coherence among policies, allowing for consistent approaches and an upholding of agreed standard?*

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**We suggest that policy coherence can be enhanced with the formulation of shared diagnostics and coherent strategies, across sectors and countries.**

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## Towards a shared understanding of development challenges and their solutions

**A shared understanding of development challenges and their solutions increases the potential for greater value-added through collective or coordinated contributions.**

This applies first and foremost at country level but would also be the case regarding global/regional, sector/thematic issues.

Evaluation of past experience shows some success in developing shared diagnostics:

The WBG ***Comprehensive Development Framework*** had helped shape processes like ***Poverty Reduction Strategy Papers***. Sustained adherence to the principles showed results. But these were fragile in light of entrenched behaviors and attitudes.

The ***IMF Article IV*** is used as background on macroeconomic issues by most IFIs.

The WBG ***Systematic Country Diagnostic*** (SCD) significantly improved the integration of private sector (IFC and MIGA) in the understanding of development concerns of partner countries.

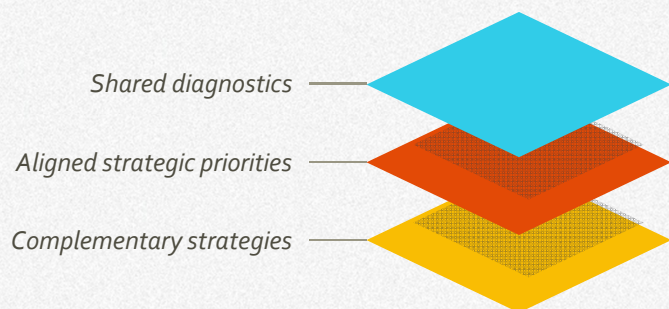
The SCD has been welcome by partners in governments and beyond.

**To succeed**, diagnostic tools have to be shared among stakeholders, allow diverse views to be heard, and shape a common understanding of central development challenges, main outcomes to be reached, and key policy options to succeed.

Such diagnostics can then serve each stakeholder to develop their unique role in addressing the challenges.

Ask IFIs (starting with the MDBs/IMF) to:

- Agree on a common set of diagnostic tools (e.g., combination of SCD and Art. IV) , including tools to assess risks to resilience;
- Collaborate and consult with government and other stakeholders during diagnostic process;
- Challenge “group thinking” and bring together diverse perspectives;
- Agree on common diagnostics, shared priority outcomes, and main policy options to achieve these outcomes;
- Build client countries’ diagnostic capacity.





## Is there scope for IFIs to work towards greater alignment of outcomes when working in common countries/regions?



**Yes. Greater collective value-added of the IFMS has to be informed by shared diagnostics and policy dialogue to align priorities, complementarity, and coherence.**

For the IFMS to deliver better operational results together:

- **IFIs** have to pursue *collective* results and a shared vision, and explain these in strategies at country, sector, regional, thematic, and global levels;
- **Client countries' leadership** and ownership is essential to foster coherence among international partners/IFIs [see IEG findings from Ownership evaluation 2011];
- **Shareholder coherence** is needed to review country strategies across IFIs and assess coherence and complementarity.

### In practice:

- IFIs follow a similar process of diagnostic / selectivity / priority setting for each client country. In doing so, they review the activities of other IFIs to ensure complementarity.
- However, such reviews are often superficial and IFIs do not always share a common vision and objectives, which dilutes their collective ability to influence and achieve results.
- There are only a few examples of joint *Country Partnership Strategies (CPS)*.

To succeed, IFIs will have to:

- Hold joint policy dialogue with country officials and relevant stakeholders upon completion of shared diagnostics;
- Ensure individual IFI strategies are aligned with shared diagnostic and clearly articulate their specific role and its complementarity with that of the others;
- Invite other relevant IFIs during discussion of their strategy with relevant stakeholders and authorities and/or at the Board;
- Start with country pilots, to manage complexity of aligning various IFIs' strategies.



