GETTING RESULTS

The World Bank's Agenda for Improving Development Effectiveness

What Is the World Bank?

The World Bank is a development institution owned by the governments of more than 170 countries. Its purpose is to assist its developing member countries to further their economic and social progress so that people now in poverty may live better and fuller lives. To do this the Bank lends money to its developing member countries and provides them with economic advice and technical assistance. Its lending, which is guaranteed by borrower governments, amounts to about US$22 billion a year. Often its operations serve as catalysts for development assistance from other agencies.

The name "World Bank" refers to two legally and financially distinct entities: the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA). IBRD finances its lending operations largely by borrowing in world capital markets and charging a spread over its average borrowing costs. IBRD loans generally have more favorable terms than loans from commercial banks. IDA assists the poorest developing countries, largely from resources provided by its wealthier members; some developing countries also contribute to IDA resources. IDA credits are interest-free and have longer repayment periods, of thirty-five to forty years.

Most of the Bank's lending is used for investment projects. These build up physical and human capital, for example to help countries increase agricultural productivity; provide basic health care; train teachers; build roads, power stations, schools, or health clinics; modernize industries; expand telecommunications networks; or construct water and sewerage facilities.

"Policy-based" operations account for about a fourth of lending. They provide fast-disbursing finance to support the borrower's balance of payments while reforms in policies and institutions are implemented, to make the economy more efficient and flexible and better positioned to achieve long-term growth.

The IBRD began operations in 1946; IDA was founded in 1960.

Getting Results

The World Bank's Agenda for Improving Development Effectiveness

The World Bank
Washington, D.C.

The International Bank for Reconstruction
and Development / THE WORLD BANK
1818 H Street, N.W.
Washington, D.C. 20433

Manufactured in the United States of America
First printing July 1993

ISBN 0-8213-2594-9

Contents

The World Bank is taking measures to improve the management of the development projects and programs it finances. The measures are designed to make the Bank more effective in pursuing its basic goal of reducing poverty in borrowing countries. As the core of its action plan, the Bank will introduce a country-by-country approach into the management of its ongoing lending operations. This will allow it to take a much more strategic view of its $140 billion portfolio. To complement the changes it is making in its own policies and practices, the Bank is collaborating with the authorities in borrowing countries to review the performance of the portfolio in each country and resolve systemic problems.

The new approach comes in response to a frank and self-critical internal report, commissioned by the Bank's president, Lewis T. Preston, which examined the quality of the Bank's loan portfolio and made recommendations on what was needed to reverse a decline in the proportion of successful operations over the last decade. This booklet outlines the problems identified by that report and the actions the Bank is taking to address them.

Introducing the action plan, Mr. Preston emphasized:

> *Poverty reduction is the prime objective of the Bank. This objective can be attained only by restoring or accelerating economic growth and by focusing on policies and programs that specifically benefit the poor. To achieve those goals, we are committed to ensuring greater development impact of our operations in borrower countries.*

Problems Identified

The report described on the preceding page, "Effective Implementation: Key to Development Impact," was written by a task force headed by retiring World Bank vice president Willi A. Wapenhans, and completed in November 1992. It noted reports from the Bank's operational staff and from its independent Operations Evaluation Department that the performance of the Bank's portfolio—that is, the stock of lending operations under implementation—had been declining during the 1980s:

- Among operations in progress, operational staff had reported that the proportion with "major problems" had risen from 11 percent in 1981 to 20 percent a decade later. Performance varied among types of operations: economic adjustment operations and industrial projects were the best performers; in agriculture, 25 percent of projects were in difficulty (see Box 2).
- Looking at completed operations, the Bank's Operations Evaluation Department had confirmed the decline in performance. Comparing the groups of completed operations that were evaluated in

Box 1. The Action Plan at a Glance

The action plan contains measures to:

- Move the management of country portfolios to center stage in the Bank's dialogue with borrowers, its planning of future lending, and its judgments about its own effectiveness
- Foster genuine partnership with borrower agencies, whose full commitment is vital to successful development operations
- Ensure the participation of the poor in operations directly affecting them
- Restructure ongoing operations as necessary
- Improve and, where appropriate, simplify project design
- Improve the management of operations in progress
- Enhance the role played by operations evaluation in providing lessons of experience, to be applied in the Bank's current work
- Redirect the Bank's internal incentives, toward a better balance between approving new operations and ensuring the success of those in progress.

The Bank will closely monitor the implementation of the plan.

