

**THE BANK'S MEDIUM-TERM STRATEGIC FRAMEWORK  
(1995-1998)**

**The President's Office  
March 1995**

## PREFACE

The Bank's Medium- Term Strategic Framework, 1995-1998 sets out an expanded role and operational agenda for the Bank over the medium-term. It emphasizes the Bank's responsibility to offer borrowing member countries an integrated package of development services, which links project financing with policy review, capacity building and regional cooperation support. This realignment of role is considered appropriate in the context of the changing roles of government and the private sector in developing member countries.

Increasingly, borrower governments perceive themselves less as major providers of development finance and are progressively at ease with the role of catalysts, promoters, and regulators of development. Correspondingly, the private sector is being encouraged to play an expanding role in development. Governments, however, continue to retain the responsibility of creating the conditions necessary for private sector initiatives. Such conditions include a conducive policy framework, essential physical and social infrastructure, and the ability of government agencies to work in cooperation with the private sector.

The Bank's realigned role will be to support Governments in their mandate of establishing the conditions necessary to support private sector led development. This will include the continued financing of development projects particularly in the physical and social infra- structure sectors; there will, however, be a growing emphasis on strengthening the policy and capacity framework of key sectors, and linking project investments to progress in these.

In the area of regional cooperation, the Bank will work to accelerate economic interaction among the economies of the region. This interaction will potentially cover facilitation of trade and investment, coordination of macroeconomic policies, mutual recognition of technical standards, complementary environmental policies and strategies, and cooperation in the management of common natural resources.

The Bank's Medium- Term Strategic Framework, 1995-1998 is the primary guiding document for the Bank's operations over the medium term. It has been developed in consultation with a wide cross-section of staff as well as the Board of Directors. The commitment of all concerned will ensure its effective implementation.

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## ABBREVIATIONS

ADTA	Advisory Technical Assistance
CAP	Country Assistance Plan
COSS	Country Operational Strategy Study
DMC	Developing Member Country
ESW	Economic and Sector Work
FDI	Foreign Direct Investment
MIS	Management Information System
MTSF	Medium-Term Strategic Framework
NIE	Newly Industrializing Economy
PPTA	Project Preparatory Technical Assistance
RETA	Regional Technical Assistance
TA	Technical Assistance

## I. INTRODUCTION

1. The *External Panel Report* of 1989 entitled "The Asian Development Bank in the 1990s" charted for the Bank its strategic directions for the present decade. Among the more significant recommendations were the need to balance the Bank's focus on economic growth in its developing member countries (DMCs) with support for social infrastructure development, improvement of the living standards of the poorest groups, protection of the environment, and a reorientation of the public sector to meet these new priorities.

2. The Bank's Medium- Term Strategic Framework (MTSF) papers, starting from 1992, have followed through on the directions broadly set out by the External Panel Report. The Bank's medium-term strategy has formally adopted the *objectives* of economic growth, poverty reduction, improving the status of women, facilitating progress in population planning and environment protection. These objectives are supported by specific *thematic priorities*, also formally adopted by the Bank to guide its operations in the medium term, such as encouragement of private sector development, strengthening public sector management capacity, human resource development, and natural resources management. The strategic development objectives are further supported by a *country-focus* to Bank operations.

3. Each year the President provides the Board and staff with a revised and updated version of the MTSF, taking account of feedback from ongoing Bank operations, recent developments in the global and regional environment, as well as views expressed by the Bank's member countries at the preceding Annual Meeting and other forums. Thus, this paper presents the Bank's revised MTSF for the period 1995-1998. It takes stock of progress in implementing the Bank's earlier MTSF, reviews the relevance of that document in the context of the current development environment in which the Bank operates, and identifies the adjustments needed in Bank strategies and operating systems to ensure continuing organizational effectiveness.

## II. TAKING STOCK OF PROGRESS

4. It has been three years since the Bank adopted its rolling MTSF. While it is still too early to evaluate the impact of the MTSF on the achievement of the Bank's strategic development objectives, its influence on reorienting the focus of Bank operations has been substantial. The Bank's *lending mix* is now consciously oriented to balance economic growth objectives with directly addressing poverty, human development, women's status and environment protection objectives. Over the period 1992-1994, more than 150 per cent of the number of public sector projects approved by the Bank, and approximately 30 per cent of total lending volume for public sector projects were directed at projects that had either primary or secondary social or environmental objectives. The pattern with regard to increased lending volume for such projects is expected to continue over the period of 1995-1998.

5. Parallel to instituting a preferred project and lending mix, the MTSF has also supported the introduction of *country-focused* operations planning, with specific provisions for the preparation of country operational strategy studies (COSSs) and country operational programs to guide Bank operations. COSSs have been completed for almost every DMC. They seek to identify the Bank's distinctive role in each DMC, and support the achievement of the Bank's strategic objectives in country operations. Country operational programs are now prepared in line with Planning Directions released by the President every year, and reinforce the strategic directions of Bank operations in the DMCs.