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## Shared diagnostics should also foster greater alignment in policy dialogue and convening power



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IFIs can make a critical difference in advancing reform agendas at global, regional or country levels.

In countries, policy reform coherence for budget support:

- Tends to be coordinated in the presence of an IMF program. This typically results in stronger impact (e.g., Jamaica 2013-2016, where the IMF, the WB and the laDB fully coordinated their policy matrices).
- But without IMF program, IFIs sometimes compete to provide budget support, leading to a race to the bottom in terms of policy reforms and credibility.

Regionally,

- The **Vienna Initiative** was successful in advocating against large-scale withdrawal of cross-border bank lending to Emerging Europe in 2010-2012, anchored on common advocacy and close coordination among IFIs and the European Commission. Evaluations evidenced that the Vienna Initiative helped stabilize European parent bank engagement in Central and Eastern Europe.
- By contrast, in the **Caribbean**, a number of IFIs tried to support a debt swap initiative in 2016 which failed mostly for lack of support from the IMF.

To succeed IFIs will need to

- Ensure alignment of the underlying policy reforms with the shared diagnostics and complementarity with other IFIs' when providing budget support;
- Coordinate closely in leveraging private capital (based on the definition of direct and indirect mobilization they agreed on) to avoid crowding out private sector while competing with each other.



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## What would be the optimal framework for the use of concessional resources (by countries or by themes or other metrics)?



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**Both: countries and themes matter to use concessional resources to support priority areas.**

A 2016 IEG review found that IDA does a better job than the other WBG institutions – IFC, MIGA and IBRD – in terms of giving higher priority to special thematic areas such as gender equality, climate change, inclusive growth, crisis response and fragile and conflict-affected states. Core lessons include:

- (i) the special theme has to be coherent with the underlying Bank Group knowledge work;
- (ii) client countries, including successive governments, need to own the thematic agenda for long-term results;
- (iii) IDA’s country strategies have to specifically target and fund actions to pursue themes; and
- (iv) results of themes have to be monitored as part of the strategy implementation process.

However, **strategic choice** has to be exercised at the corporate level to determine which thematic areas are relatively more important for IDA. The themes need to be assessed within the context of the changing development landscape, Bank Group strategic directions, IDA’s value proposition, and the need for enhanced learning, innovation, and results. Selected themes should not simply be “add-ons.”

A 2013 evaluation of Fragile and Conflict Situations suggests that metrics to determine “fragility” needed to be calibrated. The CPIA reflected some parameters, but left out many more that were important to understanding fragility. **Metrics** to determine access to concessional resources have to be chosen to incentivize meaningful allocations.



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**Is there a coherent approach to how MDBs and RDBs adjust their portfolios, strategies and instruments as economies develop?**

**How should a particular institution and the system as a whole approach the issue of graduation?**

**Leveraging spillovers from working in MIC/UMICs is critical for greater effectiveness in other countries.**

IEG's report "*WBG engagement in upper-middle-income countries : evidence from IEG evaluations*" shows that working in MIC/UMICs generates co-benefits for IFIs and LICs through:

- Transferring operational learning from MIC/UMICs to operations in LICs;
- supporting MIC/UMICs' role in global public agendas;
- stimulating South-South learning.

MIC/UMICs are critical drivers of the world economy, but remain vulnerable to global shocks. This affects poverty and inequality in MIC/UMICs. WBG support remains highly relevant to help these countries address their specific development challenges.

In addition, generally, UMICs are not competing with LICs for the same financing sources. Financing terms offered to them are harder than those offered to LICs.

**To leverage these spillovers while optimizing the use of scarce development resources, we suggest exploring:**

- Greater differentiation in pricing;
- Requiring UMICs who borrow from IFIs to contribute more to financing pots for LICs (e.g. greater IDA contributions) – a sort of corporate responsibility;
- Exploring new ways to finance knowledge work in UMICs where IFIs have no financing role;
- Requiring that, as countries develop, they rely more on (i) market financing, (ii) domestic tax revenues, (iii) and direct investment by the private sector, and ensuring continued IFIs financing is structured with the aim of stimulating or leveraging these sources of development financing.