Box 2. Tracking Portfolio Performance

The Bank's managers and executive board annually discuss two overview reports on operational performance: one by operational staff on operations still in progress (see below) and the other by the Bank's independent operations evaluation staff on completed operations (see Box 3).

The Bank's annual "Report on Portfolio Performance" synthesizes information provided in country-by-country reports on performance written by the Bank's operational staff. It gives an overview of strengths, weaknesses, and trends in the whole ongoing portfolio while pinpointing problem areas that need special attention. In preparation for this report, task managers update the performance ratings of all ongoing operations, based on the reports from supervision missions during the year. The Bank's regional managers review these ratings to ensure consistency of judgment.

What Is a Problem Project?

The ratings of individual operations summarize judgments about specific aspects of performance—expected achievement of development goals; implementation or construction of facilities; disbursements; timeliness; cost; compliance with legal covenants; performance of project managers; availability of counterpart funds; progress in procurement; training; technical assistance; and environmental aspects. The composite project rating cannot be more favorable than the expected achievement of the project's development goals.

The ratings use a scale from 1 to 4. Problem projects are those with a rating of 3 or 4. A rating of 3 reflects uncertainty that the project will be implemented satisfactorily or achieve its goals, but indicates that the borrower or its implementing agency is giving enough attention to the problems identified. A rating of 4 indicates that major problems are not being addressed adequately, either because of the lack of a satisfactory response by the borrower or implementing agency or because of problems outside the borrower's control. Projects with a rating of 4 require special action by the Bank.

As might be expected, the implementation of some projects improves or declines from year to year, so that not all problem projects ultimately fail to achieve their goals.

1981 and 1991, the proportion judged satisfactory had fallen from 85 percent to 63 percent (see Box 3).

The task force found that many of the problems affecting the portfolio under implementation are due to world economic condi-

Box 3. How Does the Bank Know If Its Operations Are Successful?

All the Bank's operations are evaluated after the Bank finishes its loan disbursements. Evaluation enhances the Bank's internal and external accountability and transparency, provides a systematic, objective, and accessible track record, and supplies lessons from experience. Results and recommendations are reported to the Bank's executive directors and fed back into the design and implementation of policies and lending operations.

The Bank's evaluation system has two stages: (1) every operation is evaluated, on completion, by the staff who were responsible for its implementation, and (2) a representative sample of completed operations is independently evaluated by the Bank's Operations Evaluation Department (OED).

The OED enjoys full independence in judging the outcomes of completed operations, their sustainability, and their development impact. As well as individual operations and country assistance programs, it evaluates the Bank's policies and processes. OED's annual review of evaluation results is issued to the public after being discussed by the executive directors.

To assess the performance of completed operations, OED looks at their technical, financial, economic, social, and environmental aspects and provides ratings of overall performance and sustainability.

- *Overall performance* is rated satisfactory or unsatisfactory. Satisfactory performance means that an operation has achieved its goals and attained significant benefits relative to costs. Where practicable, the economic rate of return is reestimated; the 10 percent minimum threshold normally applied is the level the Bank uses as the minimum benchmark to approve new projects.
- *Sustainability,* from the perspective of evaluation, is the extent to which an operation is likely to maintain an acceptable level of net benefits throughout its economic life. To assess whether an operation is sustainable, evaluators examine the same factors that underlie its economic, social, financial, institutional, or environmental appraisal, but concentrate on the features that influence its durability and its resilience in the face of changing circumstances.

tions over which the Bank and its borrowers have limited control (see Box 4). Others—such as resistance to change within agencies implementing projects, or shortages of funds to pay the local-currency costs of projects—reflect country-specific characteristics over which the Bank has no direct influence.

Box 4. Country Conditions Affect Performance

Nearly two decades of global economic turmoil have tilted the playing field strongly against most developing countries, with effects on their projects and programs. One of the studies conducted by the task force looked at 1,715 Bank-supported projects and found that as global conditions worsened, so did the rate at which projects failed. A decrease in the terms of trade (which means that a country has to export more to maintain a given level of imports) was reflected in a significant drop in project performance. For each percentage point that international interest rates rose, the likelihood of project success fell two percentage points, and for each rise of a percentage point in international inflation rates, project success rates fell by three percentage points. In much of Africa, the collapse of commodity prices had debilitating effects on the implementation of agricultural projects.

The state of borrowers' domestic economies also strongly affects project performance. In a shrinking economy there is simply less of everything needed to make a project successful—including funds for investment or funds needed to pay staff salaries or maintain facilities in good repair. The task force found that a decrease of one percentage point in economic growth during a project's implementation period cut the likelihood of success by two percentage points. The findings support the need to link lending strategy, especially in the social sectors, to the overall framework of national policies. Even a very well-designed project cannot succeed where policies and regulations are too weak to support it.

