
April 1995

MULTILATERAL DEVELOPMENT

World Bank Reforms on Schedule but Difficult Work Remains



**National Security and
International Affairs Division**

B-260151

April 5, 1995

The Honorable John Kasich
Chairman, Committee on the Budget
House of Representatives

Dear Mr. Chairman:

In June 1994, we reported on the World Bank's efforts to carry out a plan of action intended to remedy the growing number of unsatisfactory projects the Bank finances and reorient it to the core mission of reducing poverty through sustainable development.¹ You recently requested an update of the Bank's efforts to implement the 87 tasks in its action plan. We determined Bank progress on all tasks but focused on 12 key tasks related to (1) country assistance strategies and portfolio reviews, (2) the independent inspection panel, and (3) project completion reviews. At your request, we also reviewed the Bank's implementation of its openness policy. On March 20, 1995, we briefed your committee staff on these issues. This report contains the information conveyed at the briefing.

Background

The World Bank occupies an important position in donors' development assistance strategies through two types of loans. The International Bank for Reconstruction and Development (IBRD) provides project financing at commercial interest rates for middle-income developing countries. The International Development Association (IDA) provides credits on concessional terms to low-income countries. In fiscal year 1994, the Bank's Board of Executive Directors approved 137 IBRD loans totaling about \$14.2 billion and IDA credits totaling \$6.6 billion. For fiscal year 1996, the administration has requested about \$28 million in paid-in capital for IBRD and about \$1.37 billion for IDA.

The Bank's action plan for reform is the result of the 1992 report of the Bank's Task Force on Portfolio Management.² The Task Force found a growing number of unsuccessful Bank projects and attributed this to poor project design, management, and implementation; an institutional culture focused on loan approval and disbursements; country factors, such as poor economic policies and weak institutional capacities; and external factors beyond the Bank's control. The action plan, approved in June 1993,

¹Multilateral Development: Status of World Bank Reforms (GAO/NSIAD-94-190BR, June 6, 1994).

²Effective Implementation: Key to Development Impact, Report of the Portfolio Management Task Force, World Bank: Sept. 22, 1992.

is a set of management and operational reforms intended to reorient the Bank toward improved portfolio management and project quality.

Results in Brief

The World Bank is generally on schedule in carrying out its action plan for reform; 70 of the plan's 87 tasks had been completed at the time of our review and the remaining were in process. However, it is still too early to assess the action plan's impact on improving project quality. Some tasks are procedural in nature and their value will be determined as they are incorporated into Bank operations. For example, tasks such as identifying best practices, producing reports, and developing guidelines are first steps toward the more difficult work of changing Bank focus from loan approval to project management and sustainable development.

Country assistance strategies are becoming an important tool for portfolio management. The Bank prepared 62 country assistance strategies in fiscal year 1994. We reviewed 10 strategies written between May 1993 and May 1994 (including those for Argentina and Nicaragua where we conducted fieldwork). The strategies we reviewed generally included most of the key information, but some gaps were identified. The strategies examined the country's economic performance and development agenda, external factors affecting financing, and the Bank's strategy for achieving development objectives. The strategies also summarized portfolio performance, based mainly on the country portfolio performance reviews. However, two strategy papers had no information on creditworthiness or country risk, and none of the strategies contained data on nondevelopment expenditures, as required by Bank guidance.

According to Bank officials, country portfolio performance reviews are used to assess the overall performance of a country's portfolio and resolve issues based on project-specific deficiencies. According to a Bank report, the Bank conducted 38 country portfolio performance reviews during fiscal year 1994. Country assistance strategies are to take into account the results of these portfolio reviews, and the reviews are also to be used in considering new loans. The Bank did not provide us with portfolio performance reviews because it considers this proprietary information. We therefore could not confirm the extent of any links among the strategies, the portfolio reviews, and new lending. According to officials in Argentina, it will take several years before these linkages are fully established and their impacts can be seen in Bank project lending patterns.

