

## THE WORLD BANK GROUP ARCHIVES

### PUBLIC DISCLOSURE AUTHORIZED

**Folder Title:** President Wolfensohn - Briefing Book for President's Meetings and Events - Corporate Management - June Presidential Archives - Initial Vice Presidential Unit [VPU] Briefing for James D Wolfensohn [JDW] - June 30, 1995

**Folder ID:** 30484915

**Dates:** 06/20/1994 - 07/27/1995

**Subfonds:** Records of President James D. Wolfensohn

**Fonds:** Records of the Office of the President

**ISAD Reference Code:** WB IBRD/IDA EXC-13

**Digitized:** 03/12/2025

To cite materials from this archival folder, please follow the following format:  
[Descriptive name of item], [Folder Title], Folder ID [Folder ID], ISAD(G) Reference Code [Reference Code], [Each Level Label as applicable], World Bank Group Archives, Washington, D.C., United States.

The records in this folder were created or received by The World Bank in the course of its business.

The records that were created by the staff of The World Bank are subject to the Bank's copyright.

Please refer to <http://www.worldbank.org/terms-of-use-earchives> for full copyright terms of use and disclaimers.



THE WORLD BANK

Washington, D.C.

© International Bank for Reconstruction and Development / International Development Association or

The World Bank

1818 H Street NW

Washington DC 20433

Telephone: 202-473-1000

Internet: [www.worldbank.org](http://www.worldbank.org)

PUBLIC DISCLOSURE AUTHORIZED



**DECLASSIFIED  
WITH RESTRICTIONS**  
WBG Archives



30484915

R2002-036 Other #: 16 Box #: 186466B

President Wolfensohn - Briefings Books for Presidents Meetings - Meeting Materiz  
June Presidential Archives - Initial Vice Presidential Unit [VPU] Briefing for James





# Record Removal Notice

|                                                                                                                                                                                                                                                |                                            |                                                                                                                                                                                                                                                                                                                 |                                        |                                  |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------|----------------------------------|
| <b>File Title</b><br>President Wolfensohn - Briefing Book for President's Meetings and Events - Corporate Management - June Presidential Archives - Initial Vice Presidential Unit [VPU] Briefing for James D Wolfensohn [JDW] - June 30, 1995 |                                            | <b>Barcode No.</b><br><br>30484915                                                                                                                                                                                                                                                                              |                                        |                                  |
| <b>Document Date</b><br>April - August, 1995                                                                                                                                                                                                   | <b>Document Type</b><br>Memoranda, reports |                                                                                                                                                                                                                                                                                                                 |                                        |                                  |
| <b>Correspondents / Participants</b><br>EXC, IFC                                                                                                                                                                                               |                                            |                                                                                                                                                                                                                                                                                                                 |                                        |                                  |
| <b>Subject / Title</b><br>IFC Strategic Issues, Privatization and IFC Experience, IFC Development Impact, Notes on Meetings                                                                                                                    |                                            |                                                                                                                                                                                                                                                                                                                 |                                        |                                  |
| <b>Exception(s)</b><br>Information Provided by Member Countries or Third Parties in Confidence                                                                                                                                                 |                                            |                                                                                                                                                                                                                                                                                                                 |                                        |                                  |
| <b>Additional Comments</b>                                                                                                                                                                                                                     |                                            | <p>The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.</p> <table border="1"><tr><td><b>Withdrawn by</b><br/>K. Brenner-Delp</td><td><b>Date</b><br/>February 11, 2025</td></tr></table> | <b>Withdrawn by</b><br>K. Brenner-Delp | <b>Date</b><br>February 11, 2025 |
| <b>Withdrawn by</b><br>K. Brenner-Delp                                                                                                                                                                                                         | <b>Date</b><br>February 11, 2025           |                                                                                                                                                                                                                                                                                                                 |                                        |                                  |

**Operations Evaluation (OED)**

June 6

8:00 AM



# Operations Evaluation

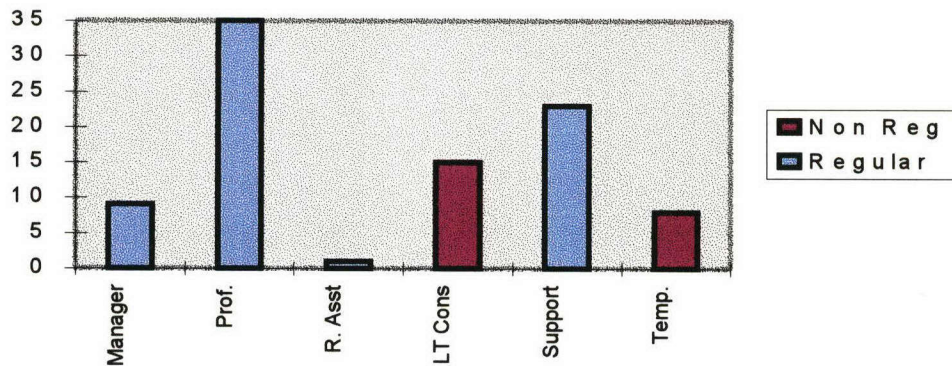
## A. Staffing

### Distribution

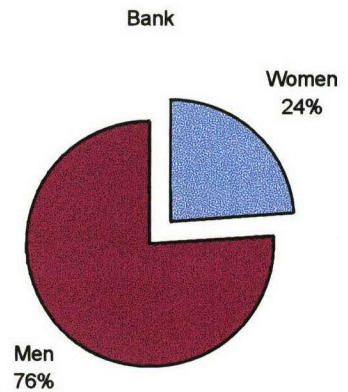
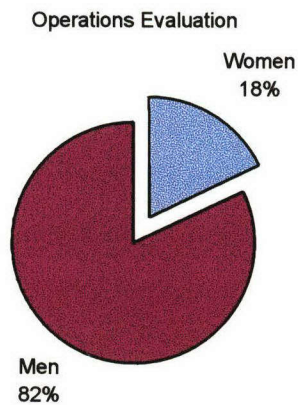
- 45 Higher Level Staff
- Total 91 including Consultants

Flexibility: 0% Fixed Term  
25% LT Cons/Temp

### Staff



### Women: Percent Professional/Managerial



### Years of Service/ Age

| Higher Level Staff | DGO  | Bank |
|--------------------|------|------|
| Avg Age            | 54.6 | 46.6 |
| Years of Service   | 17.8 | 11.4 |
| Age at Entry       | 36.8 | 35.3 |

## B. Resources and Budget FY96

Own funds: \$16m

## Operations Evaluation Staff

### Office of the Director-General, Operations Evaluation



**Robert Picciotto, Director General (DGO):** Italian; age 58. Graduate degrees: Ecole Nationale Supérieure de l'Aéronautique (Engineering), Paris. Princeton University (Woodrow Wilson School). Agriculture Economist in New Delhi 1967-69; Chief Special Projects Division 1967-74; Assistant Director, South Asia Agriculture and Rural Development 1974-76; Director South Asia 1976-80; Europe, Middle East and North Africa 1980-86; and Latin America and Caribbean 1986-87; Director Planning and Budgeting 1987-90; Vice President, Corporate Planning and Budgeting 1990-92; Director-General, Operations Evaluation 1992-present.



**R. Pablo Guerrero O., Adviser:** Chilean; age 46. B.A. (Economics) and M.B.A. University of Miami; M.A. (Economics): Queen's University; and PH.D. work (Economics): University of Toronto. From 1976-89 worked consecutively in the Methodology Unit of the Social and Economic Development Department, the Project Analysis Department, and as Chief of the Operations Evaluation Office at the Inter-American Development Bank. Joined the World Bank in 1989 as Special Adviser and Assistant to the Director-General, Operations Evaluation (DGO); current position: Adviser to the DGO.



**Rachel Weaving, Sr. External Affairs Counsellor:** British; age 47. Graduated from the University of Kent at Canterbury, UK. Taught at Makerere University, Kampala, Uganda and worked at Institute of Development Studies, University of Sussex, UK. Joined Bank in 1975; Editor/writer in Office of Vice President, Development Policy; Editor/writer, Office of Vice President, Operations Policy; Senior Editor, *Finance & Development* (IMF). Joined DGO in 1989.

### Operations Evaluation Department



**Francisco Aguirre-Sacasa, Director (OEDDR):** Nicaraguan; age 50. Undergraduate degree: Georgetown Foreign Service School; Juris Doctor, Harvard Law School. Joined Bank as Young Professional 25 years ago; Director External Affairs 1988-90; Director Africa Region 1990-95; Director Operations Evaluation Department March 15, 1995-present.



**Roger Slade, Chief, Agriculture and Human Development (OEDD1):** British; age 53. Undergraduate degree in Economics, LSE; Graduate degree: Masters in Agricultural Economics, London University. Pre-Bank Employment: work on rural issues in Botswana, Malaysia and Nigeria. Joined Bank in 1980. Chief, Agricultural Operations Division, South Asia Region, 1993-95; Chief, Agriculture and Human Development Division, Operations Evaluation Department, February 1995-present.





**Manuel Peñalver-Quesada, Chief, Country Policy, Industry and Finance (OEDD2):** Spanish; age 47. Economics degrees from University of Barcelona and LSE. Joined Bank in 1976 as Young Professional. Chief, Industry and Energy Division, East Africa Region 1987-90; Chief, Country Operations, South Asia 1990-94; Chief, Country Policy, Industry and Finance Division, Operations Evaluation Department, February 1994-present.



**Yves J. Albouy, Chief, Infrastructure and Energy (OEDD3):** French; age 51. Masters in Electrical Engineering, Ecole Supérieure d'électricité, Paris; Masters in Economics and Operations Research, Harvard University. Pre-Bank Employment: worked at Electricité de France and the Inter-American Development Bank. Joined Bank in 1982. Chief, Infrastructure and Energy Division, Operations Evaluation Department, May 1991-present.

## **BRIEFING ON OPERATIONS EVALUATION IN THE WORLD BANK**

### **Objectives**

1. The aim of operations evaluation at the Bank is to help enhance the institution's development effectiveness. To this end, Operations Evaluation has a three-fold mandate: (i) to measure to what extent and how effectively the Bank's activities are getting desired results in the field thus contributing to transparent accountability at the Bank; (ii) to draw and disseminate lessons on Bank policies, operations and processes. This feedback helps bring about beneficial change and quality enhancement in the institution; and (iii) to assist Bank units and member countries improve their own evaluation capabilities.

### **Structure**

2. Robert McNamara established the Bank's first operations evaluation unit in 1970. At that time, it reported to the President. In 1975, the evaluation function at the Bank took on its current character when the position of **Director-General, Operations Evaluation (DGO)**, was established and the independence of the function was strengthened.

3. To ensure the impartiality of his work, the DGO is appointed by the Executive Directors to renewable five-year terms and reports to the Board through its standing Committee on Development Effectiveness (CODE). Upon completion of his assignment, he may not return to the service of the Bank.

4. The DGO has an administrative link with the President of the Bank. Moreover, he and his staff interact closely at all levels with Bank management and staff. Independence does not, therefore, come at the cost of isolation.