The Bank has focused successfully on technical soundness, so that technical issues rarely cause difficulties in the operations it supports. But less attention has been given to the commitment of borrowers and their implementing agencies to these operations and to the degree of "ownership" assumed by borrowers. Rapid changes in government personnel, political concerns, and conflicting priorities often have produced situations in which government commitment to operations supported by the Bank was unclear or wavering.

At the project level, the leading design problem identified was that projects have become too complex. Often the Bank has not made enough effort to keep the number of project goals, components, and sponsors in line with the borrower's capacity for project implementation.

Thus, the report concluded, the Bank has substantial scope for improving the performance of its portfolio through changes in its own policies and practices.

The Problems in Broader Perspective

These problems and the steps the Bank is taking to address them should be seen in the broader context of development work, with its difficulties and risks. Before outlining the Bank's action plan four points are worth noting:

- First, the majority of operations in the Bank's portfolio are performing well. For those types of projects for which an economic return on the funds invested can be measured, the average real return, at 16 percent, remains well above the Bank's minimum benchmark of 10 percent.
- Second, as the financial markets and credit-rating agencies are well aware, the Bank's financial health is excellent. The AAA credit standing of the Bank, reviewed periodically by two premier rating agencies, rests on three main sources of support: shareholders, which provide capital backing and access to their capital markets; borrowing shareholders, which accord the Bank preferred creditor status through consistent, prompt, and full servicing of the Bank's loans; and the Bank's own conservative financial policies and practices.
- Third, economic development always involves risk. If investments to raise living standards in developing countries were always free of problems, there would be little need for a World Bank, or for other national and international development agencies. Often, indeed, the projects that are most needed involve higher risks, because they break new ground. Another inevitable source of uncertainty is that the Bank lends for the long term; its loans are disbursed to borrowers over many years.
- Fourth, the task force found that the Bank had already started to respond to the problems in its portfolio. Staff were developing, in conjunction with their counterparts in borrowing countries, a set of "best practices" that the task force recognized as providing useful starting points for the changes it recommended.

What the Task Force Recommended

The report of the task force recommended that the Bank:

- Introduce a country-by-country focus into the management of its ongoing portfolio
- Restructure the entire portfolio in countries where this is appropriate
- Improve the quality of new operations entering the portfolio

- Enhance the role of operations evaluation, and focus the evaluation of completed operations on whether benefits are sustainable
- Through changes in the skill mix of staff and in performance incentives, create an internal climate that encourages better management of the portfolio.

The Bank's president and board of executive directors, representing all the Bank's member countries, endorsed these recommendations and committed the Bank to improving its development effectiveness. As Mr. Preston put it in May 1993, "The Bank's objective in lending is to reduce poverty. On-the-ground benefits—rather than loan approvals—should be the measure of our success." He continued: "We are changing our processes and we are changing our incentive system to underline that point across the Bank."

The Action Plan

An action plan to respond fully to the recommendations was sent to the Bank's executive board in July 1993. The Bank will issue a progress report to the board in June 1994.

The plan, which builds on "best practices" already in use in the Bank, introduces more efficient and client-oriented business practices and processes. It is also designed to shift the Bank's own institutional culture toward more consistent emphasis on the management of operations under implementation. Introducing the plan, Mr. Preston noted:

> Increasing the effectiveness of our operations will require action over the whole spectrum of the project cycle, from economic and sector analysis, to assistance in dealing with implementation problems, to improved bases for judging success.

The plan recognizes that the ultimate test of the Bank's programs is their long-term effects on people and the environment. Many of its concerns are with instruments needed to strengthen the impact of the Bank's lending on poverty; for example, addressing effectively the issues of participation, project ownership, involvement of nongovernmental organizations, and better ways of monitoring performance. Many of the changes to be accomplished under the plan will help directly to make the Bank's operations more effective in promoting sustainable development.

The plan also recognizes that, to quote its introduction, "It is the actions of the Bank's borrowers that will ultimately have the greatest impact on project quality. For this reason, stronger borrower commitment to, participation in, and ownership of Bank-financed operations are essential to success."

The plan took final shape through discussions with the Bank's executive directors. The executive board has ultimate responsibility for the Bank's policies, country assistance strategies, and selection of operations for financing, and also oversees the quality of the loan portfolio. In exercising all these roles, the board will give close attention to the implementation and follow-up of the plan.