The Inspection Panel was established in 1993 as an independent forum to investigate allegations that the Bank has not complied with its own policies and procedures on particular projects. Currently working on its first case, the Panel is investigating allegations that the Bank violated several of its policies or procedures on a hydroelectric project. The Panel recently determined that three of the allegations required further investigation, that the Bank complied with relevant policies and procedures on one, and that the remaining allegation was not valid. Although the Panel disclosed its deliberations, the claimants expressed some dissatisfaction with the results. Nongovernmental organization officials welcome the Panel's establishment, but have expressed concern about some operating procedures, such as when information should be made available directly to the public. World Bank officials pointed out that claimants have the option of releasing information on the case directly to the public, but the Bank would not do so while the case is ongoing.

The Bank has taken steps to encourage openness in its operations. Upon request, the Bank's Public Information Center provides documents that give summary information on proposed projects and various economic, sector, environmental, and technical reports. Under the new Bank disclosure policy, the Bank must provide sufficient reason for not disclosing other requested information. Also, the Bank acknowledges that steps are needed to improve overseas access to public information and to overcome language barriers.

During the course of our review, officials from nongovernmental organizations, reports by the World Bank, and other reports identified concerns about the Bank's reform effort. We did not conduct a full review of these concerns; however, based on our collective work on Bank issues to date, we believe two concerns warrant further study. These include the extent to which the action plan addresses (1) poverty reduction and sustainable development and (2) participation in planning and executing Bank projects by borrowers and affected populations.

Scope and Methodology

We interviewed and collected data from World Bank officials in headquarters offices, including the Office of the U.S. Executive Director, the Operations Policy Department, and the Operations Evaluation Department. We verified that the Bank had implemented 26 tasks in the action plan by reviewing supporting documentation. We further focused on 12 key tasks related to country assistance strategies and portfolio reviews, the independent inspection panel, and project completion

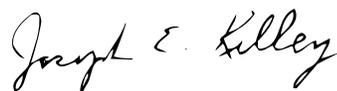
reviews. Such tasks included (1) identifying and disseminating best practices for country portfolio performance reviews and country assistance strategies, (2) reflecting country portfolio performance in country assistance strategies, (3) implementing new guidelines for project completion reporting, and (4) establishing an independent inspection panel. We also reviewed the Bank's implementation of its openness policy. We discussed Bank reform efforts with officials of the Treasury and State Departments and the U.S. Agency for International Development and with officials of several nongovernmental organizations that closely follow Bank operations. We visited the Bank's Public Information Center and obtained access to its publications through the Internet. To determine how Bank reforms may have affected field operations, we visited Argentina, a middle-income country with a large hard loan portfolio, and Nicaragua, a low-income country with a large concessional loan program.

Our review was conducted between December 1994 and March 1995 according to generally accepted government auditing standards. We discussed our findings with Treasury and Bank officials and incorporated their comments as appropriate.

We are sending copies of this report to the Secretaries of Treasury and State and the Administrator of the Agency for International Development. Copies will also be made available to others upon request.

If you or your staff have any questions about this report, please call Tetsuo Miyabara, Assistant Director, International Affairs Issues, on (202) 512-8974. Other major contributors to this report include Audrey Solis and Sherlie Svestka of the International Affairs Issues group and Anindya Bhattacharya of the New York Regional Office.

Sincerely yours,



Joseph E. Kelley
Director-in-Charge
International Affairs Issues

Status of World Bank Reforms

GAO Purpose of Our Review

Provide information on World Bank's

- overall progress on action plan,
 - country strategies and reviews,
 - project completion reporting,
 - activities of inspection panel, and
 - implementation of openness policy.
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GAO Summary Results

- Plan is generally on schedule, but difficult work remains.
 - Country strategies contain key data but also have some gaps.
 - Completion report is improved.
 - Inspection panel is handling first case as required, but concerns are raised.
 - Bank takes openness steps.
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GAO World Bank Action Plan Is on
Schedule

- Most tasks will be implemented by summer 1995: 70 are complete, 17 are in progress.
 - It is too early to determine full impact.
 - Bank and Board of Directors are monitoring results.
-

The Bank's action plan responds to the 1992 report of the Task Force on Portfolio Management that attributed a growth in the number of unsuccessful Bank projects to poor design and implementation, borrower policies, and some factors beyond the Bank's control and made recommendations to strengthen loan portfolio management. Of the 87 tasks in the action plan, 70 have been completed and 17 are in varying stages of implementation. One task has taken longer than expected—establishing performance indicators and benchmarks, such as student enrollment or contraception prevalence rates. The Bank is developing indicators for 15 sectors. According to a Bank official, indicators for 13 sectors are in final draft and should be released by August 1995. The remaining two are to be issued by November 1995.