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**Can more be done to leverage complementarities between IFIs and between other development bodies?**

**How should functional expertise and best practices developed by one institution in one region be shared with other countries/institutions in different regions?**

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**Beyond shared diagnostics and aligned strategies, other measures to leverage complementarities among IFIs could be explored including:**

- Promoting and facilitating (through specific fast-track processes) co-financing and mutual reliance projects;
- Enabling IFIs to share professional staff and common pool of experts;
- Facilitating staff exchange programs among IFIs;
- Establish information systems that enable access (by staff, clients, and Boards) of up-to-date snapshots of all country operations by all IFIs;
- Encourage consolidation of donor trust funds with a preference for multi-institution trust funds where there is an overlap of expertise (e.g., the FIRST TF for financial sector TA is accessible by the IMF and the WBG).



# OPERATIONAL COHERENCE

The EPG asks:

*How can operational coherence across the IFIs be improved?*

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We suggest that **operational and policy coherence are interdependent**. The formulation of shared diagnostics and coherent strategies should include:

- Coherent ex ante and ex post metrics
  - Harmonized fiduciary policies and enforcement mechanisms
  - Strengthened and shared evaluations
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**While compliance is an important development anchor, over time, resources devoted to it have grown.** Are there ways to lower compliance costs without lowering standards? Could different institutional arrangements (for example by agreeing on common compliance standards and pooling of compliance operations) foster collective accountability as well as reduce the compliance costs on institutions and countries?



**Evaluations and institutional reforms have contributed to better alignment across IFIs.**

The 2010 evaluation of WBG Safeguard Policies showed differences in the frameworks of IFIs. WBG safeguards have been revised and updated. A new analysis would be needed to determine coherence across IFIs.

The 2014 evaluation of the WB's Procurement Policies recommended reforms that were reflected in the subsequent revised policy. The cooperation group of IFIs on procurement have agreed on shared principles of value-for-money and fit-for-purpose in procurement.

Cooperation among the IFIs centers on harmonized tools like the recently revised Methodology to Assess Procurement Systems (MAPS), the Public Expenditure and Financial Accountability (PEFA) tool, and the Supreme Audit Institutions Performance Management Framework (SAI PMF). This productive collaboration extends to bilateral donor partners.

**Consensus building on compliance standards** and practices is challenging across stakeholders in different regions. Greater coherence might be achieved if

- The cooperation group of compliance offices of IFIs should review and, if necessary, align their standards, policy interpretation, and practices across IFIs to ensure coherence.
- Boards (or their committees) of IFIs review compliance policies and practices to ascertain shareholder coherence across IFIs.



In doing so, it is essential to ensure IFIs remain nimble and able to support their common objective to leverage more private sector finance.

**Too little systematic information exists about the cost of compliance.**

IEG's 2010 evaluation estimated cost & benefits for some WBG transactions. IFIs could be invited to estimate costs and identify areas in which efficiencies can be achieved without lowering standards.



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Is there a need for common metrics to assess efficiency and effectiveness, and for better measures to track the attainment of key outcomes and link outcomes to resources allocated?

How can such comparisons across activities within an institution and across the IFIs be facilitated?



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**Harmonization of ex-ante metrics can foster greater alignment around priority results and policy and project options to get there.**

What has been tried before?

- There has been several attempts at common metrics (e.g. MOPAN, COMPASS)
- However, a 2013 independent review of MOPAN suggested its “usefulness has been limited in terms of enhancing the IFIs effectiveness”.