5. The DGO is supported in his work by the **Operations Evaluation Department (OED)** of the Bank. OED helps the DGO assess the adequacy and effectiveness of the Bank's evaluation system; carries out performance audits and impact evaluations of Bank operations and processes; undertakes evaluation studies which address broad development issues; maintains the Bank's institutional memory regarding operational performance; disseminates the Bank's evaluation findings inside and outside the Bank; and assists borrowing countries develop their own evaluation capacity. The Annex to this briefing includes a list and description of the main OED products.



## Methodology

6. OED staff rigorously assess the development effectiveness of Bank activities by judging and rating their (i) **relevance** to specific country and sectoral assistance strategies and to the Bank's overall goals; (ii) **efficacy** as judged against planned objectives; and (iii) **efficiency** in resource use. Where practicable, evaluators reestimate the economic rate of return of the operation ex-post.

7. Every operation is rated for its **overall outcome, sustainability and institutional development impact**. Bank and **Borrower performance** are also assessed. These ratings are then fed into OED's development performance data base, which is acknowledged to be the most complete maintained by any evaluation unit in the world, and which is accessible through All-in-1.

## Key Issues

8. The DGO and his management team suggest the following issues for discussion with Mr. Wolfensohn on June 6:

- The Bank's portfolio is of uneven quality. What is OED doing to help **enhance quality** at the institution?
- Many of OED's outputs are **disseminated to outside audiences**. What impact does this have on the Bank's external image?
- The pursuit of systematic **borrower consultation** and **beneficiary participation** is increasing in Bank operations. OED has a long-standing experience with Borrower involvement but relatively little with beneficiary participation. What is being done to enhance participatory evaluation?
- OED's work program is an ever evolving one which reflects the "living" nature of the Bank itself. To this end, OED has developed a number of new products. **Country Assistance Reviews** fall into this category and assess the services which the Bank provides developing countries in a strategic context. But there is an **unfinished evaluation agenda**. Can OED do more to help promote, for instance, evaluation of the development impact of the Bank's large and growing non-lending services?

## **OED Products**

- *Reviews of completion reports.* About 275 completion reports are prepared annually by Bank regional staff on all lending operations. OED reviews these reports to assess their quality, record data, and help provide a basis for recommendations on new operations. For each completion report, the DGO comments on the results of the OED review to the Board.
- *Performance audits* by OED are more in-depth reviews of the performance of individual operations. Most include field work. OED structures its audit work program so as to provide inputs for comparative studies as well as to meet requirements for accountability. Currently OED audits 40 percent of completed projects and 80 percent of completed adjustment operations. In FY95, about 130 audits will have been done.
- *Impact evaluations* assess the performance of operations at full development, some five to ten years after Bank-financed operations are completed. These reports, which OED prepares, analyze the long-term effects - intended and unintended - on people, institutions, and the environment. They offer valuable insights into the sustainability of Bank-financed operations.
- *Evaluation studies* examine Bank processes as well as broader development issues including policies and experience in countries, regions, and sectors. They also look into themes of "special emphasis" for the Bank, such as poverty alleviation.
- *The Annual Review of Evaluation Results* ascertains trends in the Bank's performance and reviews experience in particular areas. This is, in effect, an independent "report card" on Bank performance based on all the evaluations carried out in the course of the year.
- *The Annual Report on Operations Evaluation* is the DGO's report on the effectiveness of evaluation, dissemination, and feedback processes in the Bank, and of OED support for development of evaluation capacity in borrowing countries.



**The World Bank**  
Washington, D.C. 20433  
U.S.A.

ROBERT PICCIOTTO  
Director-General  
Operations Evaluation

April 5, 1995

Mr. James D. Wolfensohn

Re: "The Dream"

Under your leadership, a reinvigorated World Bank would:

- (i) defend its record, its values and its priorities (No. 1);
- (ii) emphasize quality and professionalism (No. 2);
- (iii) modernize its "core" product (No. 3);
- (iv) rethink its business processes (No. 4).

I look forward to discussing these ideas with you.

*hob*

Robert Picciotto

**Attachments**

## THE WORLD BANK AND DEVELOPMENT

### Achievements, Myths and Priorities

Robert Picciotto

Why is there such disillusionment about development? Why is the World Bank under such intense scrutiny? What does its development record show? And, given global trends, what priorities should the Bank adopt as it looks beyond its fiftieth anniversary?

#### A. The Anniversary Paradox

Such questions arise because, at the core of the 50th anniversary, lies an enigma. Fifty years ago the world lay in ruins. Yet, it was a time of optimism. The victorious industrial democracies were self confident about solving global problems and turning swords into ploughshares. And the World Bank was invented as an instrument of economic change for the benefit of all mankind. Both promises were stunted right at the start by the cold war. But this did not dim the glow associated with either development or the World Bank.

To be sure, it has not been a smooth ride. The international economic system has gone through wrenching changes. A billion people or more still live in abject poverty. The environment is under stress.

But the overall results of the development effort have been impressive. The developing countries, especially the most populous, have prospered as never before. Everywhere, lives have lengthened and education and science have spread impressively. The share of the poor in the global population has been reduced. And, with the end of the cold war, the world is no longer split in ideological camps.

So how is one to explain the pervasive discontent about development?

#### The Untold Development Story

A major source of disillusionment has to do with a perceived crisis of the State in the developing world. A redefinition of the role of government is, of course, underway in developed and developing countries alike. But the public seems rivetted to the notion that the basic premise of development -- the existence of a functioning State able to "own" development programs, service debt, etc. -- is absent in a growing number of developing country states which find themselves unable to function or take care of their citizens.

This perception is new because, until recently, the existence of failed or failing states had been masked by the ideological conflict between East and West. In the old world order, bilateral military and economic support was provided to states with uncertain survival prospects irrespective of development outcomes. Today, the same situations are left unattended until humanitarian intervention becomes imperative, feeding the presumption that the development enterprise itself is hopeless.



The fact is that government breakdown and social disintegration remain the exception -- not the rule. Of course, bad news command the media's attention while good news of spreading democracy and advances in the world's well being do not. In Africa alone, 23 countries are transforming themselves from military controlled or one party regimes to more participatory multi-party systems.

Similarly, the phenomenal economic progress of the developing world remains an untold story. Between 1970 and 1992, developing countries have grown at an average annual rate of 3.8 percent. And it is the low income countries where 3.2 b people live which have grown the fastest -- 5.2 percent per year. China and India where 2.1 b people live have grown at 5.8 percent annually.

In per capita terms, low income countries grew at 3 percent annually annum while China and India's p.c.i. grew at 3.8 percent annually. Socioeconomic indicators have improved across the board and the share of the poor has declined. Rapid growth and reduced inequality have been shared virtues. Development works.

To be sure, from Bosnia to Rwanda ethnic conflicts have spread. And from Somalia to Myanmar regimes have been challenged by insurgencies. But lack of development may be at the root of such situations. Certainly, there is a correlation between social disintegration, galloping demographics, environmental degradation and the lack of employment opportunities which accompanies economic mismanagement.

More emphasis on development is the key to many of the security dilemmas of the post cold war era. Given the enormous costs of external intervention in case of major civil strife and famine, it stands to reason that preventive diplomacy in combination with development assistance would be more effective than crisis management and humanitarian aid.

#### Has the Bank Failed?

When I joined the Bank, thirty two years ago, the Bank was supervising projects in Italy and Japan and making loans to Australia, Austria and Finland. Korea was viewed as an unpromising economy. And the oil economies of the Gulf were largely undeveloped. The Bank lent less than 1 billion dollars. IDA was just getting started. The membership totalled 75 countries.

Since then, the vision of the World Bank as a universal institution has largely been fulfilled. More than 100 additional members have joined the Bank. Annual lending reached 24 billion dollars in FY93 (\$21 billion in FY94). The Bank processed 245 loans and credits in FY93 (228 in FY94). Beyond being the largest single source of development finance, the Bank has become a full service development institution. It has built up an impressive concentration of data and knowhow about the developing world. It acts as a platform for regional and global initiatives. And its development research and training activities are unrivalled.

So why is the Bank singled out for public rebuke and criticism?

One factor lies in the very size of the institution and its emblematic value as a target for radical critics of development. This is linked to the asymmetry between the multi-dimensional nature of the new development agenda and the extraordinary rise of single issue constituencies. Voluntary organizations throughout the world are now interconnected through fax, computers and international phone lines. Instead of expending scarce resources on sterile debates, the time has come for the Bank and NGOs to join in pragmatic action.

Another factor lies in the very expansion of the membership and loosening of its political consensus (no longer held tightly together by an external threat). But perhaps the main reason is that the benchmarks of development effectiveness have themselves changed. They are far more demanding. They focus on participation, sustainability and poverty reduction. Gone are the days when development success was measured largely in terms of physical asset creation.

To be sure, only an ambitious agenda, suited to the global character of the Bank and consistent with its distinguished history, can summon cooperation and solidarity. And yet it is the very ambition of the agenda -- combined with the slow rise of concessional assistance and the vast increase in the number of claimants recognized as eligible -- which has led to a growing gap between development expectations and realizations.

There is, of course, no option for the Bank but to press on with the new agenda since it is the right one. Conversely, however, there needs to be a greater realization among the Bank's stakeholders that this is a complex, risky and demanding challenge calling for sustained support, loyalty in the face of facile criticisms as well as a greater dose of realism regarding the role which the Bank can be expected to play in situations where borrowing governments do not "own" the new development agenda.

To sum up, development is a new ball game in terms of its objectives. Furthermore, the perceptions of the electorates upon which support for the Bank and IDA ultimately depend, can no longer be shaped through specialized elites. Public education regarding development requires attention. In comparable corporate situations, the risks of change are high and gloom in the midst of success is not unusual. Peter Drucker, the management guru, once observed that "whom the gods wish to destroy, they send 40 years of success".

In the case of the Bank, however, complacency about past achievements or lethargy about new initiatives may not constitute significant constraints. The very paradox of public dissatisfaction provides a powerful spur to reform in an institution dedicated to change. The unprecedented visibility of the institution; its oversight by a resident Board; the policies of information disclosure it has adopted as well as the recent reinforcement of evaluation and inspection arrangements should work towards increased accountability. Most importantly, the Bank enjoys a long tradition of Socratic debate and organizational restlessness.

So, while an inadequate pace of internal adjustment is certainly a risk, the more serious danger is strategic. It lies in a misreading of the development record; in faulty diagnostics of the Bank's strengths and weaknesses and in simplistic assessments of development priorities. To these topics I now turn.



## B. The Bank's Development Record

According to Lord Maynard Keynes, the founding fathers of the Bank had to perform "tasks appropriate to the economist, to the financier, to the politician, to the journalist, to the propagandist, to the lawyer, to the statesman, even ... to the prophet and to the soothsayer".

The resulting multifaceted and somewhat elusive character of the Bank has proven to be a strength as well as a weakness. A strength because it has allowed substantial institutional adaptation in response to changing needs. A weakness because it has made selectivity and efficiency rather hard to achieve.

### Financial Record<sup>1</sup>

One of the major functions of the Bank is intermediation of financial resources for the benefit of developing countries. What has been the Bank's record on this front?

Since Bretton Woods, the Bank has committed upwards of \$250 billion in long term development finance. The bulk of Bank funds has originated from private savers worldwide -- through pension funds, insurance companies, banks, corporations and individual brokerage accounts. The cost of these funds has been a few hundredth of a percentage point higher than the cost paid by the governments of the world's richest countries.