6. In January 1994, the Bank released the *Report of the Task Force on Improving Project Quality*. The report was the culmination of an extensive review of current Bank assistance activities with particular focus on impact and quality. Of particular note are its recommendations for (i) greater emphasis on economic and sector work as the basis of Bank operations in a DMC, (ii) the need for more careful and effective project design processes, (iii) emphasis on portfolio management and project administration, and (iv) greater effort on the part of the Bank to support DMC ownership and capacities for project implementation. Operationalizing these recommendations is now an important priority of the Bank.

7. In support of its new strategic directions, the Bank has also prepared, over the last year, a series of *policy and strategy papers* relating to population, forestry, energy, indigenous peoples, involuntary resettlement, private sector, information disclosure, the inspection function and capacity building. These are issues of significance to the achievement of the Bank's strategic development objectives. Most of these policy papers have already been approved by the Board. They will provide guidance and assistance to staff on strategies and approaches in their respective areas. A Bank *reorganization* has also been undertaken to strengthen the country focus of the MTSF. An Office of Environment and Social Development has been established within the reorganized Bank, with divisions for environment and social development.

8. The strategic reorientation of the Bank has not been easy, nor is it complete. The organizational implications have been and continue to be substantial. They have ranged from the need for creating/strengthening special support units and the enunciation of new policies, to the introduction of new skills among operational staff. A review of key operational processes and their adequacy to support the new objectives is ongoing. The need for a reevaluation of the way the Bank does business, particularly with regard to offering DMCs a more integrated and relevant program of services ranging from policy support to capacity building, is becoming apparent. This paper will deal with these issues.

### III. THE CURRENT DEVELOPMENT ENVIRONMENT IN THE REGION

9. The Asian and Pacific region is currently the most *dynamic region* within the global economy. Over the last five years it has averaged an annual growth of over 7 per cent, which is twice the average of other parts of the world. This growth is balanced with creditable results in the reduction of poverty and in social development, particularly in the newly industrializing economies (NIEs), Malaysia, Thailand and Indonesia. These achievements in economic and social development have, in large measure, been set in motion by progressive policy changes, supported by growing investments in necessary physical and social infrastructure. While financial liberalization has helped stimulate investment and finance rapid development, new liberal outward-looking trade and industrial policies have encouraged private sector investments. Large investments by both the public and private sectors in transportation, communications, energy, and education infrastructure have provided the necessary basis for continued growth and social development.

10. Within this overall positive context however, lie some significant trends with important implications for Bank operations. The first and most apparent is the *asymmetry in economic growth among DMCs* within the region. While East Asian DMCs have generally enjoyed robust economic growth ranging from 7 to 10 per cent annually over the last five years, South Asia, some Pacific DMCs and the Philippines continue to lag with growth rates of about 5 per cent or less per annum. The Central Asian Republics and Mongolia are even further behind as they struggle to transit their respective economies from centrally planned modes of economic management to market-oriented ones. It is obvious that not all Bank DMCs have been able to adopt with equal effectiveness the policy and institutional restructuring regimes that are necessary to achieve robust levels of growth.

11. The second trend of significance, and closely related to economic growth within the region, is the *role and contribution of the private sector* in supporting this growth. Foreign direct investment (FDI) flows into the region have been considerable, and have been particularly important for export-oriented manufacturing. FDI in the Bank's DMCs is estimated to have been over \$27 billion in 1993, having increased at an annual rate of 27 per cent over the period 1987-1992. In many cases, the private sector is also seen to assume development initiatives and investments that would normally have been left to the government, particularly in the sectors of urban infrastructure, energy, and communications. However, the asymmetry in rates of economic growth within the region also extends to the inflow of private sector investments. In 1993, net FDI into developing countries in East Asia was almost \$26 billion; in comparison, similar investment flows into South Asia in 1993 amounted to only \$667 million.<sup>1</sup>

12. Despite rapid advances in growth, trade and investments, the region continues to face a trend of *socioeconomic and environmental problems*, in some measure an unwanted effect of its economic success. While the emerging development paradigm emphasizes market openness, financial sector liberalization, and the role of the private sector, the market has not worked effectively enough in certain areas. The income and quality-of-life gaps between men and women, between urban and rural populations, and between landowners and the landless continue to be substantial and to widen in many parts of the region. Of the more than one billion *poor people* in the developing world, between 700 and 800 million are in Asia and about 500 million of these live in absolute poverty.<sup>2</sup> The region's huge *population*, more than half of the world's, and its high rate of population growth have determined that, despite major economic advances, the Asian and Pacific region remains home to more than two thirds of the world's poor. Associated challenges include *environmental degradation*, aggravated by high population growth, and rapid rates of industrialization and urbanization. This degradation includes tropical deforestation: related soil erosion, desertification, loss of biodiversity, global warming, the emission of toxic and hazardous wastes, and urban pollution.