**Why is this important?**

- **Design quality** is a strong predictor of project outcomes. Complexity, risks to resilience, and the need for systems’ approaches require greater attention to project design for adaptive management.
- **Complementarity** between IFIs requires even clearer (shared) goals and explicit pathways to get to them.
- **Crowding in** private actors and capital requires enhanced impact through coordinated actions to create enabling conditions.

**To measure ex-post results, ex-ante systems must be designed to incentivize common goals, underlying strategies, and shared metrics.**

- IFIs should be able to articulate better what they aim to achieve and why.
- Better Theories of Change need to be embedded in project design, outcomes and impacts sought, and contribution to national development objectives and IFIs’ goals.
- Complementarity and alignment across IFIs could be achieved through such ex-ante design systems if strategic priorities are shared.

**Such system should focus on:**

- Consistency with the shared diagnostics and respective comparative advantages of each IFI;
- Shared *Theory of Change* that links each IFI’s inputs to objectives and ultimate country goals
- Results frameworks, including indicators, that reflect inputs of IFIs individually and collectively to measure each IFI’s contribution to shared objectives



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## Ex post metrics harmonization would create accountability for greater coherence

### Harmonization of ex-post metrics would also be useful to:

- Incentivize adequate attention to coherence objectives by IFI management
- Provide shareholders with clear measures of actual coherence
- Provide clear and comparable measures of IFIs efficiency and effectiveness

### However, harmonization of ex-post metrics would not be easy and has its own limitation:

- **Moral hazard** could lead IFIs to cherry pick activities and avoid risks; this in turn may go against other objectives such as to scale up IFIs' work in FCVs and the Creating Markets initiative;
- A comparison of KPIs across IFIs is bound to create **more competition** rather than more cooperation;
- Performance of past portfolio cannot be the only driver of strategic decisions on, and funding level of, IFIs; in a dynamic development landscape, **other factors, such as future needs of countries and as IFIs' role in global public goods, are equally important.**

### A balanced approach could then be to require that:

- All IFIs should have a **Corporate Scorecard**
- Corporate scorecards across IFIs should have common features that provide information to IFI governing bodies on level of operational and policy coherence, such as:
  - Number of countries (% of total) where IFI **participated in shared diagnostics / complementary strategies**
  - Number of joint missions / joint policy dialogue
  - Share of total financing that was joint with other IFIs.
- Corporate scorecards could include **some measures of productivity** to incentivize higher efficiency and highlight the cost of compliance.
- IEOs should review the effectiveness of the Scorecards regularly and validate their ratings.



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**Can independent evaluations be strengthened with regards to efficiency and effectiveness of institutions individually and, more importantly, of IFIs collectively as a system, including how well they achieve policy and operational coherence?**



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**Independent evaluation can be harmonized to generate more evidence across IFIs with parallel evaluation or comparative studies.**

- Thematic and sector evaluations of IEOs have focused on their respective institution(s) (e.g. IEG for WBG, IEO for IMF). Some evaluations have included information about other IFIs (programmatic or evaluative, if available).
- IEOs through the Evaluation Cooperation Group (ECG) have agreed on Good Practice Standards to assess efficiency and effectiveness of operations. These standards do not exist for IFIs as a whole, or of the IFMS collectively.
- An evaluation gap exists. None of the IEOs can evaluate the work of another IFI. Policy and operational coherence of IFIs would require parallel or joint evaluations, and additional metrics. Policy coherence of shareholders is outside any of the evaluation mechanisms.

**Strengthening independent evaluation and its use through:**

- Board (or their committees dealing with independent evaluation) should
  - Establish a mechanisms for regular consultation on policy coherence, informed when possibly by evaluation findings;
  - Commission regular assessments of IEOs, including cooperation with each other.
- To enhance learning across the IFMS, IEOs should:
  - Systematically consult on work programs to identify opportunities for parallel or joint evaluations;
  - Strengthen mechanisms to share evaluation findings across IFIs, when relevant;
  - Review and update ECG standards to determine comparability of efficiency and effectiveness metrics, both established in standards and in practice, and to develop metrics to assess operational and policy coherence;
  - Jointly support an evaluation capacity development program in client countries, under the coordination of one office.