This means that the Bank has reduced the cost of borrowing to LDCs by 3 percentage points or more (aggregating \$500 m annually) -- not a mean accomplishment. In addition, the creation of IDA as well as the Bank's role in aid coordination and cofinancing have greatly facilitated access to long-term finance to all Bank Group members, including the poorest.

### Reconstruction<sup>2</sup>

The Bank's first and largest loan ever made was for the reconstruction of France (\$250 m in 1947: \$2.4 b in today's dollars. Other loans to Netherlands, Denmark and Luxembourg followed -- untied to specific projects and swift in disbursements. But these efforts were soon dwarfed by the \$13 b Marshall Plan.

The importance of this phase in the Bank's history mostly lies in the pragmatic approach which it inaugurated in situations where urgent action is called for. Based on this early experience, the Bank has played a responsive role in providing reconstruction assistance and/or import loans following natural or manmade disasters. This is not a large part of the Bank's business but it is an exceptionally successful one and it may well grow as collaborative multilateral approaches to "failed states" take hold.

Straddling the Bank's postwar reconstruction role and the development era is the special case of Japan. Japan joined the Bank in 1952, pioneering country relations which deliberately transcended project lending -- though intimately connected to it.

As many other members of the Bank then and since, Japan was insular, wary of interference and cautious. Through a careful and synergistic use of its lending and non-lending roles, the Bank induced a mutually beneficial relationship. Despite setbacks and disagreements, the Bank helped Japan hook up to the international economy -- a key factor in its emergence as an economic superpower. Conversely, the relationship provided a model for later "graduations" of successful LDC performers and paid off handsomely for the development community -- when Japan eventually emerged as the largest aid donor in the world.

### The Food Crisis: India<sup>3</sup>

While Japan helped establish the Bank as an influential financial entity, it may be India which played the most decisive role in shaping the Bank as a development institution.

A major food crisis -- and the sudden reliance on U.S. grain imports which it triggered -- opened a window of opportunity which the Bank used to assist key India policy makers establish the top priority of agriculture in national plans, to help design the necessary policy reforms and to provide the resources required for the supporting infrastructure and services needed by India's small farmers.

This took place through a combination of development diplomacy and development finance. To be sure, the intellectual foundations for the effort were laid by private foundations and academics -- rather than by the Bank. But it took a special Bank mission led by Sir John Crawford in 1966 to put the spotlight on the key role of agricultural productivity in India's development and the need to "lock in" for a fresh and radical policy departure.

It took a sustained effort over many years to spread the benefits of the strategy throughout the vast expanse of India. Lending to India for agriculture and rural development rose from \$124 m during 1950-68; to \$687 m during 1969-74 to \$4.2 b in 1975-81. In addition, the Bank provided \$311 m to support fertilizer imports during 1967-76.

One fourth to one third of the increase in India's foodgrain production has been attributed to the Bank-India partnership. This growth allowed India to weather a disastrous drought in 1979-80 without major economic or social disruptions. Whereas rural poverty was around 50% in the seventies, it now stands around 30-33%. The percentage of people below the poverty line is around 7-12% in States where the green revolution took hold compared to 40-45% in States where it had a minor impact.

The approach was grounded in close partnership between India, the Bank and other development agencies (including USAID). It nurtured a wide range of development skills within the Bank and in India. It promoted the innovative use of resident missions. It made local currency financing and broad based reliance on local contracting respectable. And by linking the Bank to millions of small farmers, it demonstrated that the Bank could be socially as well as economically relevant.



Of course, given fiscal and environmental constraints, a brand new sector strategy embodying second generation technologies, effective natural resource management and private sector development is urgently needed in order to facilitate the advent of a sustainable, high productivity agriculture still eluding India and other developing countries.

#### A Development Miracle: East Asia<sup>4</sup>

Obviously, the credit for surmounting India's food crisis in the cities largely belongs to its leaders and its farmers. Similarly, the unique success of East Asia in fostering growth, reducing poverty integrating with global markets and raising living standards is largely due to the initiative, commitment and social cohesion of East Asian countries. But it is a matter of record that the Bank's advice and its lending helped to design and underpin a strategy combining sound economic management fundamentals with sustained human resource investments.

Nowhere else has the relationship between the Bank and its borrowers been so fruitful -- or the success rate of Bank-financed projects so high -- as in East Asia. Perhaps most impressive, was the sustained and critical role played by the Bank in Indonesia and China through timely and relevant economic advice and successful financing of priority segments of the public investment program. In both countries, the Bank inspired major macroeconomic reforms through economic advice and development diplomacy. In both countries, it made effective use of the project instrument as a vehicle for institutional development and technology transfer.

Indonesia has achieved sustained growth averaging more than 6% annually between 1970 and 1990. Twenty years ago, Indonesia had a per capita income of only \$50 -- half that of India, Bangladesh and Nigeria. Today, it has reached \$670 and the numbers of the absolute poor have dropped from 70 million in the early seventies to 27 million in 1990. The fall in poverty has coincided with enormous improvements in nutrition, life expectancy, basic schooling and health.

Even more than Indonesia (which relied heavily on external consultants and academics), China used the Bank as a window on international knowhow and experience. Projects were systematically used as shunting yards for ideas and skills while innovative use of conferences involving Bank staff, outside experts and Chinese policy makers helped to strengthen the momentum of reform.

The Bank's work in China has been backed by IBRD loans totalling \$10 b and IDA credits of \$7 b between 1981 and the end of 1993. Conceptually, as well as financially, the Bank supported China's sustained and gradual approach to reform and facilitated China's transition from a command to a semi market economy. The result is there for all to see -- an economy which has grown faster than any other in the world.

Once again, the Bank can only take credit for reinforcing and supporting changes and ideas which the country's own decision makers had adopted. But this, after all, is as it should be.

### Debt and Adjustment: Latin America<sup>5</sup>

During the early years of the crisis, Argentina, Brazil and Peru experimented with heterodox plans that ignored the need for fiscal discipline. It is the rapid failure of these plans which led to an agonizing reappraisal of the structuralist approach to economic development which had traditionally been followed in the region.

Initially, the Bank structural adjustment loans combined with IMF sponsored programs facilitated 29 debt restructuring with private banks. Between 1980 and 1986, the Bank more than doubled its net disbursements to the region. This was combined with advice and conditionalities geared to restoration of macro stability and reduction of the debt overhang. The funding provided also allowed a minimum increase in consumption.

The Bank's contribution took three forms: (i) analytical work and policy dialogue; (ii) financial assistance to cushion the effect of the crisis; and (iii) use of conditionality to provide credibility and discipline to the adjustment process.

In 1989, the debt strategy shifted towards debt reduction and the Bank devoted substantial resources in concert with creditor banks and advanced nations to guarantee Brady bonds and to promote serious reform. In 1989, Mexico and Costa Rica reached broad agreement with their creditors to reduce the value of their debt. Venezuela and Uruguay followed in 1990 and 1991 and Argentina and Brazil in 1992. By then, many countries in Latin America were experiencing positive net transfers and there was a sense that the debt crisis had subsided.

So, once again, the lesson which emerges is that the Bank is at its best when it acts in concert with borrowers and other development partners through a combination of policy advice, finance and implementation support.

### The Hard Core Development Challenge: Africa<sup>6</sup>

Africa's rate of economic growth has been slower than in other regions even those with similar conditions and natural resource endowments. Its share in world trade has declined from 3% to 1%, population growth has accelerated, environmental damage has increased while civil conflict and ethnic strife have ravaged 10 countries.

A combination of disadvantageous initial conditions and policy mistakes underlie this outcome. At independence, most African governments (even those with mixed economies) adopted centralized planning, state-controlled marketing and inward-oriented economic policies to achieve industrialization and growth. They did not invest enough in human resources, did not utilize resources efficiently, did not respond adequately to exogenous shocks and failed to promote a suitable enabling environment for the private sector. The legacy of these policies (combined with weak institutions) has proven burdensome.

With hindsight, it appears that the Bank should have taken a rigorous policy stance right at the start. It did not: during the sixties, the Bank concentrated its assistance on infrastructure (especially power and transport) and IDA lending was modest. During the seventies, lending for agriculture and the social sectors rose but relatively little attention was



still paid to policy. In fact, the Bank provided substantial funding to public enterprises with minimal impact on their efficacy. The turning point only took place around 1981 with the Berg report which highlighted the policy distortions underlying Africa's woes.

This said, Bank lending did contribute to the creation of important assets and to human resource development. Sixty five percent of Bank financed operations had satisfactory outcomes and contributed to improving social indicators, especially in health and education as well as to increases in total output (2.3 times larger than in 1965, not counting the informal sector).

Adjustment lending accompanied by Fund programs proceeded in the early eighties with insufficient recognition among most recipient countries that they needed to stabilize their economies. Imbalances were reduced but there was little if any growth. Around 1987, the design of adjustment programs began to incorporate social dimensions and improved financing emerged with the Special Program of Assistance. By now there is evidence that policies are getting better and that the benefits of adjustment have begun to take hold in some of the countries.

In brief, the Bank's mixed record in Africa must be judged against a background of weak domestic political consensus, inadequate institutional frameworks, embryonic private sectors and undeveloped capital markets. A very strong relationship has been established between successful adjustment and borrower ownership of reform defined in terms of locus of initiative, intellectual conviction among key policy makers, expression of political will by the top leadership and efforts towards consensus building among key constituencies.

The fact is that most African countries still lack policies that are sound by international standards. If almost half of the Bank funded operations did not have satisfactory outcomes, it is because of weak fiscal efforts; slow public enterprise reform; inadequate expenditure switching in support of social objectives and -- for 40% of the countries surveyed -- unsustainable debt burdens. Supply response was weak because of inadequate complementary measures to support the private sector. Based on experience, patient capacity building efforts and continued policy reform should in time have a major impact.

#### From the Plan to the Market: Eastern Europe and the Former Soviet Union<sup>7</sup>

It is too early to assess the Bank's record in Eastern Europe and the former Soviet Union. What is clear, however, is that the Bank has been nimble in mobilizing its resources to deal with a historic opportunity without affecting work programs in other parts of the world. It is not simply that the Bank had to absorb many new members. The nature of their problems was unique.

Between 1990 and 1994, 22 states of Eastern Europe and Central Asia became new members of the Bank; the Bank committed \$11.5 b and opened 7 resident missions. By now, the Bank is fully engaged in an enterprise without precedent -- assisting in the systemic transformation of economies, most of which have no tradition of markets and legal institutions.



Movement to a market economy requires freeing prices and adjusting exchange rates. Unfortunately, such liberalization is typically taking place in an environment of budget imbalance and output contraction presenting the transition economies with a Hobson's choice of major output declines or hyperinflation.

The provision of quick disbursing assistance into situations where domestic policy effort is insufficient does more harm than good and may contribute to creating a debt trap. The Bank has had to walk a fine line between caution and responsiveness. Sixteen loans aggregating \$3b were provided for import financing in the context of larger financial packages including the Fund and the G-24. Of these, six were adjustment operations and the balance rehabilitation or critical imports loans. In addition, the Bank supported debt reduction initiatives in Poland, Bulgaria and Albania.