As we reported in June 1994, it will be several years before the full impact of the action plan can be determined. The plan is still in implementation, and efforts to create an internal environment that supports portfolio management will take years to become evident in Bank processes.

The Bank and its Board of Executive Directors are monitoring the reform efforts primarily through its Annual Review of Portfolio Performance and reports of the Operations Evaluation Department and the Joint Audit Committee. Bank officials told us that the report of the Annual Review of Portfolio Performance for 1994, scheduled for release in April 1995, contains data that will show project performance improvements, such as loan cancellations and project restructurings.

GAO CASs Contain Key Information,
But Some Have Gaps

Reviewed 10 country
assistance strategies (CAS)

- All identified critical needs, economic performance, and development strategies.
 - Some lacked required data on creditworthiness, nondevelopment spending trends, and assessment criteria.
-

We reviewed 10 CASS reflecting different regions, types of loans, and portfolio sizes.¹ Each CAS is required to have the following information: economic and social performance, external factors, the country's development agenda, and the Bank's assistance strategy. The assistance strategy section is to include information on macroeconomic prospects, portfolio implementation and performance, relevant findings of economic and sector work, relevant governance issues, and cooperation with other donor institutions. A final section summarizes issues for Board discussion, including risk evaluation and criteria for assessing progress in key areas.

The strategies we reviewed generally included the information required and set forth strategies linked to current conditions, performance, and development priorities. Most provided ample detail. For example, the CAS for Tanzania outlined the steps needed to improve project implementation. It also included discussions on how lending would be adjusted in the absence of needed economic reforms and measurement criteria for both economic adjustment and investment lending. However, some CASS were missing important information. For example, CASS for countries with International Bank for Reconstruction and Development (IBRD) loans are to summarize current and prospective creditworthiness, Bank exposure, and possible implications for new lending. The China CAS included no discussion of creditworthiness, despite the fact that China has more than \$2.1 billion in IBRD loans for fiscal year 1994. The China CAS neither evaluated risks nor set forth criteria for assessing progress.

To encourage borrower investment in social sectors, CASS are to consider trends in nondevelopment spending by the borrower—for International Development Association (IDA) countries, this includes military expenditures. The CASS we reviewed did not describe nondevelopment spending, although the Nicaragua CAS provided information on personnel reductions in the armed forces.

Officials at Treasury and the U.S. Executive Director's Office agreed with our overall assessment of the varying quality. However, they point out that this process was only started in 1992 and that they have noted continuing improvements in the information and analysis provided.

¹Argentina, Brazil, China, Egypt, Ghana, Indonesia, Kenya, Mexico, Nicaragua, and Tanzania.

GAO Portfolio Review and Lending
Strategy Links Not Confirmed

Action plan requires portfolio performance reviews to be reflected in country lending strategies.

- Bank did not provide us needed data on other country portfolio reviews.

To strengthen the Bank's transition to a country-based lending strategy from a project-by-project approach, the Task Force recommended that the results of the country portfolio performance review be incorporated into each country's lending strategy. The Task Force had found that the design, composition, and size of future lending programs did not sufficiently reflect the lessons of implementation experience. The Bank's action plan includes tasks for conducting country portfolio performance reviews and incorporating the results into the CAS document.

During fiscal year 1994, the Bank conducted 38 country portfolio performance reviews and prepared 62 CASS for Board discussion. We could not confirm whether the portfolio review results were fully reflected in the CASS because the Bank declined to provide us with the portfolio performance documents. The Bank maintains that this is proprietary borrower information. According to World Bank officials in Argentina, the impact of these reviews on project lending strategies will take several years to become apparent.