# SHAREHOLDER COHERENCE

The EPG asks:

*How can shareholder coherence across IFIs be enhanced so that various parts of the system are pulling in one cohesive direction?*

We suggest the G20 can lead Boards towards focusing on **enhancing the efficiency of IFI boards and their strategic impact by:**

- Reviewing models for boards and their professionalization



# Increasing IFI boards' efficiency, alignment, and strategic focus

**Boards play a critical role in influencing IFIs' strategic priorities and policy directions. Hence, greater coherence among IFIs necessarily requires greater alignment between their boards.**

Greater Board coherence through common representatives is a good idea; it will enhance coherence and knowledge flows.

Current examples include:

- Common board members of the CoE Bank & EIB
- France and the UK have one ED each covering the WBG and the IMF
- The WB/IFC/MIGA each has its own Board but with the same Eds

IFI board effectiveness is affected by:

- A focus on day-to-day operational matters, limiting their focus on strategic issues
- Board members originate from different ministries (Finance, Development) and therefore might not arrive at a common vision
- Board members have diverse views of their functions and how to execute them
- Permanent boards come with high costs

**Options for increased effectiveness include:**

- Compare models of resident and non-resident Boards to determine efficiency, alignment, and strategic focus of different models
- Review the terms of reference of Boards to enhance their focus on strategic matters. The terms of reference should include as one of their objectives to attain shareholder coherence across IFIs and promote complementarity of policies and operations.
- Professionalize IFI Boards with clearer term of references for Board members, provide them with high-level executive training to effectively exercise their role as board member.
- Strengthen the coordination between board members across IFIs (from the same constituency and across constituencies).
- Creating joint committees to oversee progress on coherence (starting with IMF/WBG).





# Conclusion

1. Complementarity between the IFIs can be deepened. Increased coherence among IFIs would deliver higher development effectiveness and impact of the IFMS.
2. To achieve greater complementary and coherence, we believe efforts should focus on increasing **Shareholder, Policy, and Operational Coherence**, through systemic approaches.
  - a) **Policy coherence** can be enhanced with the formulation of shared diagnostics and coherent strategies, across sectors and countries.
  - b) **Operational coherence** enables policy coherence and the formulation of shared diagnostics and coherent strategies. It should include:
    - Coherent ex ante and ex post metrics
    - Harmonized fiduciary polices and enforcement mechanisms
    - Strengthened evaluations.
  - c) To improve **shareholder coherence**, we suggest the G20 can lead Boards towards focusing on focusing on enhancing the efficiency of IFI boards and their strategic impact by:
    - Assessing and identifying more effective governance structures
    - Professionalizing boards and their functioning
    - Strengthening coherence among board members across IFIs



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# Words of Caution

## *Political*

*Competing relations between IFIs will take extraordinary efforts to overcome and lead to working together, including on country analytics and strategies*

**Can different governance arrangements and mandates help achieve such goal?**

## *Incentives*

*Staff in IFIs are motivated by lending volumes. Working together for greater coherence and complementarity runs contrary to long-established cultures.*

**What are the incentives for such behavior change? How can we create positive competition rather than a race to the bottom? How can the right incentives be tested and implemented?**

## *Technical*

*IFIs do not have methods in place by which to estimate ex-ante or evaluate ex-post the possible effects of synergy, complementarity, and coherence.*

**Which methods will provide necessary incentives for greater complementarity while also making IFIs and their processes nimbler?**

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- In addition to exploring the above questions, we recommend to be pragmatic and realistic in implementing any measure towards increased coherence, including:
    - **Starting with pilots**
    - **Focusing at first on the IMF, WB, and RDBs only**while scaling up and expanding to more MDBs would come only after proven success increases consensus.
-