13. As DMC governments continue to press for increased economic growth while coping with poverty, population growth, and environmental ill-effects, a fourth significant and closely related trend within the region becomes apparent: the increasing openness and willingness of *DMC governments* to experiment with and assume *new roles and approaches to the management of development*. A number of governments perceive themselves less and less as the major providers of development finance or as primary investors in the productive sectors. They appear progressively at ease with the role of catalysts, promoters and regulators of development, leaving the private sector to play an increasing and constructive part in economic growth. In part this is due to the realization that the public sector does not and will not have the financial means of addressing all development needs. In part, it is also due to an increasing awareness of the potential of a conducive policy framework and of fair and transparent regulation, in catalyzing private initiative. Governments, however, are equally cognizant of the limitations of the market and the need for more active and efficient governance in providing social services, addressing poverty and protecting the environment.

14. One other trend worthy of mention in this overview of significant regional developments, is the *growing interdependency* among the Bank's DMCs. This is reflected in increased trade and market linkages among DMCs, closer economic and political cooperation, and increased efforts to manage common property resources more effectively to mutual and equitable benefit. The region is now home to three major subregional cooperative bodies: the Association of Southeast Asian Nations, the South Asian

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<sup>1</sup> *Financial Flows and the Developing Countries*. A World Bank Quarterly. May 1994

<sup>2</sup> *Asian Development Outlook 1994*

Association for Regional Cooperation, and the more recently established Asia-Pacific Economic Cooperation forum. Together with the approval of the Uruguay Round of the General Agreement on Tariffs and Trade by member countries/economies, trade and economic linkages between DMCs within the region are expected to deepen and broaden.

#### IV. THE CHANGING ROLE OF THE BANK

15. The Charter of the Bank requires it, above all, to "foster economic growth and cooperation in the region" and to "contribute to the acceleration of the process of economic development of the developing member countries in the region." The Charter goes on to specify various functions for the Bank, including the promotion of investment in the region of both public and private capital for development purposes, support for the effective utilization of such resources for enhancing economic growth, and the provision of technical assistance (TA) to its DMCs as required in this connection.

16. During its *initial* years of operation, the Bank translated this mandate into the role of a *project financing institution*. This interpretation of its role was reinforced by another provision of the Charter, which says that "the operations of the Bank shall provide principally for the financing of specific projects..." Thus, the Bank successfully embarked on and managed, over the first 20 years or so of its existence, a project financing program in each of its DMCs, which has grown in stature, size, and impact. Today, the Bank is considered a leading regional development institution, contributing, in most cases, over 25 per cent of official development assistance (and in some cases far more) to its DMCs.

17. In the mid-1980s it became increasingly clear that the Bank and its project investments could not continue to be disassociated from the *overall policy and investment environment* in the countries and sectors where it worked. A Bank review of its program lending policy in 1991 indicated that "a major lesson learned from the Bank's experience over two decades is that it is virtually impossible to have good projects in a poor policy environment." Thus, Bank operations moved into a new *phase*, which takes a broader view of the Bank's development mandate, viz., promotion of an improved policy environment in its DMCs.

18. Today, the rapidly evolving development environment in the region appears to call for yet another review of the Bank's role. In the first place, the *dimensions of development financing needs* in the region have grown enormously in size and complexity. For instance, the external financing gap of the region is currently estimated at approximately \$90 billion per year.<sup>1</sup> The Bank's limited financial resources can hope to address only modest proportions of these investment requirements. In some DMCs, and particularly in some sectors, commercial financial flows are already playing a major role in filling the gap. It is expected that this trend will gradually extend itself to other DMCs in the region as well. In this context, the question arises as to how the Bank can continue to substantively influence development in its DMCs despite the scope of its project financing capacities remaining relatively limited in relation to needs.

19. Secondly, *DMC governments* (which are the Bank's major borrowers) are increasingly withdrawing from the role of lead financiers of development, and are evolving into *catalyzers and promoters of development*, their focus is shifting to policy management and regulation, though most retain an active investment role in the provision of public services and infrastructure, in poverty reduction and in environmental conservation. This changing role of government among the DMCs in effect presents new needs, opportunities and challenges for the Bank to address. It is an opportunity for the Bank to enlarge its own role beyond that of a project financing institution, to one with a broader mandate for

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<sup>1</sup> Estimated for 1994-1995 based on *IMF World Economic Outlook*, May 1994

catalyzing more efficient, effective, and sustainable development in the region. The specific areas that present themselves for expanded Bank support include:

- (i) **The Formulation of Public Policy.** The role of public policy in catalyzing and promoting social and economic development has been amply demonstrated within the region. The very positive experiences of certain DMCs with the adoption of policies supportive of the market, the role of the private sector, and the promotion of environment conservation have encouraged them and other DMCs to expand reviews and revisions of their policy frameworks in key sectors. The Bank can and does act as a catalyst in this regard, supporting the examination and adoption of alternate policy frameworks, though primarily at the sector level (generally leaving macroeconomic policy support to the World Bank). It does so through its program, sector, and selected project loans, as well as through TA. The issue is the extent to which the Bank can expand this role of policy support, making the progression of policy changes in a sector the cornerstone of its assistance, and using its investment operations to more widely influence and promote policy change and reform in key sectors in DMCs.
- (ii) **Streamlining Public Sector Management.** With the changing role of government has come the need for privatization, corporatization, "downsizing," decentralization, public sector reform, and more active public-private sector interface and collaboration. The sustainability of the effects of revised policy frameworks is, in large measure, contingent on strengthened government administrative capacity to implement and enforce the policy changes. This governmental capacity is even more significant than project-related administration (another aspect of public sector management), on which depends the sustainability of benefits from specific project investments. While the Bank does provide extensive TA financing for capacity building, this is done on a rather ad hoc and intermittent basis, without the benefit of adequate needs assessments, forward planning and linkage with policy-related or project-specific investments. It is timely for the Bank to consider a systematic and long-term capacity building role for key sectors in each DMC, managed in partnership with key DMC institutions.
- (iii) **The Promotion of Regional Cooperation and Trade.** Accelerating economic interaction among economies in the region can have positive spill over effects on economic growth in the DMCs concerned. This interaction can potentially cover facilitation of trade and investment, coordination of macroeconomic policies, mutual recognition of technical standards, complementary environmental policies and strategies, and cooperation in the management of common natural resources. The Bank is in a good position to promote and facilitate this regional cooperation. Some significant activities in this regard undertaken by the Bank include the Indonesia-Malaysia-Thailand Growth Triangle Development Project and the program for cooperation in the Greater Mekong Subregion. The Asian and Pacific region is also home to the NIEs, from whose development experience much can be learned. The Bank can play a useful role in ongoing assessments of lessons from the experiences of the NIEs and can support the transfer of these lessons, as appropriate, to other DMCs in the region.

20. In the context of the above, it appears appropriate that the Bank assume a **developmental "niche" and role** vis-a-vis its DMCs, that may be characterized as follows:

- (i) a *sector-focused development* institution, which provides an *integrated package* of policy support, capacity building and investment services to key sectors of DMCs; this distinguishes the Bank, to some degree, from sister institutions such as the World Bank and the International Monetary Fund who

focus substantially on macroeconomic management and related structural reform;

- (ii) a *regional development institution*, with a mandate to promote regional cooperation, to translate global concerns into regional initiatives, and to represent regional concerns at global fora; and
- (iii) a *catalyst development institution* which uses its project investments to leverage policy change, capacity development and greater private sector investment.

21. This role of the Bank capitalizes on its comparative advantages as a development institution. These advantages include its capacities to provide objective sectoral policy guidance, long term capacity building support and substantial development project assistance, as well as its regional focus and location. The latter part of this document outlines the Bank's strategic and operating objectives within the framework of the Bank's enlarged role as described above.

## V. THE BANK'S STRATEGIC DIRECTIONS FOR 1995-1998

### A. Strategic Development Objectives (5-10 years)

22. The development environment in the DMCs and donor member countries continues to validate the relevance of the Bank's strategic development objectives. In fact, it reinforces the current emphasis of the Bank on sustainable development and the need to balance the objectives of economic growth with social and environmental initiatives. Bank support for *economic growth*, particularly in the form of infrastructure development, financial market liberalization, and greater involvement of the private sector, remains a major priority in most DMCs. While important gains have been made in the *reduction of poverty* in DMCs such as People's Republic of China, Indonesia, Malaysia and Thailand, absolute numbers of the poor remain stubbornly high, thus calling for specific measures to ensure that the poor also gain from the benefits of growth. Rapid industrialization and urbanization in virtually every DMC continue to place huge demands on the environment. Dogged efforts by the Bank are needed to expand *environmental consciousness* and encourage governments and private sector to make greater investments in this area.

23. The strategic development objectives of the Bank will therefore remain essentially the same, with one adjustment. The originally identified strategic objective (in the 1992 MTSF Paper) of "facilitating progress in population planning" will be replaced by the strategic objective of 'human development (including population planning)<sup>1</sup>. This includes access of people to basic social services such as education, health, water and sanitation; and housing. Population planning is considered a necessary step, ultimately contributing to more effective human development. Thus, this MTSF Paper incorporates population planning into the strategic objective of human development. The *five strategic development objectives* of the Bank are therefore:

- (i) promoting economic growth
- (ii) reducing poverty

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<sup>1</sup> The term human development is used here with the interpretation adopted by the United Nations Development Programme or its "Human Development Index." The term "human resource development" (HRD) has also been used in the Bank in this context: however, HRD, classically, refers to training and capability building of staff in an Institution development context.

- (iii) supporting human development (including population planning)
- (iv) improving the status of women, and
- (v) protecting the environment.

24. The desirable *project mix* adopted by the Bank for all of its public sector lending operations will remain the preferred "50:50" ratio: at least 50 per cent of projects will have social or environmental objectives either as primary or secondary objectives; the remaining will support projects with economic growth as the primary objective. This project mix is monitored on a three-year rolling basis. The Bank's desirable *lending mix*, to be achieved by the end of the decade, will comprise 40 per cent of total public sector lending (in terms of volume) for projects with social or environmental objectives.