Bank support for retooling the State has begun with free standing technical assistance loans designed to strengthen economic management capacity, aid coordination, debt and public expenditure management, tax administration and social benefits administration. Financial institutions projects have been approved for Russia and seven other borrowers. Legal reforms has been addressed as part of loan conditionality in four rehabilitation loans while adjustment operations have supported capital market regulation and anti-monopoly policies in Slovakia and Poland. Most of the countries have also received advice about legislation regarding international borrowing.

A third important thrust has been the strengthening of social policies including social safety nets. Creation of flexible labor markets, targeted projects related to mass layoffs and strengthening of services to the unemployed have been among the objectives of loans to Russia, Armenia and are on the drawing board for other countries. Health and education are being financed in Poland, Albania and Romania. Better targeting of social benefits and pension reform is the objective of policy advice.

Financing of market friendly infrastructure and housing has involved \$840 m of Bank lending in FY93 alone. Telecommunications and transport are the targets of loans and the Bank is exploring the use of guarantees to give comfort to lenders prepared to make appropriate financing available. With respect to the environment, the Bank has been involved in strategy studies and collaborative programs to restore the ecology of the Black Sea, the Baltic and the Danube river basins.

### Lessons

In the process of helping its borrowers to change, the Bank changed too. While its record was far from flawless, major strides were achieved, especially where the Bank acted early and demonstrated resilience in support of objectives truly shared by borrowers. Partnership with other development actors was often critical to success. Use of a coherent mix of instruments combining advice, finance and implementation support was the key to development impact.

Ownership by the borrower of programs supported by the Bank emerges as the sine qua non of relevance and sustainability but this does not mean an invariably smooth



agreement on all issues. Vigorous debate and mutual learning has been part and parcel of healthy Bank-borrower relationships.

All in all, the vast majority of Bank financed operations had satisfactory outcomes. Where mistakes occurred, they were usually sins of commission - not omission. Proceeding with funding in circumstances where ownership was lacking or basic prerequisites of success were not in hand proved to be the major causes of disappointing outcomes. On the other hand, there are many instances where risky bets paid off!

Precisely because they contain accountability provisions (regarding procurement, audit, etc.) Bank processes are not always swift or cost effective. Inadequate involvement of beneficiaries has been a weakness. But the overall picture is one of professionalism, responsible debate and significant risk taking, often in adverse circumstances. This prosaic reality must be acknowledged even if it does not fit the mythology promoted by radical Bank critics.

### C. Myths and Realities

The Bank has a great deal of work on its plate in order to be more client oriented, selective and efficient. And it has embarked on a variety of reforms to deal with its acknowledged weaknesses. Constructive criticism is a helpful spur to continuous improvement. But irresponsible criticism is not and should not go unanswered. The Bank has not always put its own case forward in a persuasive way. As a result, a number of myths have been allowed to flourish and I will address some of them presently.

#### The "White Elephant" Myth

Several critics have advertised OED's finding that the share of unsatisfactory outcomes in Bank financed operations has risen from 15% in the seventies to about 30% or more today. This statistic has been adduced to argue that the Bank is prone to funding white elephants, i.e. that waste characterizes its activities.

This is a misunderstanding of OED's evaluation methodology according to which only projects which have a favorable development impact (over 10% rate of return) and meet their major objectives are rated as satisfactory. In fact, three quarters of the projects funded by the Bank substantially achieve or overachieve their physical objectives<sup>8</sup> and many of those which do not are canceled in whole or in part. Development is a risky business and it is not possible to know how well the Bank is doing compared to similarly situated development agencies since they do not carry out comparable and systematic evaluations of the outcome of their projects.

Three factors have contributed to the downward sloping trend in evaluated outcomes: (i) a more demanding development agenda embedded in Bank-financed operations (increasingly policy driven instead of merely investment driven); (ii) less favorable global factors (commodity prices; etc.); (iii) more exacting evaluation standards reflecting the concern with such thematic priorities as poverty reduction, private sector development and

environmental protection. (Work is underway in OED to relate demandingness of objectives, thematic content and implementability).

As to the absolute levels of successful outcomes and sustainability, they leave absolutely no room for complacency. One out of four dollars has been committed to projects with less than fully satisfactory outcomes while 46 percent of projects are evaluated to be of uncertain or unlikely sustainability.<sup>9</sup> A comprehensive program is underway to improve quality at entry and portfolio management. Better performance is certainly feasible and desirable. But one cannot state with certainty that excessive risks are being incurred. After all the payoffs of recent project cohorts are substantial (average reestimated ERRs is 15%) and it is far from clear that returns should be sacrificed to achieve a higher rate of success.

Based on the Wapenhans report, the Bank has taken the lead in shifting the focus of development assistance management to "results on the ground". In this context, rather than simply uncovering deviations from mandated procedures, the focus of evaluation has been on how to improve design and implementation of projects so as to enhance development impact and manage risks. Hence, beyond this crucial accountability role, evaluation's value added has been to encourage a shift towards a "learning culture" so as to improve the quality of Bank services on a continuous basis.

### The Adjustment Controversy

Radical Bank critics argue that structural adjustment programs undermine recovery prospects and compound inequalities in developing countries. Comparing the state of affairs before and after the economic crisis, they along with others attribute the symptoms of the disease (economic mismanagement) to its remedy (adjustment).

Simply put, developing countries cannot afford to run budget deficits of 10-15% or more indefinitely. A correction is, at some point, inevitable. The whole point of adjustment is to put in place measures which, in conjunction with other policy actions, would facilitate the resumption of stable growth. While the post-adjustment situation in many countries is not enviable, the problems would be worse without adjustment.

Independent evaluations of the Bank's adjustment operations confirm that adjustment does work when the basics are actually applied. Following a crisis, growth resumes earlier in countries where the economic management fundamentals are respected -- than in countries where they are not. There is also substantial evidence that adjustment, combined with safety net programs and other measures, alleviates poverty.

So, the real question is not whether adjustment works but whether the Bank has been able to ensure adequate design, ownership and funding of the adjustment programs which it has funded. With hindsight, it is now clear that too many adjustment loans did not include sufficiently tough up-front action to guarantee success and that policy reversals took place because the Bank failed to assess the political economy of adjustment with sufficient rigor.

The failure rate for adjustment loans (about 35 percent) is higher than for investment loans. On the other hand, the development impact of a successful and sustainable



adjustment loan is usually greater than that of an equivalent investment loan. The relevant lesson is to carry out better assessments of political economy aspects, enhance risk analysis at entry, refine design and sequencing of adjustment programs, etc. It does not lie in eliminating adjustment lending from the Bank's tool kit or in forsaking the fundamentals of sound economic management.

### The Spending Bank Myth

Some critics have pictured the Bank as a "spending" organization; with a budget out of control and an over-bloated staff. There is no doubt that economies are feasible and that greater selectivity is needed. But, while the Bank's efficiency leaves something to be desired, given its mandate, it is not obvious that the Bank is too large. Few people know that the "back-room" functions of Merrill Lynch absorb more people than the entire staff of the World Bank. The Bank's budget as a share of earning assets is 75 basis points -- well below the 100 basis points typical of commercial banking establishments. Finally, the total administrative costs of the Bank qua bank are only a little more than half of its total budget.

The bulk of these expenditures is for lending and supervision, incorporating project preparation and implementation support services for borrowing member countries. Only \$75 m is used to service the Bank's financial engine. This is remarkable considering that the Bank borrows about \$12 b annually, invests about \$20 b of liquidity and manages complex risks across currencies and instruments so as to protect its impeccable reputation in financial markets.

The other half of the Bank's budget supports a wide range of development and fiduciary services -- almost 40 percent of the budget is devoted to research, policy work, advisory services, technical assistance, training, evaluation and public information. Another 10 percent is used to provide aid coordination and cofinancing services and to provide development grants.

Thus, technical cooperation and advisory services are now an integral part of the Bank's tool kit. And the Bank is playing a major role in aid coordination (especially in Africa) and cofinancing (which generates over \$10 billion annually). Over 1,000 trust funded collaborative activities are being managed by the Bank involving annual disbursements of \$250 m. Policy advice (and the intellectual byproducts which go along with it) have become important outputs in their own right.

The growth in Bank expenditures is the direct consequence of an increasing demand for clients services, fuelled by four factors: (i) a boost in membership (including the former Soviet Union states); (ii) reactivation of activities in previously dormant countries and territories (e.g. Peru; South Africa; Occupied Territories; etc.); (iii) the advent of a far more complex development agenda (environment; governance; etc.) (iv) a growing recognition that global problems need global solutions (e.g. the GEF; CGIAR; etc.)

In practice, when faced with specific development issues (e.g. nuclear power in Eastern Europe and Central Asia; Aral and Baltic Seas cleanup; Mediterranean Environmental Action Plan; Occupied Territories; etc.), the international community has



often turned to the Bank. So, the issue may be less one of "downsizing" the Bank than of figuring out what services it is best equipped to provide and of finding appropriate ways to fund them.

The combination of "flat" lending volumes and of escalating demands for services means that the budget trends of the late 1980's and early 1990's are not sustainable. So selectivity is indeed needed and budget stringency is certainly desirable but the strategic question may have less to do with the need to reduce the Bank's size per se than to reassess the architecture of the overall development system and of the Bank's comparative advantage within it.

In parallel, unbundling of Bank services might be justified in order to provide a more transparent linkage between funding decisions and service delivery.

#### The "Small is Beautiful" Myth

Closely linked to the view that the Bank is too big is the proposition that the Bank lends too much and favors large projects, especially dams. Implicit in the myth is that large projects tend to fail.

In fact, the volume of Bank lending has, for several years, been stagnant in real terms. Bank instruments are geared to the financing of policies, programs and clusters of small schemes. The Bank is a minor financier of large dams. Less than 3% of dams built since 1951 got Bank funds and less than one-fourth of Bank-financed irrigation projects involved dam construction, according to a forthcoming OED study. The bulk of Bank financing has been devoted to rehabilitation, maintenance, water regulation and distribution, and drainage.

In general, the Bank has deemphasized large structures in its infrastructure financing. Furthermore, evaluation evidence shows that large projects are not necessarily less successful than small ones. Indeed, recent studies suggest that visibility of large projects often enhances their effective management, that large irrigation commands often involve economies of scale and, in general, that large projects show higher rates of satisfactory outcomes than small ones (large scale projects of \$100 m or more enjoyed a success rate of 81% vs a 67% average in OED's 1992 evaluation cohort<sup>10</sup>). So a case may well exist for the Bank being involved in more large projects -- rather than in fewer.

This said, the Bank needs to change its approach to infrastructure finance. With the reduction of public expenditures following the debt crisis, the demand for infrastructure services has risen. In the end, the issue is less one of big vs small than of effective policies, efficient delivery of services and harnessing of private resources to build and operate priority projects.

Obviously, the new development agenda requires more participation, greater community involvement and strategic alliances between development agencies and voluntary organizations. NGOs have performed a useful service by highlighting the social consequences of infrastructure projects. High population densities make involuntary resettlement very difficult to manage. Just as it did with respect to dam safety, the Bank has



the potential of taking the lead in helping its developing member countries to build the institutions needed for socially responsible resolution of resettlement and environmental problems. This will require more systematic linkages between government agencies and local NGOs.