The main features of the plan are as follows.

Country Portfolio Management

For years, the Bank has been closely involved, through its policy dialogue with borrowing countries, in the formulation of macroeconomic and sector policies and the supervision of individual development projects and programs. What has been often missing from the dialogue, however, is a deliberate look at the *whole* portfolio of operations that the Bank is supporting in the country in question—and at the opportunities this offers for improving performance. The action plan stresses this vital element.

For each borrowing country, the whole portfolio of Bank-supported operations will now become the "unit of account" by which the Bank measures its own effectiveness. This focus on the performance of the country portfolio as a whole will help to ensure that the Bank can identify systemic obstacles and seek agreement with country authorities on remedial actions. Within the Bank, it will establish a new continuity across operations within a country, encouraging the transfer of lessons learned across sectors and over time.

Two principal mechanisms will be used to help improve country portfolio management: country portfolio performance reviews and country assistance strategies.

Country Portfolio Performance Reviews

In its country portfolio performance reviews, the Bank discusses with borrowers issues that affect the performance of its operations. Such issues include the availability of funds to pay for the local-currency costs of the operation, the country's macroeconomic performance, and world economic conditions such as commodity prices or international interest rates. Often these reviews include discussions of the Bank's assistance strategy more generally.

In future, the portfolios of the major borrowing countries—and hence the bulk of the Bank's portfolio as a whole—will be reviewed annually; smaller country portfolios will be reviewed over a longer but regular cycle. The purpose of these reviews will be to:

- Confirm that the borrower and implementing agencies are still committed to the existing portfolio
- Take stock of progress in implementing the operations in the portfolio
- Identify solutions to problems in individual projects and programs
- Identify systemic problems that need attention
- Establish clear links between the performance of the operations already in progress and the Bank's future assistance to the country
- Agree with borrowers on specific remedial actions.

In the next year, the Bank will undertake a comprehensive review of its portfolios in all countries experiencing serious implementation difficulties, that is, where "problem projects" make up more than 20 percent of the portfolio.

Country Assistance Strategies

Future lending to a country will depend much more strongly on how well current operations are being implemented. For some years now, new operations proposed for Bank financing have been identified and designed within the context of the Bank's country-specific assistance strategies and of the associated goals for assisting particular sectors (such as education, transport, and agriculture) within countries. In addition, the design of country assistance strategies will now take explicit account of portfolio management issues, including the priorities, strengths, and weaknesses that have been brought out in the course of reviewing current operations (see Box 5). In new operations generally, the Bank will also give more attention to ensuring that designs are in line with countries' implementation capacity and that the operations have the full support of borrower agencies.

Sometimes a country may need less, rather than more, lending. In countries with serious implementation problems throughout their portfolio or throughout specific parts of the economy, continued lending adds to debt without producing commensurate benefits. In such cases the Bank can make a more important contribution by helping to strengthen agencies responsible for development efforts already in progress. Experience shows this approach speeds up the implementation of

Box 5. Country Assistance Strategy

A typical agenda for improving implementation is found in the Bank's recent country assistance strategy paper for India:

- Periodic reviews of problem projects with action plans prepared for each.
- Preparation of project-specific supervision plans based on realistic implementation and disbursement schedules, identifying areas needing special efforts.
- Fostering good loan supervision practices (see Box 7), including an in-depth review of projects at midterm, in addition to normal supervision, more systematic enforcement of loan closing dates, and preparation of more action-oriented supervision reports.
- Stronger support from the Ministry of Finance for project management, including better communication with the states and implementing agencies. This will help accelerate project execution.
- Earmarking of resources for projects in the government's planning and budgeting process.

the current stock of projects and improves the basis for preparing new ones.

Portfolio Restructuring

Country portfolio reviews over the past few years have shown that borrowers and the Bank can effectively face the issue of nonperforming projects, within the broader and longer-term perspective that the country approach gives them. In Brazil, India, Nigeria, and Turkey, for instance, recent portfolio reviews led to decisions to cancel several projects. Many other projects were restructured or redesigned to increase their likelihood of success. Often this meant simplifying or dropping problematic components to concentrate on areas with relatively certain benefits (see Box 6). Whenever portfolios have been restructured in the past, governments and the Bank have agreed on the rationale for the restructuring, as well as on the sometimes difficult decision to cancel entire projects or substantially reduce Bank financing of others.