## **B. Operating Objectives (3-5 years)**

25. While the strategic development objectives of the Bank continue to remain relevant, it is increasingly apparent that the Bank must realign its operating role and objectives, to ensure the more effective and efficient realization of these strategic development objectives. As indicated in Section IV above, the Bank has become increasingly aware that their achievement of its strategic development objectives, which it shares with its DMCs, depends as much if not more so, on policy changes and capacity development, as it does on project investments in the concerned sector. The role of the Bank therefore, as a *catalyst* of policy change and capacity development, must be increasingly integrated with its role as a *project financier*. While project financing is and will continue to be the major operational instrument of the Bank, the selection of projects, the process of their design, and the approaches adopted for implementation must all be utilized to catalyze and leverage changes and development impact on a much broader front in key sectors in the DMCs

26. Traditionally, the Bank has planned its operations and assessed its annual achievements mainly in terms of project loans and TAs approved, and disbursements achieved. Now, the Bank will realign the focus, scope and planning of its operations in line with its enlarging role. It will formally adopt broader *operating objectives* and related monitorable *performance measures* of its operations in each DMC in key sectors. These objectives will go beyond just resource transfers and will include policy changes, capacity building, and regional cooperation. Thus, the Bank will set specific operating objectives for itself in each DMC and targeted sectors in the following four areas:

- (i) policy support
- (ii) capacity building for development management
- (iii) creating/strengthening productive capacity, infrastructure, and services, and
- (iv) regional cooperation

Figure 1 illustrates the linkages among the Bank's strategic development objectives, its operating objectives (as described above), annual outputs, and key activities.

### **1. Policy Support**

27. Several policy issues, many of which are common to the Bank's DMCs, continue to be central to the development process in the region. Some examples of these are deregulation, privatization, trade policies, the use of subsidies, and land tenure policies that influence food production and the management of natural resources. The policy framework in each sector must become the starting point and continuing frame of reference of Bank operations in a DMC. Through its annual country assistance plan (CAP),<sup>1</sup> the Bank

<sup>1</sup> The CAP combines and replaces the country operational program paper (COPP) and the country

will identify/confirm each year, in each DMC, the policy issues by sector that it will target for support and work with the government to change and/or strengthen. This identification will be arrived at in consultation and agreement with the government as an integral part of the preparation of the CAP.

28. It is recognized that policy formulation and change constitute a long-term process. The pace and extent of change cannot and should not be dictated by the Bank. Ownership of such changes must always lie with the government. However, it is also important that the Bank and the concerned DMC establish a program of policy review and strengthening that is mutually agreed upon, with monitorable milestones to indicate progress as the Bank's operations in the DMC move on from year to year.

29. The Bank's policy support in a DMC will be achieved through specifically identified and programmed TAs, program and sector loans, selected project loans, and related policy dialogue. Progress on established milestones in policy reviews and related support will be monitored during the year, and year-to-year achievements will be assessed.

## **2. Capacity Building for Development Management**

30. The Bank's capacity building support in DMCs will generally focus on three broad areas: (i) capacity for policy analysis, formulation, and impact assessment; this is an extension of the Bank's support for policy reform and formulation described above, though it goes beyond, and focuses on strengthening indigenous capacity for ongoing policy management; (ii) public sector reform and strengthening public administration; this focuses particularly on the efficiency, effectiveness, accountability, transparency, and predictability of public service within DMCs; it covers as well the capacity of DMC governments to mobilize domestic and external resources, and the efficient management of these resources for development; and (iii) the capacity of government to create an enabling environment for local government, and for the private and nongovernment sector, and its ability to work with them in active collaboration in development processes.

31. The bank's CAP for a DMC will also specify capacity building objectives that the Bank agrees to support with the concerned government. These capacity building objectives will be identified by sector, in consultation with concerned sector agencies, and as part of the CAP preparation process. In all cases, a link should be established between the policy agenda the Bank is pursuing in the DMC and the capacity building objectives that are targeted. The specific objectives and support program, agreed to by the government and the Bank will be identified in as tangible a manner as possible and, like the policy agenda, will be monitored in terms of progress and year-to-year achievements. These capacity building needs will be addressed through project loans, TA grants and/or direct staff support.

## **3. Creating/Strengthening Productive Capacity, Infrastructure, and Services**

32. This is the traditional financial role of the Bank. It focuses on the creation or rehabilitation of productive capacity (e.g., a rubber plantation project), the establishment of supporting infrastructure (e.g., roads, ports, communications), and the strengthening of public services (e.g., education, agriculture extension, water supply) through project financing in both the public and private sectors. These investments will continue to be a critical aspect of Bank operations in terms of both size and impact. In fact, it is the size and quality of such investments that will, in large measure, allow the Bank concomitantly to pursue and leverage policy change and capacity building in related sectors and DMCs.

Thus, the Bank will continue to expand its project financing operations while integrating this role with the broader mandate of influencing policy change and supporting capacity strengthening.