#### D. The Way Ahead

The development record is encouraging: over the past quarter century, per capita incomes in East Asia have nearly quadrupled. We have learnt a great deal about what works and what does not. Developing country policies have undergone a tremendous transformation. This will allow a changing mix of private to official finance as markets reward good policy performance and official finance focusses on making countries more attractive for private flows and more effective at dealing with the social and environmental aspects of development.

The future of the Bank does not lie in trying to recapture a simpler past. Thus, selectivity does not mean jettisoning a development agenda on which there is widespread consensus and which represents a major development asset. It does mean concentrating efforts on key policy priorities which have the support of the Bank's membership.

Efficiency must be sought too. But this does not necessarily equate to a smaller Bank. The fat must be cut through business process improvements. The muscle, however, should be kept intact. Strategic alliances with other development agencies and NGOs offer an instrument to achieve greater selectivity as well as greater efficiency. Building on its comparative advantage, the Bank should combine money with ideas at the service of its thematic priorities and within a streamlined development system.

#### A Bank of Ideas

As a mature development institution, the Bank is a shrinking source of net financial flows to a majority of its developing member countries. Private flows to creditworthy, reforming borrowers are on the increase. This is changing the shape of the demand for Bank development services.

New ways of making, growing and trading are emerging. Automation is revolutionizing the factory system. Genetic engineering is changing field based agriculture. Electronically driven transactions across continents are forcing the reinvention of financial and trading operations. Among other things, the Bank is increasingly expected to provide a platform for exchanging ideas and skills for the benefit of its developing member countries.

While maintaining prudent financial policies, the Bank will continue to help developing countries reform their policies and their institutions so as to better benefit from technology, trade and private financial flows. A broader array of financial products and a more effective tool kit for institutional development will be forged. And it will continue to play a special role in the market of ideas animating development.

Macroeconomics will not suffice. We will become involved in sectoral and environmental research and take the lead in strengthening institutional economics and multidisciplinary development research. We will forge new paradigms and new analytical instruments. The injection of institutional skills will be used to strengthen the Bank: these are disciplines which recognize the power of listening prior to jumping to conclusions. Such skills are needed to facilitate our on-going transition towards a learning and knowledge based development institution.

### Thematic Priorities

The more aggressive support of private sector development implicit in the new Bank organizational structure (not to mention the more effective coordination arrangements being put in place with IFC and MIGA) reflects a universal acknowledgment of the limits of government. It also reflects a growing realization that the enabling environment of policies and institutions of each country must be carefully crafted on a case by case basis to trigger a competitive private sector. This in turn implies a recognition of the limits of markets.

Thus, the Bank will combine a preoccupation with improved public sector management with closer linkages with private corporations. The developing countries are increasingly dependent on foreign investment, technology and access to trading opportunities. The poorest members do not know where to turn to connect themselves to the global marketplace. The Bank will play a role in helping to overcome obstacles to entry and market distortions. It will design new instruments and new processes to intervene more effectively vis-a-vis the private sector.

The advent of environmentally sustainable development as a thematic precept is irreversible. So is the recognition of the environmental degradation associated with current global policies. Damage to the environment has accelerated. There has been more change on a planetary scale between 1950-1990 than between 8000 BC and 1950.

Since 1970, the world lost nearly 200 million hectares of tree cover, an area roughly the size of the United States east of the Mississippi. Thousands of plant and animal species no longer exist. And the world farmers lost an estimated 480 billion tons of topsoil, roughly equivalent to the amount of India's cropland. Air pollution has reached health threatening levels in hundreds of cities. The amount of carbon dioxide, the principal greenhouse gas in the atmosphere, is rising 0.4% per year from fossil fuel burning and deforestation. While no one can be precise about timing, we know that climate change will occur unless national energy policies are modified.

Finally, the focus on human resource development will have to be sustained and deepened to encompass institutional development and governance. The limits of physical capital as a determinant of growth imply a focus on human capital as a key development asset. To illustrate the point, it is not accidental that Japan boasts 3,500 scientists and engineers per million of population; the US 2,700; Europe 1,600; Latin America and the Arab states around 200; Asia (minus Japan) about 100 and Africa about 50.

This human development thrust coincides with the rediscovery of demography as a key development issue. Over the last two decades, 1.6 billion people were added to the



world's population -- more than inhabited the planet at the beginning of the century. Population growth remains a major global concern. The rededication of the Bank to poverty reduction as the overarching development objective is central to the Bank's legitimacy.

### The Bank and the Overall Development System

The Bank will intensify its efforts to make developing countries more self-reliant. At the same time, it will disseminate the new rationale for development assistance. The commonality of interests of rich and poor societies in an increasingly interdependent world will be demonstrated and articulated to the electorates of industrial democracies.

The themes of peace and development, migration, global environmental degradation, international public health threats etc. will be sounded more persuasively and insistently and the benefits of environmental cooperation and of an open trading and financial system will be highlighted again and again. Development will be promoted largely on the basis of self interest and global interdependence.

The Bank operates within an increasingly crowded and competitive development assistance system. Regional institutions (including the regional banks) are growing in size and clout. The Bank's comparative advantage is that it is global. Member countries have begun to insist that transaction costs for the system as a whole should be reduced. The tolerance for duplication, turf fights and inadequate coordination is wearing thin. Accordingly, the Bank will intensify its interactions with other development partners to ensure that the system as a whole works to the benefit of the membership.

In sum, as sketched in the vision statement, the Bank will strengthen its institutional identity, reposition itself in the new multilateral framework, adapt and invigorate its activities in order to meet the challenges ahead. It will compete with other sources of advice and funding and it will learn from the private sector in revamping its business processes and in using modern technology.

In particular, the Bank will build strategic alliances with other international agencies, private companies and NGOs order to provide for a meaningful division of labor and effective coordination between economic management support activities (where the Bretton Woods institutions are likely to dominate), the other aspects of governance, peace making and peace keeping (which constitute the core of the UN's mandate), the markets which are likely to carry an increasing share of financial flows and the voluntary sector which has a special role to play in environmental protection and socially oriented activities.

Such efforts at cooperation would strengthen the Bank as well as its partners, just as the improved coordination mechanisms between the Bank and the IMF ended up strengthening both institutions.

Endnotes

1. Carolyn Doggart, From Reconstruction to Development Lending: Europe and Japan in the 1940s and 1950s, July 19 1994 draft.
2. Kenneth Lay, The World Bank in the Capital Markets: Private Savings for Development Finance, June 2, 1994 draft.
3. Uma Lele and Balu L. Bumb, The World Bank's Response to South Asia's Food Crisis: A Case of India, July 27, 1994 draft.
4. Vinod Thomas, The World Bank and the East Asian Economic Miracle, July 15, 1994 draft.
5. Sebastian Edwards, The Latin American Debt Crisis and the World Bank, April 1994 draft.
6. Ishrat Husain, Africa and the World Bank, June 21, 1994.
7. Kemal Dervis, Marcelo Selowsky, Christine Wallich, The Transformation of Eastern Europe and the Former Soviet Union in the 90's, June 7, 1994 draft.
8. Operations Evaluation Department, 1992 Evaluation Results, World Bank, Washington, D.C. (p. 81).
9. Operations Evaluation Department, op. cit. (pp. 69 and 179).
10. Operations Evaluation Department, op. cit. (p. 59).



## Food for Thought *The Quality Dimension of Bank Operations*

Robert Picciotto

*What is quality management? Why is it a top priority challenge for the Bank today? What specifically does quality mean for Bank operations? What can be done to further enhance the quality of the Bank's work?*

### What is Quality Management?

Charts, slogans and gurus have dimmed the appeal of total quality management. Yet, the approach underlies the major competitive surge which has swept through Japan and the rest of the industrialized world. There is no reason to believe that the basic principles would not work in developing countries—or in the Bank.

It is a simple but demanding approach: (i) identify customer needs in every aspect of the work; (ii) aim to exceed customer expectations every time; (iii) involve everyone in adjusting work processes.

The essentials of the approach were formulated by W. Edwards Deming, who died in December 1993 at the age of 93. He believed passionately in self evaluation and training. Although he did not advocate inspections, he championed a relentless quest for zero defects and total client satisfaction. He distinguished between special and common causes of quality shortfall. The first relate to what individuals in the organization can control. The second relate to systemic problems which are the responsibility of management. Because, according to Deming, the systemic problems underlie 85% of quality shortfalls and because it is management's role to define and control processes, policies, facilities etc., poor quality is largely due to poor management.

He stressed that quality saved money and improved the quality of work life. He considered his management principles to be universally valid—from industrial settings to service organizations to nonprofit agencies. They can be reduced to three elements:

- Work with customers to decide what quality is—which implies deciding who the customer (inside or outside the organization) is, listening to him or her, interpreting his/her reactions, and validating the interpretation and design specific measures to satisfy him/her on the next round.
- Work with suppliers and agents to ensure that they too apply total quality management to their work—every unit of the organization is a customer as well as a producer and needs to respond to its customers as

well as make its own requirements known to those who serve its needs.

- Induce continuous adjustment in work processes through systematic participation of all employees, training in self evaluation, team work and driving out fear through the practice of "amnesty."

This approach generates new habits, new ways of working and, step by step, a wholesale change in the attitudes of managers and staff and in the culture of the organization. It holds promise for the Bank.

### Why Focus on Quality?

Quality must be the Bank's paramount concern because it is central to our effectiveness, we owe it to our members, there is evidence that some aspects of it have been declining, and our public support and institutional survival depend on it.

Quality demands professional excellence but is not synonymous with it. The competitive approach to Bank recruitment, the initiation rituals associated with the induction of staff, the punctilious attention given to language in Bank documents, etc. all reflect a deeply entrenched professional culture. Therefore, quality tends to be judged in professional terms by Bank staff. Since economists constitute the largest single discipline in the Bank, quality is all too often equated with publication—or even the congruence of the Bank's intellectual output with the norms of the "Washington consensus." In contrast, the stakeholders—the only ones whose definition of quality matters—hold more concrete definitions of quality.

### Quality for the Bank's Stakeholders

The Bank has many stakeholders. It derives strength from satisfying them all. The Bank is a shunting yard for ideas, a source of skills as well as funds. It thrives on cooperation towards common goals. Its reach is global. It is committed to excellence, responsiveness and relevance.

For borrowers, quality is the value of services received in relation to borrowing costs, including the

(continued on p. 8)



*The Quality Dimension, cont. from p. 7*

indirect costs associated with loan/credit processing and other transactions. For bondholders, quality is measured by the rating of World Bank bonds, reflecting market perceptions of the Bank's financial soundness. But, ultimately, the Bank's major clients are the so-called beneficiaries of development assistance. For them, quality means a sustainable improvement in their living standards and in the quality of life in their communities.

*No partial definition of quality will do since the Bank—a collaborative, inter-governmental, market based institution—depends on the support of all its stakeholders to fulfill its mandate.*

For the shareholders, of course, quality is a reflection of all the above considerations—but also encompasses the Bank's contribution to the health and sustainability of the global economy through its financial intermediation, aid coordination and knowledge creation and dissemination activities. The shareholders look to the Bank to make the world a saner, safer, more productive and equitable place for this and future generations.