GAO Steps Taken to Improve
Project Completion Reports

Revised Implementation
Reports provide

- information on future of
project operations and
 - data and analysis to support
project performance
assessments.
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The action plan includes two tasks related to revising the format of the report prepared at the conclusion of the Bank's involvement with a project—the Implementation Completion Report (ICR). These reports are analyzed by staff of the Operations Evaluation Department (OED). Bank officials believe that the revised format will enhance the evaluations that OED staff conduct on completed projects using the ICRs. The Director of OED explained that the three new features of the reports—descriptions of the future of project operations, assessments by the regional staff responsible for the project, and the provision of data and analysis to support these assessments—will give the OED staff a better indication of how the project has achieved its objectives, its sustainability, the performance of both the Bank and the borrower, and an assessment of anticipated outcomes.

We reviewed the seven ICRs completed between July 1994 (when they became mandatory) and January 1995 and found them to be in compliance with the requirements of the new format. We found in each of these reports that the required information was provided or explanations were given for why it could not be provided.

GAO Panel Handles Case Properly,
But Concerns Are Raised

- Inspection Panel and Bank complied with relevant procedures in first investigation.
 - Claimant is concerned that Panel did not find Bank noncompliance with two of the five initial allegations.
 - NGOs welcome panel but some have procedural concerns.
-

The Inspection Panel is an independent forum established by the World Bank's Board of Executive Directors in September 1993 to investigate complaints from groups directly affected by Bank-financed projects. The Panel's mandate is to investigate claims that the Bank has failed to abide by its operational policies and procedures in project design and implementation. The Panel consists of a full-time chairman and two part-time members appointed in April 1994. Members are nominated by the Bank's president and appointed by the Board of Executive Directors to whom they directly report. The Panel's operating procedures were adopted in August 1994 and are to be reviewed within the next year and modified as appropriate.

In October 1994, the Panel received its first formal complaint. It concerned the Arun III Hydroelectric Project in Nepal and alleged Bank noncompliance with its operational policies and procedures on (1) economic evaluation of investment operations, (2) disclosure of information policy, (3) environmental assessment, (4) involuntary resettlement, and (5) indigenous peoples. On November 22, 1994, Bank management responded to the Panel that it had complied with all requirements. After its initial investigation, the Panel recommended, and the Board subsequently authorized, a full investigation of possible violations of Bank policies relating to (1) environmental assessment, (2) involuntary resettlement, and (3) indigenous peoples.

The Panel determined that the Bank had followed its procedures with respect to economic analysis and recommended no further investigation. Regarding disclosure policies, the Panel determined the Bank could not be judged by the most recent disclosure policy that was approved in August 1993, while the initial project preparation began almost 8 years ago. Correspondence to the Panel from the claimants in Nepal demanded that compliance with economic analysis and disclosure policies be included in the full investigation, but the Panel has not reversed its decision that these two areas do not warrant further investigation.

Nongovernmental organizations generally welcome the establishment of the Panel. However, some nongovernmental officials have expressed concern about several operating procedures, such as when information should be made available directly to the public. Bank officials pointed out that the claimants have the option of releasing information on the case to the general public, but the Bank would not do so while a case is under investigation.

GAO Bank Takes Steps Toward
Openness, But Concerns Remain

- Public Information Center provides various documents on request.
 - Center received 17,000 requests in 1994.
 - Internet provides free access.
 - Staff appraisal reports not available until after project approval; overseas access needs improvement.
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The Bank's main venue for disseminating information is the Public Information Center in Washington, D.C., and its field offices in London, Paris, and Tokyo. Free documents include (1) Project Information Documents (PIDs)—the most requested document—which are brief 2-page summaries on projects being identified for Board approval, (2) environmental reviews, and (3) "precis"—a series of findings and recommendations from evaluation studies and audits. Documents such as project staff appraisal reports and various economic, sector, technical, and environmental reports are available at a cost of \$15 each. Documents can also be obtained or ordered from the Center through the Internet.

In 1994, the Center received almost 17,000 information requests—42 percent from businesses, 20 percent from public agencies, 9 percent from Bank staff, 4 percent from academia, and 2 percent from nongovernmental organizations. The remaining 23 percent are not broken down by clientele. Resident missions and country departments may also provide information not included in the Center's statistics.

