

**WORLD
BANK
INFORMATION
BRIEFS**



The World Bank Project Cycle

A six-step process governs the World Bank's approach to investment lending. Formally known as the "project cycle," it is the Bank's way of making sure that all projects receiving financial backing meet the same set of rigorous standards. Bank staff work closely with developing country borrowers throughout the project cycle. The Bank maintains an independent evaluation department to assess the effectiveness of the projects it supports.

The six stages in the World Bank's project cycle are: Identification; Preparation; Appraisal; Negotiation and Board Presentation; Implementation and Supervision; Evaluation. Some project ideas never make it past the early phase of identification. Others are reworked during the preparation and appraisal phases, and end up looking quite different from their original design. The Bank approves over 200 projects in the course of a year.

Identification

The task of identifying and proposing projects for World Bank financing lies mainly with borrowing governments. On some occasions, a project may be identified as a result of general economic or more specific sector work carried out by Bank staff. For instance, from an analysis of a country's transportation or agricultural policies might come the idea to build new feeder roads to help farmers reach more markets. A joint United Nations Development Programme-World Bank effort called the Energy Sector Management Assistance Program (ESMAP) identifies priority energy projects.

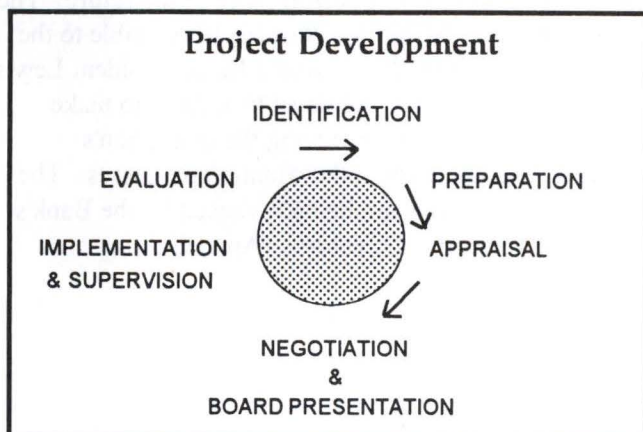
In this first phase planners answer questions such as: Who will benefit from the project? Will project benefits be greater than the costs? Are there other options for achieving the same objective? A project must also pass a priorities test: a good industrial project may not go forward because an agricultural project is more urgent. Once a project passes these hurdles, it is incorporated into the Bank's multi-year lending program for a country, to ensure that resources will be available over time to complete all identified projects.

Preparation

Though the Bank will often help, the borrowing country is responsible for examining the technical, economic, social, and environmental aspects of the project. It defines the available options, the feasibility of each, and their costs and benefits. The advantages of a loan to improve a manufacturing industry, for example, must be weighed against any environmental degradation that could occur from increased smoke-stack pollution. In an agricultural project, the borrower must decide whether oxen or tractors should be used for crop cultivation, while for an urban project the borrower might have to choose between upgrading slum dwellings or building new homes. Such decisions rely on feasibility studies. A project timetable is established during preparation.

Appraisal

Even with all this preparation, the Bank is not yet ready to say "yes" or "no" to financing a project. The Bank must first make its own independent assessment of the project--the appraisal. About 150 on-site appraisal missions, lasting three to four weeks, take place each year. A team of Bank staff and consultants



review the studies made by the borrower and undertake their own analysis of four major areas: technical, institutional, economic, and financial.

Technical questions: Is the dam soundly designed and engineered? Does it meet acceptable standards? Will it displace local people? Will it affect the environment in any adverse way?

Institutional questions: Does the borrower have the organization, the management, the staff, the policies to build a railroad and maintain it? If not, what changes are required to put these into place?

Economic questions: Will the benefits of a water supply system outweigh the costs? What will its impact be on family incomes? Will it provide job opportunities for local people? What is the estimated rate of return on the investment?

Financial questions: Is the borrower's financial plan sound? Is the electrical distribution system financially viable? Is the proposed accounting system adequate?

Negotiation and Board Presentation

The Bank appraisal report summarizing its recommendations for a loan's conditions forms the basis for negotiations with the borrower. The negotiations bring World Bank staff and the borrower together to agree on the measures necessary for a successful project. Through a give-and-take process, the Bank and the borrower review all the issues that have arisen during preparation and appraisal.

One example of negotiation is the case of an electric utility receiving a loan to increase the number of transmission lines. The Bank and the borrower agree that to earn an adequate rate of return on the project and finance a reasonable proportion of its investments, electricity prices to the consumer must be set at a market rate. The details of this understanding and any other obligations of the borrower are set out in loan documents, which are signed by both the Bank and the borrower.

After negotiations, the appraisal report (including any changes made during the negotiation phase), the report of the Bank's president, and the loan documents are presented to the board of executive directors, representing the Bank's member countries, for approval.

Implementation and Supervision

This is the stage when the road or school is built, machinery and equipment are purchased and installed, and people are trained. Since the World Bank is required by its member countries to "ensure that the proceeds of any loan are used only for the purposes for which the loan was granted," about ten staff-weeks a year are spent supervising each project. Bank staff visit the project site to identify problems and help find solutions. Supervision is also an important way for the Bank to provide technical assistance to its borrowers--one of the Bank's primary development roles.

Unlike a commercial bank that approves a loan and hands over the money to the borrower, the World Bank normally does not disburse its funds without evidence that the borrower has spent the money to achieve agreed purposes--bought the trucks needed to build roads or the pumps for the irrigation system. Strict procurement rules ensure that appropriate materials and services are used. These rules usually require the borrower to purchase goods and services through international competitive bidding (ICB), open to firms in all the World Bank's member countries and Taiwan. The ICB process, which involves public advertising, ensures that contracts are awarded in a fair and efficient manner.

Evaluation

An independent department within the World Bank, the Operations Evaluation Department (OED) is responsible for assessing the results of projects. To ensure its impartiality, OED reports directly to the board of executive directors and to the Bank's president. The evaluation compares project costs, benefits, timetable, and efficiency with what had been expected at the time of appraisal. It also suggests how to improve project performance in the future. The annual review, *Evaluation Results*, is available to the public. In February 1992, World Bank President Lewis Preston established a high-level task force to make recommendations for improving the institution's portfolio management and evaluation processes. The task force's findings are being reviewed by the Bank's Board of Executive Directors. (Apr. 1993)