33. These investments will follow the established project and lending mix objectives set by the Bank. They will, as usual, be identified during the preparation of the annual CAP for the concerned DMC under the strategic thrust of the COSS. Demonstrable links will be established between the policy agenda to be achieved, the capacity building needs to be addressed, and the project Investment directions and dimensions that have been identified. Their approval in the form of loans or TAs will be monitored annually by DMC, as well as in terms of achievement of the targeted bankwide project and lending mix. Their impacts on policy change and capacity strengthening will also be evaluated during and after implementation.

#### **4. Regional Cooperation**

34. The Bank will identify priority concerns in the area of regional cooperation, as identified and expressed by concerned DMC governments, and will set itself specific and monitorable objectives with respect to supporting these. The needs are many and varied. They could range from support for intra-regional trade to cooperation in technology research, to the management of common natural resources. The Bank is able to provide relatively large amounts of TA for regional activities. It is important that the Bank program the utilization of this grant facility to achieve specific and prioritized regional cooperation objectives, established in consultation with concerned DMCs. Ownership of these objectives by the DMCs will remain the guiding principle. The financing of several interrelated loan projects in different DMCs for purposes of coordinating natural resources management (water, energy) and transportation should also be pursued.

35. The Bank will also link its work in regional cooperation with its programmed objectives in the policy support and capacity building areas. For instance, the Bank will target selected high-level regional conferences each year on key policy and capacity issues to highlight their relevance to development in the region, to encourage an exchange of views between developed and developing member country representatives, and to build public support for change. Wide dissemination of conference papers, translated into regional languages, is considered an important tool in supporting and catalyzing change.

#### **C. Annual Outputs**

36. As a means to achieving its strategic development and operating objectives described above, the Bank will plan, program and monitor specific annual outputs for its operations. These may be categorized as follows:

##### **1. Investment Approvals**

37. Investment approvals of loans and TA grants are planned for and approved by DMC and by sector. Their nature, dimensions, and timing will be defined by the strategic development and operating objectives they support in each DMC and sector. They comprise investments in public and private sector projects, as well as advisory TAs for policy support and capacity building.<sup>1</sup>

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<sup>1</sup> It should be noted that PPTAs are not considered an operating output of the Bank, but rather a supporting activity leading up to loan approvals. See Figure 1.

## **2. Efficiently Managed Project Portfolios**

38. The efficient and effective implementation of the loan and TA investments approved by the Bank are an equally important set of annual outputs of Bank operations. Performance is reflected in the rates of disbursement, the health of the portfolio as assessed against established project performance criteria, and the achievement of specific project and TA targets and objectives. Consequent to the recommendations of the Task Force on Improving Project Quality, these outputs of Bank operations have assumed particular importance and will be the focus of increasing operational emphasis.

## **3. RETA Approval and Regional Conferences**

39. The annual regional technical assistance (RETA) program of the Bank will be defined and clearly linked to the specific regional cooperation themes and objectives that the Bank has established in consultation with concerned DMCs. The Bank will also annually host major regional conferences on issues linked to these objectives and to key policy and capacity building issues, and will widely disseminate the proceedings of these conferences among both DMCs as well as donor member governments.

## **4. Resources/Cofinancing Mobilized**

40. An essential aspect of the Bank's "catalyst" and "leverage" role is the financial resources mobilized in each DMC as an effect of Bank support. It is necessary that the Bank plan for and monitor the overall resources it catalyzes and mobilizes for each DMC each year. These resources will include the loan and funds approved and disbursed annually, as described above. They will also include cofinancing mobilized, foreign and domestic private investments triggered by Bank projects and TAs, as well as investments catalyzed by the Bank's policy and capacity building support such as for capital market development, taxation reform, and cost recovery for public services. In all cases, the concept of "additionality" will be emphasized, namely, the extension of additional financial flows catalyzed by the Bank's involvement in the DMC.

## **VI. ORGANIZATIONAL IMPLICATIONS AND CAPACITY BUILDING REQUIREMENTS OF THE BANK**

41. This realigned role of the Bank as described above has inevitable implications for the way the Bank undertakes its business. It will involve adopting new operating principles, revised business practices for country programming and the design of loan and TA projects, strengthened accountability systems for a revised set of operating results (including how these will be monitored and overseen by Management), related changes in the Bank's management information systems, and the strengthening of the Bank's staff skills mix.

### **A. Key Operating Principles**

42. Some key operating principles that the Bank will consciously adopt include:

- (i) *Selectivity and Concentration*: The Bank can no longer afford to become involved in virtually every sector in each DMC. To achieve its objectives of influencing the policy framework, establishing tangible improvements in capacity, and ensuring that the projects it finances are linked to and supportive these end results, it must be more selective with the limited resources at its disposal. Such selectivity will allow it to concentrate its resources in targeted sectors and will afford it greater leverage to wield influence and support tangible results in policy reform and capacity improvement.