The Bank has taken steps to provide more information to the public and nongovernmental officials have said that the Bank is more open than in the past; however, some concerns remain. While many technical reports are available, the most complete technical project document—the staff appraisal report—is available only after project approval. Nongovernmental officials remain concerned that important technical information may not be available for timely input by affected populations.

A recent Bank report noted that start-up had been slow due to some unfamiliarity on the part of Bank staff on what was to be made available to the public but is improving. Concerns remain regarding access to information in locations where Bank projects are implemented. A related concern is the language barrier—Bank documents are available mostly in English, which may not serve local populations, especially those in remote areas. The Bank plans to address these concerns by training Bank staff on the openness policy, translating some documents into French and Spanish, and studying ways to increase the role of resident missions and local governments to ensure that key information is available in project areas.

GAO Bank Has Initiated Other
Improvements

- Offices' budget responsibility is based on dollars rather than staff years.
 - Efforts are underway to better inform project offices of lessons learned from recent evaluations.
 - OED is piloting reviews of projects in early design phase.
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During our review, we learned that the Bank has undertaken some reforms that, although not addressed in the action plan, have the potential for improving Bank operations and project quality. They include changes in the budget processes, efforts to better disseminate OED evaluation results, and OED efforts to improve project proposals.

According to Treasury officials, one of the more important reforms that the Bank has undergone in recent years is the change in the budgeting process. Previously all costs were simply presented in terms of staff time without unit level managers, such as those responsible for regional programs, having to be concerned about actual costs. Unit managers now must manage dollar accounts from which they pay for salaries, travel, benefits, consultants, and overhead. This new procedure makes managers more accountable for decisions on how they have chosen to spend the funds allocated to their unit.

In February 1994, recognizing that lessons learned from previous evaluation reports are not always reflected in the design of new projects, the Bank established a task force to review processes and identify practices worth replicating to disseminate OED evaluation results. The task force is expected to have a final report by the end of fiscal year 1995.

In November 1993, OED established a pilot review process to comment informally on selected projects early in the design phase. OED reviews the initial executive project summary (IEPS), which is the earliest formal document outlining the goals of a new lending operation and pertinent issues, risks, and evaluation experience. OED received 129 IEPSS in fiscal year 1994 and sent comments on 64 back to the regional staff. In 27 percent of those commented on, the project goals were found to be poorly defined. In 48 percent, risk assessments appeared to be unrealistic and in 67 percent, provisions for monitoring and evaluation were nonexistent or judged unsatisfactory. OED has reported that regional staff has been interested in their comments, and OED plans to continue this pilot activity through fiscal year 1995. The Bank reports that these OED reviews of IEPSS will enable that department to determine whether changes in project quality at entry are occurring.

GAO Concerns About the Bank's
Reform Efforts

Reforms may not fully address

- poverty reduction and sustainable development and
- participation by those affected.

Nongovernmental organization officials, World Bank reports, and other reports identified some concerns about World Bank reform efforts. We did not conduct a full examination of these concerns; however, based on our collective work on Bank issues to date, we believe two concerns may warrant further study. First, there is a question of the extent to which the action plan's management and operational improvements address poverty reduction and sustainable development. According to nongovernmental officials, Bank emphasis on management improvements alone will not be sufficient to address poverty and promote sustainable development. World Bank officials point out that the action plan is complemented by other policies and initiatives for achieving these goals.

The second area is a long-standing concern of nongovernmental organizations that people affected by Bank projects should be able to participate in some of the project planning and decision-making. They point out, and the Bank agrees, that projects would be more effective if project beneficiaries participated in planning and therefore had a direct stake in project success. In response to this criticism, Bank officials said they have made efforts to incorporate broader participation in planning and implementing projects, as part of their objective to become a more open and transparent organization. For example, Bank officials point out that about half the projects approved in fiscal year 1994 involved nongovernmental participation. We reviewed 8 project proposals submitted since the action plan was established, but only two mentioned participation by affected populations as a part of the process for developing the proposals.

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