As in the past, an entire portfolio in a country will be restructured only if extended efforts to remedy problems have proved unsuccessful. Normally, problems with individual projects will be dealt with as they arise, to avoid getting to the point at which a large part of the portfolio is in

Box 6. Portfolio Restructuring

Brazil's experience provides an example. In fiscal 1990, the operational portfolio in Brazil was the third largest in the Bank, with eighty-one projects and a total lending commitment of almost US$10.7 billion. At the time, a third of these projects had serious implementation difficulties. The government and the Bank reviewed the portfolio together, to agree on actions to improve its performance and align it with the priorities and strategies of the new Brazilian administration. Key features of the restructuring program that resulted (carried out over the last three years) were:

- Termination of five projects that the government considered to be of low priority in the changed circumstances
- Modification or redesign of fourteen mainly agricultural projects (including ten rural development projects in Northeast Brazil)
- Remedial actions for another fourteen projects, involving relatively minor revisions to loan agreements.

Today, Brazil's portfolio is smaller than before the restructuring, but has greater developmental impact.

distress. Better-designed and simpler projects, and more vigilant attention to portfolio issues in the context of the country reviews of portfolio performance, should help to assure that restructuring will remain the exception.

Improving the Quality of Operations

The action plan contains measures for reviewing and streamlining the Bank's own practices and processes (detailed below). But it also recognizes that actions taken by borrowers can have a much greater effect on the quality of the portfolio.

Partnership with Borrowers: The Importance of Ownership

The Bank's experience consistently shows that borrowers' ownership and commitment is vital to successful development operations. For the Bank, the challenge is how to deliver necessary assistance to borrowing countries, many of whose capacity to conceive, design, and implement projects is weak, without taking over responsibility for projects and their results. Achieving this balance requires a spirit of partnership between the Bank and borrowers. To quote one of the Bank's executive directors:

> The challenge for the Bank is to change the ways it interacts with borrowers, from a pattern dominated by prescription, imposition, condition-setting, and decisionmaking to one characterized by explanation, demonstration, facilitation, and advice. Such a perspective ... will lead to stronger borrower commitment and institutional capacities, better accountability for project performance, and ultimately a better Bank loan portfolio.

In fostering a genuine partnership, the factors that promote ownership, as well as the factors that diminish it, need to be considered. Particular attention needs to be paid to getting the right balance between the roles of borrower and Bank staff and to the vulnerability of operations to changes in national policies and key personnel. Borrowers and the Bank have several initiatives under way in this regard. These include:

- More systematic analysis of how different constituencies will be affected by proposed new lending operations.
- Greater involvement of effective, local nongovernmental organizations in the design, preparation, and implementation of projects.
- Efforts to encourage broad, meaningful participation and leadership by both government and private agencies of borrowing countries throughout the project cycle. Examples include joint work on implementation planning, workshops to launch new projects, reviews of projects in progress, and discussions of country assistance strategy and possible new operations.

Participation by Beneficiaries

To succeed, the design of an operation should be based on a sound understanding of the problems, needs, and interests of the people who are meant to benefit from it. Recognizing this, the Bank is experimenting with new approaches in participatory development and identifying practices that can be applied widely in its operations. It will strengthen its staff training programs to promote systematic use of approaches that work. Speaking of the participation of the poor in the design and implementation of projects directly affecting them, Mr. Preston has said, "We want this to become the norm for our operations in the years to come."

Analysis and Lending Processes

Economic and sector work. So that it can better understand the problems of the countries it assists, the Bank does economic and sector work to analyze these problems and their causes. Project and program designs build on the recommendations arising from this work. As part of the action plan, the Bank is reviewing its economic and sector work to see how well it diagnoses development problems and how realistic are its recommendations for country policies and for investments. Public expenditure reviews undertaken in close association with major donors will help to enhance the effectiveness of country development programs.

Risk assessments. The Wapenhans task force also called for more realistic analysis of project risks. Under current guidelines, staff appraising proposed new projects must identify the statistically expected outcome of each project (that is, the average of all likely outcomes). But this outcome is itself subject to risks. Unless they systematically explore these risks, appraisals can easily be overoptimistic, as the evaluation of completed projects shows. The Bank will issue new guidelines on risk and sensitivity analysis by the end of 1993, to be followed by guidelines on risk analysis in specific sectors. The new guidelines will be backed up by training for the staff involved.

The Bank is also strengthening its procedures to ensure that new operations systematically take account of lessons from previous experience, derived from evaluation work. Together with the new focus on country portfolio management—and the impetus that gives to transferring lessons from one operation to another within countries—these mechanisms should help to reduce lending risks.