- (ii) *Long- Term Perspective and Partnership:* A complementary operating principle to selectivity must be the adoption of a long-term perspective to Bank involvement in a sector — the "immersion approach." Almost by definition, influencing policy agendas, establishing/strengthening capacities, and consequently achieving sustainable impact constitute a long-term task, requiring the development of a close partner relationship with counterpart government agencies, and a continuity to Bank interventions and investments in the concerned sector and DMC; one-shot project interventions are of limited sustainable value.
- (iii) *Quality and Excellence:* Attempting to influence policy and build capacity assumes that the Bank establish prior professional credibility with client institutions. While the Bank is accepted today as a professional and competent "project financier," the same cannot be said of its capacities in these new areas; it is therefore necessary for the Bank to strengthen its operations in these areas progressively, ensuring at each stage the quality and excellence of service that will result in building confidence and credibility in its capacity to deliver effectively; this in turn has important implications for the Bank with respect to the quality of its staff and the extent of resources it will devote to these operations.
- (iv) *Accountability for Results:* policy change, capacity strengthening, and regional cooperation are of course the responsibility of the concerned DMC governments. The Bank must, however, in agreement with concerned DMC governments, take accountability for delivering the support necessary to catalyze tangible progress in policy changes, capacity strengthening, and regional cooperation, thus leading to greater developmental impact. Staff continuity in and accountability for sector and DMC-specific Bank support in these areas becomes an essential element of the new strategic emphasis. The new operating emphasis also requires that the Bank consciously equips itself with sector and country development specialists who not only have professional depth and credibility, but are willing to assume accountability in supporting the policy and capacity strengthening objectives the Bank sets for itself in each DMC.

## **B. Revised Business Practices**

43. The Bank will establish revised business practices in support of its new operating emphasis.

- (i) *A formal policy agenda by sector and by DMC* will be agreed to with each DMC as part of *the* annual CAP; systematic methodologies will be adopted for identifying the policy agenda by sector, and for assessing its potential implications and impact on the achievement of the Bank's strategic development objectives; the Programs Departments, with concerned Projects Departments, will take accountability for the respective sectoral agenda in the DMC; the Economics and Development Resource Center (EDRC), the Office of Environment and Social Development (OSD), and the Strategy and Policy Office (SPO) will play major support roles.
- (ii) *A long term capacity building program in key sectors in each DMC* will also be agreed to as part of the annual CAP, linked to the agreed upon policy agenda and the project investment program; capacity building assessment approaches will be developed and adopted Bankwide, together with models for capacity building projects and programs; and the use of the Bank's advisory TAs will be streamlined to ensure appropriate use of these funds for the capacity building program. The Programs Departments will be responsible for establishing and incorporating the capacity building program into the CAP; the Projects Departments will be responsible for the

design and formulation of the program by sector; SPO, OESD, and EDRC will support the Programs and Projects Departments technically. with SPO coordinating Bankwide monitoring and reporting.

- (iii) A *RETA program to support an identified regional cooperation agenda*, which has been developed in consultation with concerned DMCs will be established covering issues such as trade promotion, technical cooperation, management of common natural resources, and regional dialogue on macroeconomic and sectoral policies. The Programs Departments will be responsible for establishing the regional cooperation agenda for their respective subregions, with a supporting RETA program; it will be implemented by the Programs and Projects Departments, as appropriate, with the assistance of EDRC, OESD, and SPO.

44. The above three areas, and particularly the ones relating to policy support and capacity building, have generally and traditionally been referred to as "*economic and sector work*" (ESW) in Bank parlance. In Bank documents, however, ESW is usually identified, financed, monitored and reported on as an *input* to ongoing DMC assistance. The expected outputs from such investments in ESW are not normally monitored or reported on. This MTSF now makes the policy support and capacity building program for each DMC referred to in para. 43, the specific *objective* of the Bank's ESW, which will henceforth be formally identified, monitored, and reported upon. With this new emphasis on policy support and capacity building, and the application of the key operating principles enunciated above, it is understood that the Bank will need to increase its resources for ESW, and strengthen accountability for related results.

45. The existing interdepartmental Staff Working Group on the Review of the Bank's Business processes has begun reviewing the proposed revisions in business practices identified above, and will articulate and detail them for Bankwide use uring 1995. Appropriate guidelines for staff will be developed.

### **C. Revised Accountability System**

46. The Bank will revise and strengthen its accountability system to support the introduction and implementation of its revised operating focus. The existing accountability system within the Bank is characterized by (i) a focus on activities, inputs and outputs, with inadequate emphasis on the achievement of objectives and impacts (see Figure 1 ); (ii) an emphasis on quantitative results as reflected in loans and TAs approved, lending levels and disbursements, with relatively unclear yardsticks for quality; (iii) a bias for loan TA approvals as against their implementation and impact; and (iv) rather diffused and shared responsibilities among various operational departments and staff levels, as against clearly articulated performance objectives by operating area and position. The Bank does use its post-evaluation exercises and related project success/failure criteria to assess the effectiveness of Bank operations; however, the timing of such evaluations does not allow such evaluation reporting to be used as annual performance planning and accountability setting tools for Management and staff.