No partial definition of quality will do since the Bank—a collaborative, intergovernmental, market based institution—depends on the support of all its stakeholders to fulfill its mandate. So, in a sense, quality is multidimensional and must be assessed from a variety of perspectives; each of the services provided by the Bank should be subject to its own set of quality standards reflecting the expectations of the stakeholders concerned.

Tradeoffs between quality objectives must be struck, and coherence of purpose must be preserved. But in order to tap the economies of scale and the synergies associated with what is after all the premier development agency in the world, a clear mission needs to run through all the services provided by the Bank. This is why strong management is needed for effective Bank governance. And strong management demands a clear focus which Mr Preston has reaffirmed: poverty reduction through sustainable growth.

### A Sense of Mission

To quote David Packard (of Hewlett Packard): "If we could simply get everybody to agree on what our

objectives were and to understand what we were trying to do, then we could turn everybody loose and they would move along in a common direction". This is one objective of the recent initiatives taken in connection with the Bank's 50th anniversary.

Things were simpler when the development community viewed public investment as the major engine of development. Until the mid-seventies, development effectiveness was defined largely in terms of ex ante project evaluation techniques, the speed of project execution, the containment of project costs and the achievement of physical investment goals. The Bank's basic operational processes were designed to reflect these principles. Since then, the failures associated with public investment and government action have become better understood. The limits of traditional cost benefit analysis have also come to light, especially with regard to the environment. Finally, as highlighted in the Portfolio Management Task Force report, the approval culture has emerged as a key constraint to quality lending.

A host of qualitative considerations have come to the fore: the new development agenda now gives pride of place to the policy, institutional, social and environmental aspects of Bank operations. The new dimensions of quality are what distinguish development from mere growth. Today, operational quality is the contribution of Bank activities to equitable and sustainable growth. The re-engineering and continuous adjustment of our work processes to achieve the mission has begun.

### Measuring Lending Quality

The Bank's main service is lending. Fortunately, we have a system to assess lending quality: the Bank is virtually alone among development agencies in evaluating and publishing the estimated outcomes of each and every one of its completed operations. The system has shown that lending operations approved from the late sixties until 1973 had satisfactory ratings significantly above 80%. From 1974 to 1979, a sharp deterioration took place with the satisfactory rating declining to the mid-to-upper 60s. For projects approved during the 1980s, satisfactory outcomes have oscillated around the 70% level. We can do better.

While there are gaps among the approaches used to evaluate projects at completion, at entry, and in the course of implementation (and plugging them is a goal of the Next Steps program), learning from evaluation remains a major challenge of quality management.

In addition, *participation* as the surest route to commitment—without which implementation is likely to



be ineffective and the benefits achieved are unlikely to be sustainable—has become an integral part of quality management.

### Quality Demands Institutional Development

The focus on sustainability has brought to the fore the institutional determinants of quality. In particular, it has become clear that the management of quality can only be handled by addressing internal and external institutional constraints simultaneously. Just as the advent of adjustment lending required the spread of neoclassical economics throughout the institution, the redefinition of the development agenda to encompass social and environmental sustainability calls for a repositioning of the intellectual agenda towards the new institutional economics and other social science disciplines. Basically, the Bank must address the institutional constraints which stand in the way of implementing a development agenda, on which there is full support from our members, and policy reforms which also command a broad consensus.

According to Paul Milgrom and John Roberts, "Economists have too long ignored the study of how firms and economic systems actually operate in a dynamic, tumultuous environment. Those who have studied these matters and those who have managed organizations in these environments have too long labored without the benefits of useful theories to guide their investigations and their decisions. Bringing the two pieces together will give much more than the simple sum of the parts."

Institutional economics is founded on the proposition that a fundamental premise of neo-classical economics—costless specification and enforcement of contracts—is faulty. How institutional norms and transaction costs within and outside the Bank affect the quality of Bank work is obviously fundamental. The shift from a quality assurance system geared to the professional rigor and conceptual elegance of "the report" (the product) toward a relentless focus on the engineering of internal and external processes (transactions) through which development impact is expected (with the report viewed as only one link in a long process chain) has barely begun.

Traditional economics and quality management theories treat gingerly if at all the real life problems of limited foresight, costly monitoring, adverse selection, moral hazard, enforcement problems, opportunistic and free riding behavior, etc. To achieve a quantum

improvement in quality while keeping transaction costs under control, such performance uncertainties need to be realistically and frontally tackled.

Similarly, institutional economics encourages a no-holds-barred approach to organizational design in terms of analysis of core competencies, product diversification and benchmarking combined with system-

---

*Institutional economics is founded on the proposition that a fundamental premise of neo-classical economics...is faulty.*

atic comparisons of alternative options regarding subcontracting, franchising and strategic alliance arrangements with other organizations. Here again, theory intersects with the common sense realization that the relationship of the Bank to overall development systems requires adjustment—if not redesign—for the Bank's own development impact to be enhanced.

### Modern Workflow Techniques

Workflow analysis helps to pinpoint where things go wrong as they happen. Involvement of employees and clients in the transparent, real-time examination of business transactions can help redesign organizational boundaries, suggest changes in contractual relationships and enhance communications and trust within and outside the organization. A new way of looking at process design is needed. Quality, i.e. relentless focus on communicating requirements and ensuring that they are met, must be built into the design and continuous redesign of business practices.

For the Bank, this will mean focussing on the key actions needed to generate development impact and building into the lending relationship the specific actions, performance indicators and self evaluation and mid-course correction mechanisms agreed at the outset with the borrower. It will also mean exporting the same quality management philosophy to our partners in development.

The Bank is already equipped with the information technology infrastructure required to carry out internal workflow analysis. What is needed is the empowerment of individual units to experiment with new ways of interacting inside and outside the Bank in order to cut down elapsed times, increase client satisfaction,

(continued on p. 10)



*The Quality Dimension... , cont. from p. 9*

improve the working environment and enhance development impact through structured learning.

All of the prerequisites exist: a clear mission, top management support, a workable structure, a new organizational emphasis on cooperation, a committed and highly professional staff, a reliable evaluation

feedback system, ample information and technology resources. We have even set up a new Organization and Business Practices Department to provide the spark and the support for managing the change.

No external or internal business process should be immune to quality management. We have a long journey ahead. Better start right away.

---



# A New Project Cycle for the World Bank?

ROBERT PICCIOTTO AND RACHEL WEAVING

**THE WORLD BANK,**  
*a new project cycle is  
evolving that is better  
adapted to the  
increasingly risky, volatile,  
and participatory framework  
of development assistance today.*

For development agencies such as the World Bank, the operating environment of 15 years ago—even of 5 years ago—no longer applies. Planned economies are being replaced by market economies. Centralized decisionmaking and resource allocations are being supplanted by a nearly universal focus on policy adjustment and better governance. At the same time, with the realization that structural and institutional weaknesses are holding back adjustment efforts and delaying economic recovery in very poor countries and transition economies, the focus is shifting back to the basic staples of development economics—capacity building, human resources, and

poverty reduction—with a heightened concern for environmental sustainability and private sector development.

As a result, the demands on investment projects have escalated, as have the pressures on development agencies to be more responsive and efficient. This has led the Bank to take measures to improve the management of its portfolio and to lend for projects that are more varied, complex, and wide ranging.

These more ambitious projects promise higher benefits, but carry higher risks. This may help explain why, according to the Bank's Operations Evaluation Department, about a third of the Bank-supported operations completed recently have not reached their major relevant goals, or are not having a satisfactory development impact—compared with 15 percent in the 1970s.

The answer is not to turn the clock back. The new policy priorities hold considerable promise for making development assistance more effective, and they are widely shared within the development community. Instead, experience suggests that the key to better project performance lies in more adept management of risks, streamlined business processes, and more effective capacity building. That means changing the way the Bank has been

doing business and reshaping what is known as the project cycle.

## Need for change

The traditional project cycle, lucidly articulated by Warren Baum in the December 1978 issue of *Finance & Development*, has served the development community extraordinarily well. Grounded in engineering tradition, this paradigm—with its orderly progression from identification to preparation, appraisal, approval, implementation, and evaluation—has instilled a professional approach to public investment. It has been particularly well suited to infrastructure development in stable economies with well-established institutions and predictable government policies.

But times have changed, and the traditional cycle is not easily adapted to the participatory, risky, and volatile framework of a growing share of today's development business. Indeed, the Bank's evaluation experience suggests that when development projects perform poorly, it is usually for one or more of the following reasons:

- Beneficiaries do not participate sufficiently. Participation has often been equated with explaining the project to key stakeholders (individuals and groups who stand to gain or

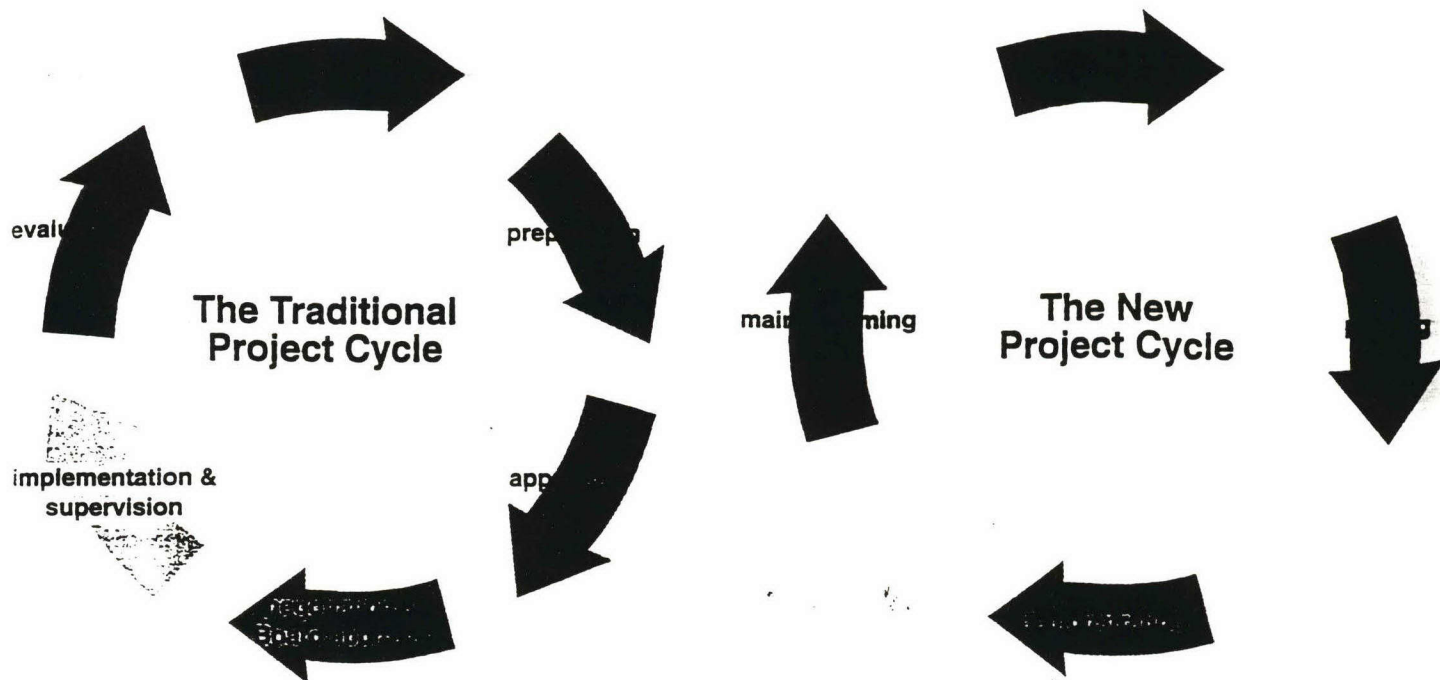
### Robert Picciotto

Italian, is a Director-General, Operations Evaluation, in the Bank. He has directed several projects departments (South Asia; Europe, Middle East and North Africa; and Latin America and the Caribbean), and was Vice President, Corporate Planning and Budgeting.