Cofinancing. Cofinancing of operations supported by the Bank has grown from US$8 billion in fiscal 1988 to US$13 billion in fiscal 1992, and involves a wide range of partners: bilateral donors, multilateral financing institutions, export credit agencies, and private market sources. While the additional financing greatly benefits borrowers by filling critical needs, it may entail extra loan conditions and special rules on purchasing and reporting that add to the burden on borrowers with limited institutional capacity. The growing importance of cofinancing in its operations means that the Bank must seek agreements with cofinanciers to reduce the administrative burden that multiple sets of rules impose on borrowing countries. The Bank will soon review recommendations on its approach to cofinancing.

Procurement. Procurement is the often-complicated process by which borrowers shop for the goods and services financed by development loans, seeking the best prices. A key recommendation of the task force was to make the Bank's procurement rules simpler and more easily understood by implementing agencies. The Bank has issued new instructions on the use of the bidding and contract documents for procurement that is subject to international competitive bidding. Further work to simplify and standardize procurement guidelines is in progress.

Managing Ongoing Operations: Supervision

Loan supervision is one of the most important forms of development assistance that the Bank provides (see Box 7). Across the Bank, the resources spent on supervising the average project rose by 9 percent in fiscal 1991 and 16 percent in fiscal 1992. The Bank expects to continue increasing the resources used for supervision in order to reinforce project and program implementation. Reports on supervision work feed into the country portfolio performance reviews described earlier—themselves an intense form of supervision—and into an annual report on overall portfolio performance prepared for the Bank's board and management.

Implementation plans. In future, every operation will have a clear implementation plan, elaborated in close cooperation with implementing agencies, which will give a basis for tracking its progress and provide early warning of problems arising.

Monitoring and judging progress. The Bank's present system for monitoring and rating the performance of ongoing operations (see Box 2) concentrates heavily on physical and financial aspects of implementation. New guidelines will help to focus performance assessments more clearly on the progress being made toward the operation's goals. The indicators used to judge performance will reflect a concern not just with sound financial and economic performance but also with issues of equity, sustainability of benefits, and participation by beneficiaries.

The Bank is also introducing a more systematic method of dealing with "problem projects"—those projects facing issues that may affect the developmental impact of the investments being financed. For projects in

Box 7. Supervision

Implementation is legally the responsibility of the borrower, who bears the costs and realizes the benefits of the investments. But through supervising its loans the Bank both carries out a fiduciary responsibility and assists the borrower with implementation:

- As a lending institution, the Bank must monitor progress in implementation and compliance with legal loan conditions, ensuring that loan proceeds are appropriately used.
- As a development institution, the Bank must help the borrower obtain the greatest benefit from its loans. By interacting with borrowers and their implementing agencies in supervising individual operations, it helps the borrower identify and resolve operational and management problems and respond suitably to changing circumstances. Of course, more complex projects and weaker institutions require more supervision support.

Once a loan has been approved by the Bank's executive directors, supervision concentrates on getting the project off to a good start and familiarizing new borrowers and implementing agencies with the Bank's requirements as regards procurement, disbursement, reporting, and auditing. Most supervision is carried out during the investment or project execution stage. The Bank reviews all progress reports by the borrower, and Bank staff visit project sites and facilities to review progress, provide advice, and obtain information. Once a loan account has been closed, at the end of the investment phase, a completion report is prepared to assess the outcome of the project and make recommendations for its future operation (see Box 3).

Technical assistance to borrowers, provided either in separate standalone projects or in project components, is another important way in which the Bank helps to build up the implementation capacity of borrowers and their implementing agencies.

problem status for more than twelve months, departmental managers will be required to agree with the borrower on a specific action plan for the following year. This action plan will specify the basis on which support for the project can be sustained. If the actions are not implemented, the project will be canceled or restructured.

In parallel, new guidelines will be issued for the completion reports in which operational staff, with contributions from borrowers, evaluate lending operations at the close of their implementation phase (see Box 3). These reports will review the sustainability of what has been achieved and make recommendations for the future management of the facilities created.

Midterm reviews. Reviewing operations halfway through their implementation gives the opportunity for a thorough discussion with borrowers of the progress made toward goals and the need for any remedial actions. The Bank is expanding its use of these reviews.