47. While the use of loan and TA approvals, disbursements and project completions is necessary plan and set accountability for performance, they establish performance measures only at a *first level of results* (termed "outputs" in Figure 1). The achievement of these outputs does not by itself indicate that the Bank is indeed performing its development role adequately and creating targeted impact "on the ground." There is a need to incorporate a *second level of results* (termed "operating objectives" in Figure 1) for which the Bank should also plan, monitor and establish clear performance measures. These would include (i) policy agendas to be achieved by sector and DMC, (ii) capacities for development management to be strengthened, (iii) sector objectives to be achieved with

respect to productive capacity and infrastructure creation, and (iv) regional cooperation objectives. The Bank cannot consider itself primarily accountable for the achievement of these objectives, which essentially remain the responsibility of the government. The Bank will, however, take accountability for the delivery and quality of a program of support in these areas, which it will develop and implement in collaboration with each borrowing DMC. Such support must also be viewed as a continuing process, over a period of time, rather than simply a specific project or TA. Thus there is a need to take longer term perspectives and ensure the integration and continuity of work programs. The *third level of results* which the Bank must monitor (and does through its post-evaluation exercises), is the longer term impact of its policy/capacity building support and of its project investments on the government's and its own economic social, and environmental objectives.

#### **D. Management Information System**

48. A new management information system (MIS) that is results- and impact-oriented, will be developed to support the realigned operating focus of the Bank and the accountability system referred to above. It will take into account the structure of the reorganized Bank, the new accountabilities of the two operations Vice Presidents, and the need for them to guide, monitor, and coordinate operations along the directions set out in this document. The new MIS will also, as in the case of the new accountability system, establish information indicators, flows, and reports for each level of results as described in Figure 1. The new MIS will be designed by SPO in consultation with operational departments/offices, the Budget, Personnel and Management Systems Department (BPMSD) and the Office of Computer Services (OCS).

#### **E. Implementation**

49. The implementation of his revised MTSF will commence over the next few months. Operational departments and offices will examine the implications of this document in their operations, and submit to their respective Vice Presidents (East and West), by the end of the first quarter of 1995, a 1995 *Action Plan* for implementation. The specific activities to be undertaken to support the 1995 *Action Plan* are as follows.

50. The *Planning Directions*, to be issued by the President during the first quarter 1995, will outline the overall and indicative dimensions of the Bank's operations over the 1996-1998 period, taking account of the revised MTSF. This will serve as framework for operating units to set unit-specific objectives, outputs and related performance measures.

51. Over the period January to April 1995, the Programs Departments, in association with other operational departments and offices, will field *country programming missions* if these have not already been fielded during the last quarter of 1994), and will finalize a *Country Assistance Plan* (CAP) for each DMC by the end of June 1995. The CAP will reflect the strategic directions of the MTSF as described in this document, and the planning directions of the President. The CAPs will be consolidated for each of the two regions covered by the Bank (East and West), and for the Bank as a whole as reflected in the Compendium of CAPs, which will be prepared for the information of the Board.

52. The Bank's *Three-Year Rolling Work Program and Budget Framework* will consolidate the CA as well as the operating objectives and planned outputs of all organizational units within the Bank. It will represent the Bank's overall annual medium-term planning document. It will be sent to Management for approval in August and informally discussed with the Board in September 1995.

53. The *Annual Budget Document*, to be reviewed and approved by the Board during the last quarter of 1995, will appropriately reflect the new thrusts of this strategic framework. Table 1 illustrates the annual planning process to be adopted for 1995 -1998.

**Table 1: The Annual Planning Process for 1995-1998**

	<b>Stage</b>	<b>Objective</b>	<b>Timing (DMC &amp; Board Participation)</b>
Step 1	Planning Directions by the President	To provide a framework for formulating DMC specific medium-term workplans	January
Step 2	Country Programming Missions (CPMs)	To formulate a medium-term operational program in each DMC	January-April (DMCs)
Step 3	Country Assistance Plans (CAPs)	To present in a single document DMC-specific medium-term operational plans with estimates of related staff and administrative budget requirements to guide internal operations	March-June
	Compendium of Country Assistance Plans	To brief the Board and obtain feedback on the Bank's medium-term operational plan in each DMC	First quarter of the following year (informal board discussion)
Step 4	Three- Year Rolling Work Program and Budget Framework	To present the Bank's overall medium-term work program, as well as those for individual DMCs, and the Bank's departments and offices in the context of a staffing and budget framework	July-August (Informal board discussion)
Step 5	Country Program and Portfolio Review (CPPR)	To (i) firm up the operational plan for the following year, and (ii) address generic problems in project implementation for portfolio improvement	September-December (DMCs)
Step 6	Annual Budget Document	To present the Bank's administrative budget and allocate resources according to operational priorities	September-December (Budget Review Committee, Formal Board Discussion)

**Figure 1: The Bank's Operating Framework**