### Rachel Weaving

British, is a Senior External Affairs Counsellor in the Bank's Office of the Director-General, Operations Evaluation. Previously, she was on the editorial staff of *Finance & Development*.





lose from the project), instead of involving them in decisionmaking.

- Borrowers are not committed to project goals. Their "ownership" has been sought by making them responsible for preparation and implementation, instead of ensuring that the process for the project is local and that the process provides explicit opportunities for consensus building.

- Risks are inadequately assessed and managed.

- Capacity building has been pursued through separate technical assistance components, for example for staff training, instead of being a core objective that permeates the whole project.

- Project designs are not adjusted to changing conditions in a timely way.

The Bank has launched a major effort to boost the development impact of its operations. An action plan now in progress provides for the introduction of more efficient and client-oriented practices; a greater focus, in dialogues with borrower countries, on how projects are managed; and several measures, such as improved risk assessment and more systematic use of lessons from experience, to improve the quality of operations entering the portfolio. In parallel, business processes are being reshaped to eliminate needless paperwork and to ensure less formalistic and more continuous contact with borrowers and beneficiaries. Equally, to encourage the participation of a wider range of stakeholders, the Bank is strengthening the recommendations of a learning group on participatory development. It is also reaching out to nongovernmental

organizations (NGOs), both to solicit their views on its operational policies and to involve them in implementing investment projects.

### A new project cycle

Within this context, staff throughout the Bank are testing new approaches to processing projects. These approaches emphasize adaptability, government commitment, capacity building, and effective monitoring. Though not codified, they amount to the forging of a new project cycle that:

- centers on the borrower and the beneficiary, not on the requirements of the assistance agency;
- incorporates participation and capacity development features;
- provides for explicit, prudent management of risks; and
- reduces elapsed time and resources spent before initiating action on the ground.

The new cycle—essentially a learning cycle—recognizes that development occurs increasingly in complex and uncertain environments that are not amenable to precise long-term planning or centralized management. At its most fully developed, it comprises a four-stage sequence: listening, piloting, demonstrating, and mainstreaming.

#### (1) Listening.

In the traditional project cycle, the first step is "identification"—a term that suggests the visual selection of physical goals. The new project cycle starts with "listening." This term symbolizes the learning dimension of projects, the central role of the borrower, and the participation of potential beneficiaries right from

the start. The thrust of the listening phase is an open-ended but systematic inquiry into the views and concerns of all significant stakeholders. When all participants listen, they learn from one another and use the information to clarify project goals and to gather relevant experience and insights.

The preparation of a health project that the Bank is assisting in the Lao People's Democratic Republic, for example, shows how listening can help shape the goals. In workshops led by Laotians, Bank staff acted as resource persons, using computer models to show the financial and manpower implications of various options as they were discussed. As a result of this instant feedback, participants shifted the emphasis of project goals from curative to preventive care. Similarly, in Côte d'Ivoire, Bank staff took part in local working groups that brought together government and nongovernment representatives interested in urban development. The strategy that has emerged is less comprehensive than a conventional Bank strategy, but it targets areas in which external support for institutional and regulatory reform is judged likely to be especially effective in removing barriers to improving living standards.

Listening brings the demand side of the equation into the picture, by eliciting the preferences and values of people who are to be affected by projects and policies. It ensures that supply-driven initiatives do not survive unless they elicit a broadly based response from potential beneficiaries as well as a credible commitment from the borrower agencies.

In Espirito Santo, Brazil, a Bank-financed



project to improve environmental and urban health conditions shows the value of wide-ranging talks among state water and environmental agencies, community representatives, and Bank staff. Household surveys taken during the discussion phase found that poor households without water and sanitation, and those with unreliable service, were prepared to pay substantially more for services than they are now paying. As a result, project designers expanded the goals from coastal environmental clean-up to improvements in water supply and sanitation, with a strong focus on poor urban neighborhoods (see "Listening to the Poor" in this issue).

### **(2) Piloting.**

The second phase—"piloting"—is geared to exploring alternatives identified at the learning phase and objectively assessing risks. Pilot projects are deliberately small. They can be funded without elaborate internal review processes, thus reducing the time needed to start project activities. In Mozambique, for example, an International Development Association credit for natural gas engineering is financing a pilot project to prove gas reserves, test the feasibility of an eventual large-scale pipeline to South Africa, and help put together financial and marketing arrangements for a gas development project. The pilot follows an extensive period of "listening" and joint preparatory work by the government, private sector interests, oil and gas companies, potential users, potential financiers and investors, and the Bank.

Pilot projects test local leadership and provide information about the development tasks expected to be replicated at a later stage. They allow different agencies, contrasting project management styles, competing technologies, or alternative sequencing of investments to be tried without incurring major transaction costs or risks. Training of leaders and the design of participatory techniques are integral parts of piloting—along with exploring the social, physical, cultural, ecological, and institutional aspects of the project.

### **(3) Demonstration.**

Based on the results of the pilot, the "demonstration" phase provides the opportunity to fine-tune and adapt project concepts—for example, to confirm hypotheses identified at the pilot phase through trials on a representative scale, and to confirm that risks are manageable and that the project potentially has a satisfactory development impact. This third phase also enables planners to set up management information systems and to work out cost sharing or cost recovery arrangements. The emergence of visible bene-

fits at this stage helps to reinforce ownership and thus the potential for replicating the project on a larger scale.

The demonstration phase ends when consensus is strong, enough skilled participants are available, and enough experience has been accumulated to carry the project into its final phase. In India, for example, in 1990 the Ministry of Environment and Forests officially endorsed the involvement of village communities and NGOs in the regeneration, management, and protection of degraded forests. Twenty years earlier in southwest Bengal, an experimental project of the State Forest Department had organized villagers into forest protection committees on 1,200 hectares of forest. The project was nurtured until coverage had spread to 152,000 hectares and 1,250

***"The new cycle—essentially a learning cycle—recognizes that development occurs increasingly in complex and uncertain environments ...."***

villages. The Bank then supported the demonstration phase in which coverage was extended to nearly 35 percent of state forest land in southwest Bengal.

### **(4) Mainstreaming.**

The ultimate aim of development assistance is institutional learning and the achievement of a lasting impact on the country's policies, practices, technologies, and skills. Hence, the new cycle comes to fruition with the large-scale adoption—that is, "mainstreaming"—of methods, techniques, and programs pioneered during the pilot and demonstration phases. India's \$85 million Bank-supported National Leprosy Elimination Project, for example, mainstreams a concept that was tested and proven through smaller-scale projects that were implemented by NGOs and assisted by bilateral donors: it relies on community mobilization and participation to educate the public about leprosy, reduce the stigma associated with the disease, and identify cases for treatment.

Transforming a demonstration program into a self-sustaining national program is perilous unless sound foundations have been laid. Thus, mainstreaming needs to be carefully calibrated, phased, and where appropriate, backed up by conditionality. The leadership skills and organizational instruments needed may differ from those that succeeded in the earlier phases. To minimize political interfer-

ence, special measures may be needed to strengthen accountability and transparency within the agencies concerned.

To have a lasting impact, this final phase needs to nurture the continued commitment of major stakeholders not just to the specific methods, techniques, and programs being implemented but also to the *processes* that will ensure continuous adaptation to changing circumstances as implementation proceeds. For nationwide implementation decentralized methods will often be appropriate, including reliance on markets and voluntary organizations.

### **Looking ahead**

The new project cycle encourages early collaboration and resulting commitment to the goals agreed on. Its explicit focus on experimentation, organizational learning, and risk assessment encourages more realistic project design and phasing. Most important, it makes the benefits from development operations more likely to be sustained.

Within the Bank, staff are applying elements of the new cycle pragmatically. The range of alternatives is wide. In integrated sector operations in some African countries, the new cycle even repeats itself: at any given time, parts of the operation may be, say, building roads and training contractors while other parts are collecting feedback from local contractors and community groups, piloting different types of training, and mainstreaming proven construction approaches.

The new cycle is consistent with the Bank's objective of strengthening its partnership with other development entities. The pilot phase calls for detailed knowledge of local conditions and a permanent presence "on the ground." Often it will be appropriate for the Bank to build on the work of other organizations and to build strategic alliances with other development agencies; for example, with NGOs and bilateral agencies for the pilot stage, and with the regional banks for the demonstration stage.

Experience thus far is encouraging. If the use of these approaches can be expanded and intensified, in consultation with stakeholders in client countries and the broader development community, there should then be less need for "rehabilitation," "restructurings," "cancellations," and other costly and stressful symptoms of excessively rigid and non-participatory processes. ■



## RETHINKING THE WORLD BANK'S BUSINESS

The World Bank is undergoing fundamental change. The key factor underlying this change is the recent increase in the ambition of its operational agenda within an increasingly volatile and differentiated economic environment.

There is widespread agreement among shareholders, borrowers and development partners about the Bank's institutional priorities -- sound economic management, environmentally sustainable development and increased reliance on the private and voluntary sectors. The focus now is on implementing this agenda.

Where does the Bank stand? A great deal has been achieved in assessing organizational options in the context of the 50th anniversary. The development record has been examined. A vision of the Bank's future role has been sketched. The organization has been reshaped to enhance decentralization. A downsizing program is underway to conserve administrative resources. Several units are engaged in business process innovations. The external affairs function has been revitalized.

These are far reaching initiatives. Yet, and somewhat paradoxically, there remains unease and uncertainty about "where the Bank is going".

### Rethinking the Fundamentals

The missing ingredient has to do with the relevance and efficacy of the Bank's product mix in relation to its mandate. There is no going back to the simpler days and happier times when the Bank was expected to concentrate on the financing of straightforward public investment projects.

Cutbacks in public expenditures and a changed role for the State have induced changes in development practice. While there remains a role for the World Bank in traditional project financing, other multilateral agencies have moved in this market and today's more sophisticated development system implies a more ambitious and distinctive role for the World Bank.

Specifically, the Bank's comparative advantage has become that of a global, knowledge based, policy driven institution geared to the following operational objectives:

- (i) improved country economic management adapted to the new, integrated and agile international economy;
- (ii) institutional development in support of poverty reduction, environmental protection and private sector development;
- (iii) fiduciary development activities to deal with priority issues of global and regional concern.