Field offices. As part of its efforts to improve portfolio performance, the Bank will shift more of the responsibility for its lending operations away from its Washington headquarters to field offices. The Bank's field offices, or resident missions, in more than sixty borrowing countries keep abreast of economic and social developments and coordinate the Bank's activity in these countries. Although their size and responsibilities vary according to the size and scope of country assistance programs, they all play a key role in the Bank's understanding of borrowing countries and in its relations with their governments. Field offices have been taking on greater responsibility for designing and implementing the Bank's country assistance programs. In line with recommendations by the Wapenhans task force, the Bank will establish more field offices and also delegate further tasks to these offices, including assistance with procurement and responsibility for loan disbursement.

Operations Evaluation

The Bank has agreed to enhance the role played by independent evaluation, both to provide an account of the use of its loan resources and to bring the lessons of experience to bear on current issues. The Operations Evaluation Department will:

- *Build up its program of impact evaluations.* These evaluations take a second look at a project five to ten years after the completion of loan disbursements. They examine how well the benefits from the project are being sustained and analyze the project's direct and indirect economic and social effects, as well as environmental and institutional outcomes. They provide a much more conclusive account of the Bank's development effectiveness than is possible at project completion, when the facilities financed are just entering their operational phase.
- *Focus on country portfolios in selecting the operations to be evaluated and in planning evaluation studies programs.*

- *Diversify the scope of its evaluation studies.* These will include studies of the Bank's assistance to particular countries; reviews of sector policy and lending timed to feed into the development of new Bank policies; evaluations of the Bank's operational policies and processes; and quick studies on topical issues.

Internal Changes

The changes recommended by the task force have implications for staffing and resources. Reflecting the views of board and management, the Bank's president has said:

> As this program is put in place, we expect a change in institutional behavior and attitudes over time which will reflect the crucial importance of managing the implementation of our operations well and of judging our effectiveness in terms of development impact.
>
> Bringing about the institutional changes required . . . will require sustained leadership from management at all levels, and strong and continuous support from the board in attaching as much importance to lending results as to lending volumes.

Key areas in which the Bank is taking action are staff recruitment and training, performance management, and promotion criteria. The Bank is also systematically reviewing ways to streamline its operational business practices.

Staff Skill Mix

To implement the action plan, the Bank will augment the skills of its staff in institution building, public sector management, and social sciences other than economics. Part of the need will be met by recruitment, and part by training current staff. The Bank will seek to recruit larger numbers of qualified candidates with hands-on project implementation experience in developing countries. New training programs for staff will cover participatory development, risk and sensitivity analysis, project negotiations, procurement guidelines, disbursement guidelines, contract administration, and financial analysis.

Rewards and Incentives

The Bank has changed its promotion policies to give more weight to portfolio management. Managers will be evaluated according to how strongly they focus on the concerns of borrowers, their ability to build effective teams, and the performance of the portfolios they manage. Operational staff will be evaluated according to how well they promote effective project implementation; their sensitivity to borrowers' and beneficiaries' concerns; and their ability to deliver operations that yield lasting benefits.

Staff continuity—a frequent problem—is also receiving attention. Changed personnel rules seek to ensure that staff teams are stable enough to maintain adequate continuity and a sense of responsibility over the life of each operation.

In Conclusion

The 1,800 projects and programs in the Bank's portfolio represent some US$370 billion in investments, supported with funds from the Bank, development aid organizations, and developing countries themselves. The potential payoff to the Bank's action plan is very large. To quote the Bank's president:

> We have been willing to recognize the problems we face and are now determined to address them.... Poverty reduction remains the benchmark by which our performance as a development institution must be judged. I am confident that the actions we are now taking will make the Bank more efficient in the service of that goal.