The current product mix and the operational processes in place do not reflect these goals. Accordingly, a basic reexamination of the Bank's processes and products has become essential. Tinkering with Bank processes without reinventing Bank products can only yield modest benefits. Developing new products without addressing procedural constraints can only stress further a hard pressed delivery capacity. Equally, addressing organizational structure without process and product innovation would be little short of useless.



## The Country Focus

The country programming system is the core of the Bank's operational machine. It links the Bank's overall strategy with the country dialogue as well as with the delivery of lending and non-lending services. It sets forth basic country assistance objectives. It governs resource allocation. And it is a key vehicle of management-Board interaction.

This concentration of functions puts an extraordinary burden on a single instrument (the country assistance strategy) and on a single individual -- the Country Director -- who is, besides, equally responsible for the delivery of quality lending and non lending services, management of country relations, coordination with other development agencies, the administration of budgets and personnel, etc. etc.

There is no doubt that the country focus has become indispensable. It has improved the administration of country relations. And it has enhanced the Bank's impact on the economic management practices of its developing member countries. However, the fragmentation of technical skills implicit in the new structure and the limited resources based in the field have hindered quality assurance in terms of professional excellence and development impact.

In order to manage the country focus, the Bank has had to transfer increasing authority to generalists in order to deal with burdensome coordination requirements (inherent in the Bank's policy and country programming cycle) just at a time when the demand for specialized professional skills has grown exponentially due to more demanding development standards and more sophisticated borrowers.

A more diversified skill mix, greater emphasis on skill development and more effective systems for aligning scarce skills with operational priorities is a major challenge facing the institution. Here again, work is underway to enhance personnel management, enrich training and improve cross support arrangements between the Center and the Regions.

## The Project Approach Under Stress

While country strategy dominates internal management, the main vehicle of Bank-borrower relations is still the project. At country level, this means that much of the burden of the development agenda is carried by relatively few lending operations, that the design of projects has become more diffuse and complex and that Bank operations have become harder to process, implement and evaluate.

With the advent of structural adjustment lending, policy reform has been projectized. In order to implement the Bank's special operational emphases, the project concept has been stretched to deal with sector lending. With the increasing demand for capacity building services, technical assistance has been channelled through projects and free standing technical assistance loans on an increasing scale. In sum, projects have come to be used to deal with every conceivable aspect of the economy and the society.

Considerable ingenuity has been devoted to relabelling and repackaging lending operations to meet a wide variety of purposes. But the basic project approach has not been reengineered to deal

with the increasingly diverse requirements of the new operational agenda. Accordingly, implementation risks have risen, the share of unsatisfactory outcomes has grown and transaction costs attached to Bank loans and credits are being perceived as onerous, especially for relatively small operations. In particular, the application at project level of standard procurement, disbursement and auditing requirements at variance with borrowers' own practices remains a major source of operational stress especially for the growing share of projects overwhelmingly dependent on small contracts and domestic resources.

The need for more agile, effective and cost effective approaches to lending is due, in part, to an increasingly volatile and risky global economic environment. It also relates to the reorientation of the role of government. Attempts to substitute for lack of capacity or commitment by conditionality have proven futile.

Thus, the success of lending has become increasingly dependent on the quality of non lending services. While about half of the Bank's budget is devoted to these services, paradoxically, they have received little attention in terms of their standards, impact, methods of delivery, etc.

#### Institutional Consequences

The above trends have translated into growing administrative costs per dollar lent. Concern with unfavorable implementation trends has led to greater focus on managing inputs. At the same time, refocussing attention to development impact and nimble restructuring of operations to meet their basic goals have been neglected.

Externally, the disappointing evaluation outcome trend for lending operations, NGO critique of large, emblematic -- and problematic -- projects and the increasingly burdensome nature of borrowing from the Bank from the perspective of borrowers have led to a declining effective demand for lending services and a shift of demand to ("free") non lending services.

In search of greater relevance and impeccable rigor in an increasingly demanding and "chaotic" environment, the Bank has loaded more and more procedural and conditionality requirements on a single privileged instrument (the lending operation) with minimal changes in design and associated operational practices.

If this diagnosis of the Bank's current predicament is accurate, three remedies should be administered concurrently with the ongoing efforts to reform personnel management, field office policies, cross support arrangements and business process innovation: (i) retooling of lending services; (ii) unbundling of non lending services; (iii) outsourcing through strategic partnerships.

#### Retooling

First, the current lending operation tool must be reexamined and reshaped. For sector investment loans, better adapted (i.e. lighter) procurement and disbursement arrangements ought to be designed so that tranche funding by the Bank against selected shares of the Government overall investment program, i.e. link disbursements to the client instead of the idiosyncracies of individual operations, would be less demanding. This will allow greater focus on policies and institutions.



Second, macro adjustment and sector lending should be systematically complemented (and often preceded) by economic management support activities, including the use of advisory, training, mediating and stakeholder support services which are not normally appropriate vehicles for loans and credits.

Third, use of the traditional technical assistance lending vehicle should be limited and replaced by flexible "on the ground" involvement with local groups and agencies and twinning arrangements. Consultant management services should also be furnished, preferably through well selected development partners (see outsourcing, below).

Fourth, the current approach to funding global or regional initiatives (special grants, trust funds) should be revisited to emphasize transparency and cooperation with other development actors.

#### Unbundling

Unbundling of non lending services is needed in parallel because their current treatment as inputs into lending does not reflect current operational realities. With the increased costs and frictions associated with lending operations, the demand for non lending services has grown. With public investment programs increasingly constrained, a rising share of our borrowers are seeking ideas, capacity building assistance and implementation support -- more than money.

The economic and sector work concept is an anachronism. It describes a service in terms of a single professional discipline at a time when multidisciplinary skills are more than ever needed. It connotes a supply driven activity. It should be replaced by three distinct kinds of services: (i) analytical and data services for global and regional needs; (ii) intellectual support for the Bank's own requirements; (iii) advisory services to developing member countries. The standards and the methods of funding for each of these services should vary.

In particular, the Bank's regional and global activities should be subjected to more transparent funding and governance arrangements. Equally, advisory services should be increasingly subjected to cost sharing and cost recovery.

#### Outsourcing

Once the Bank conceives of its mission as a global purveyor of development services instead of a mere financier of adjustment and public investment, it will need to face the issue of its comparative advantage within the development system.

The current development system is not functional. It involves excessive duplication and its aggregate efficiency is low. The Bank needs to provide leadership in the search for a more effective set of relationships among agencies.

How can this be done? The "new project cycle" concept provides a practical template for cooperation. It implies strategic alliances with agencies able to contribute to the listening phase of development, the piloting of new ideas, the demonstration of new programs and the mainstreaming of policy and institutional reforms.

This means that the country strategy process would, increasingly, have to be based in the field to ensure effective coordination among partners (IFC/MIGA; UN; bilaterals; private companies; NGOs) and to deliver greater development impact. Only then would an enhanced mandate for field offices become cost effective.

#### Organizational Implications

To deliver on the above changes, the current governance structure of the institution will have to be reconsidered to ensure more agile administration, more accountable decision making and more cooperative modes of interaction with the Bank's shareholders and the broader development community.

In particular, the new framework of governance will need to be designed consistently with whatever changes are proposed for the broader system of multilateral development cooperation.

This said, no organizational solution will be effective without a reshaping of the Bank's products and their associated processes. Without retooling, unbundling and outsourcing, the Bank will not change rapidly enough to be fully responsive to the demands of its stakeholders.





# Record Removal Notice

|                                                                                                                                                                                                                                                |                                                               |                                                                                                                                                                                                                                                                                                                 |                                        |                                  |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------|----------------------------------|
| <b>File Title</b><br>President Wolfensohn - Briefing Book for President's Meetings and Events - Corporate Management - June Presidential Archives - Initial Vice Presidential Unit [VPU] Briefing for James D Wolfensohn [JDW] - June 30, 1995 |                                                               | <b>Barcode No.</b><br><br>30484915                                                                                                                                                                                                                                                                              |                                        |                                  |
| <b>Document Date</b><br>May - August, 1995                                                                                                                                                                                                     | <b>Document Type</b><br>Briefing notes, presentation, reports |                                                                                                                                                                                                                                                                                                                 |                                        |                                  |
| <b>Correspondents / Participants</b><br>EXC, IFC                                                                                                                                                                                               |                                                               |                                                                                                                                                                                                                                                                                                                 |                                        |                                  |
| <b>Subject / Title</b><br>IFC Organization, Products, Portfolio, Privatization and IFC Experience, Portfolio Supervision Report                                                                                                                |                                                               |                                                                                                                                                                                                                                                                                                                 |                                        |                                  |
| <b>Exception(s)</b><br>Information Provided by Member Countries or Third Parties in Confidence                                                                                                                                                 |                                                               |                                                                                                                                                                                                                                                                                                                 |                                        |                                  |
| <b>Additional Comments</b>                                                                                                                                                                                                                     |                                                               | <p>The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.</p> <table border="1"><tr><td><b>Withdrawn by</b><br/>K. Brenner-Delp</td><td><b>Date</b><br/>February 11, 2025</td></tr></table> | <b>Withdrawn by</b><br>K. Brenner-Delp | <b>Date</b><br>February 11, 2025 |
| <b>Withdrawn by</b><br>K. Brenner-Delp                                                                                                                                                                                                         | <b>Date</b><br>February 11, 2025                              |                                                                                                                                                                                                                                                                                                                 |                                        |                                  |



# Record Removal Notice

|                                                                                                                                                                                                                                                |                                     |                                                                                                                                                                                                                                                                                                                 |                                        |                                  |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------|----------------------------------|
| <b>File Title</b><br>President Wolfensohn - Briefing Book for President's Meetings and Events - Corporate Management - June Presidential Archives - Initial Vice Presidential Unit [VPU] Briefing for James D Wolfensohn [JDW] - June 30, 1995 |                                     | <b>Barcode No.</b><br><br>30484915                                                                                                                                                                                                                                                                              |                                        |                                  |
| <b>Document Date</b><br>June 21, 1994                                                                                                                                                                                                          | <b>Document Type</b><br>Board Paper |                                                                                                                                                                                                                                                                                                                 |                                        |                                  |
| <b>Correspondents / Participants</b><br>From: The Secretary                                                                                                                                                                                    |                                     |                                                                                                                                                                                                                                                                                                                 |                                        |                                  |
| <b>Subject / Title</b><br>IFC/R94-164 - IFC's Contribution to Development 1994                                                                                                                                                                 |                                     |                                                                                                                                                                                                                                                                                                                 |                                        |                                  |
| <b>Exception(s)</b><br>Information Provided by Member Countries or Third Parties in Confidence                                                                                                                                                 |                                     |                                                                                                                                                                                                                                                                                                                 |                                        |                                  |
| <b>Additional Comments</b>                                                                                                                                                                                                                     |                                     | <p>The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.</p> <table border="1"><tr><td><b>Withdrawn by</b><br/>K. Brenner-Delp</td><td><b>Date</b><br/>February 11, 2025</td></tr></table> | <b>Withdrawn by</b><br>K. Brenner-Delp | <b>Date</b><br>February 11, 2025 |
| <b>Withdrawn by</b><br>K. Brenner-Delp                                                                                                                                                                                                         | <b>Date</b><br>February 11, 2025    |                                                                                                                                                                                                                                                                                                                 |                                        |                                  |