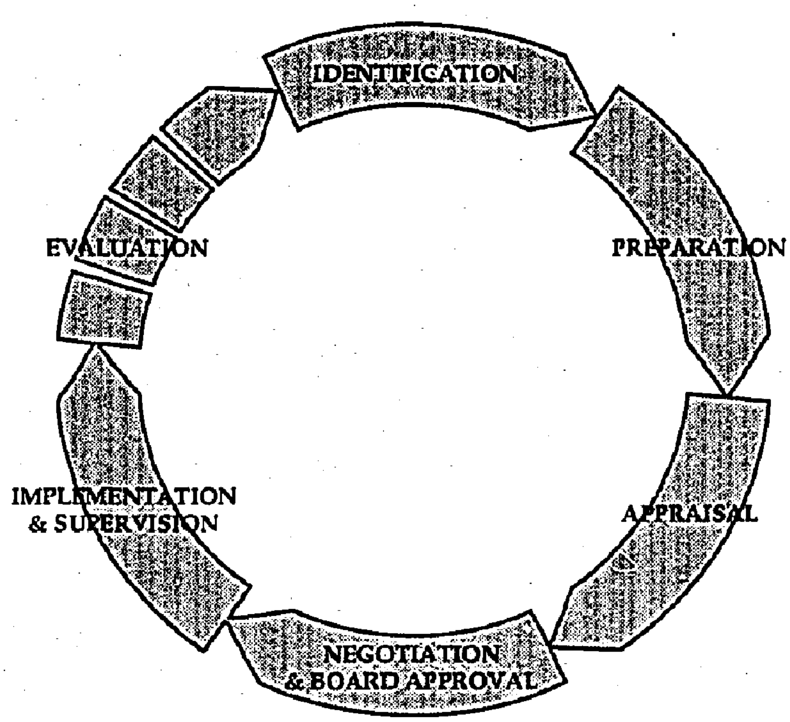
Appendix: The World Bank Project Cycle

Borrowing countries have full responsibility for the design, preparation, and implementation of individual projects, but the World Bank is deeply involved in each of these stages. Once a project has been identified as having a high priority and being able to contribute significantly to the economic development of the country, it undergoes intensive preparation and analysis by the borrower and the Bank to ensure that it is soundly designed, properly organized, and up to standards of economy and efficiency. This process of project identification, preparation, appraisal, and implementation and supervision is referred to as the project cycle (see figure A-1).

Identification

The first phase of the project cycle—identification—proceeds against the background of country economic and sector work. Although only governments can propose projects for financial assistance, identification can come from several sources, including Bank identification missions, the work of other United Nations agencies, or even private sponsors in some cases. However, for the project to be formally identified as a priority investment and included in the Bank's multiyear lending program or "pipeline" of projects, it must have the provisional support of both the borrowing country and the Bank to ensure that its objectives are shared by both.

Figure A-1. The Project Cycle



Preparation

Preparation begins when there is mutual agreement on project objectives. The process of preparing a project entails developing an idea into a detailed proposal that considers all aspects of the project—technical, economic, financial, social, and institutional. The goal is to come up with the best method to achieve the project's objectives, by comparing alternatives on the basis of their relative costs and benefits.

Responsibility for project preparation rests primarily with the borrower, but the Bank has an obvious interest and tries to ensure that the work is done well.

Appraisal

After project preparation has been completed by the borrower, the Bank reviews the proposals and undertakes a full-scale project appraisal. There is a comprehensive review of the technical, economic, financial, and institutional aspects of the proposal. It is conducted by Bank staff, sometimes supplemented by outside consultants.

Cofinancing may be provided by bilateral aid agencies, regional development banks, export credit institutions, or commercial banks. These and other details of the project are outlined in an appraisal report.

Negotiations and Board Approval

After the appraisal report is issued and reviewed, formal loan negotiations begin between the Bank and the borrower. Both sides must agree on the conditions necessary to ensure the project's success, including detailed schedules for implementation. These agreements, including procurement arrangements, are then formalized in loan documents, which are submitted to the Bank's executive directors for approval. After approval, the loan agreement is signed by the Bank and the borrower and thus becomes a legal obligation of both parties.

Implementation and Supervision

After the loan is approved, funds are available to implement the project and purchase the items, works, and expertise needed. Implementation of the project is the responsibility of the borrower, as is procurement of goods and services. The World Bank is not a party to any contract, but it does require that procurement follow agreed procedures as reflected in the legal documents. It carefully supervises implementation and the procurement process to ensure that these procedures are followed and the process is fair and impartial.

Evaluation

Once the project is completed and the loan is fully disbursed, the Bank undertakes an independent evaluation. It compares actual results with what had been expected when the project was begun. Valuable lessons are learned over time from the successes and failures.

THE WORLD BANK

Headquarters
1818 H Street, N.W.
Washington, D.C. 20433, USA

Telephone: (202) 477-1234
Facsimile: (202) 477-6391
Telex: WUI 64145 WORLDBANK
RCA 248423 WORLDBANK
Cable Address: INTBAFRAD
WASHINGTONDC

European Office
66, avenue d'Iéna
75116 Paris, France

Telephone: (1) 40.69.30.00
Facsimile: (1) 40.69.30.66
Telex: 640651

Tokyo Office
Kokusai Building
1-1, Marunouchi 3-chome
Chiyoda-ku, Tokyo 100, Japan

Telephone: (3) 3214-5001
Facsimile: (3) 3214-3657
Telex: 26838

Cover design by Studio Grafik

ISBN 0-8213-2594-9