AFRICAN DEVELOPMENT BANK

ECONOMIC RESEARCH PAPERS

N° 55

Strategic Considerations for Building a Healthy Pipeline for Bank Group Operations

by

Samuel O. Onwona
Central Operations Department

ECONOMIC RESEARCH PAPERS

N° 55

Strategic Considerations for Building a Healthy Pipeline for Bank Group Operations

by

Samuel O. Onwona
Central Operations Department

ABSTRACT

The African Development Bank has, since 1982, experienced a problem with bunching of projects towards the fourth quarter of each year's Lending Program. Contributing factors include both systemic and endogenous constraints as well as exogenous constraints. This paper proposes a holistic approach, that recognizes all the forces at work in the development of Public Investment Programs (PIPs) at the RMC level as well as the Bank's internal processes that help to guide and generate the pipeline.

At the RMC level, the paper examines the need to build the capacity of National Planning Commissions (NPCs) to administer the PIP process. It also advocates for sensitizing RMCs, through intensive and persistent dialogue, to decentralize the PIP process in order to minimize the risk of marginalizing the poor and vulnerable groups of society in the PIP process.

At the Bank Group level, the paper examines the existing processes for both lending and non-lending services and explores areas where the Bank's lending operations need to be streamlined to enhance efficiency and cost-effectiveness. To this end, the need to promote and reward good Economic and Sector Work (ESW) is highlighted along with the need to formalize Country Teams and strengthen their roles. Furthermore, the concept of a Task Manager (TM) is re-examined and proposals are made that will assure greater responsibility and accountability of TMs and allow them to play a leadership role in building up the Bank's pipeline. A more objective and easily monitorable classification of "bankable" projects is proposed along with a more flexible set of lending instruments that are necessary to secure a smoother implementation of the Bank's pipeline beyond the three-year planning horizon engendered by the three-year lending cycle.

RÉSUMÉ

Depuis 1982, la Banque africaine de développement est confrontée, dans le cadre de l'exécution de son Programme de prêt annuel, au problème de concentration des projets sur le quatrième trimestre de l'année. Les facteurs aggravants de ce phénomène sont d'ordre systémique et endogène ainsi que de nature exogène. Le présent document propose une approche holistique qui prend en compte, d'une part, l'ensemble des forces qui interviennent dans l'élaboration des Programmes d'investissement public (PIP) au niveau des pays membres régionaux et, d'autre part, les processus internes de la Banque qui facilitent l'orientation et la constitution de la réserve.

Au niveau des pays membres régionaux, ce document examine la nécessité de renforcer les capacités des Commissions nationales de planification en matière d'administration du processus d'élaboration du PIP. Il prône également la sensibilisation des pays membres régionaux, à travers une concertation soutenue et constante, à la nécessité de décentraliser le processus d'élaboration du PIP, afin de réduire au maximum le risque de marginalisation des couches sociales démunies et vulnérables lors de l'élaboration du PIP.

Au niveau du Groupe de la Banque, ce document analyse les processus existants, tant dans les services de prêt que dans les autres secteurs d'intervention. Par ailleurs, il étudie les domaines où les opérations de prêt de la Banque gagneraient à être rationalisées pour en accroître l'efficacité et la rentabilité. À cette fin, la nécessité de promouvoir et d'encourager de bonnes études économiques et sectorielles est soulignée, tout comme le besoin de donner un caractère formel aux équipes par pays et de renforcer leur rôle. En outre, la notion de chargé de projet est réexaminée : des propositions sont faites pour s'assurer que les chargés de projet ont davantage de responsabilités et de comptes à rendre. Ainsi, ils pourront jouer un rôle de chef de file dans la consolidation de la réserve de la Banque. Une classification plus objective et mieux contrôlable « des projets bancables » est proposée ainsi qu'une panoplie plus souple d'instruments de prêt indispensables à la mise en œuvre harmonieuse des opérations inscrites dans la réserve de la Banque au-delà de l'horizon de planification triennal issu du cycle de prêt triennal.

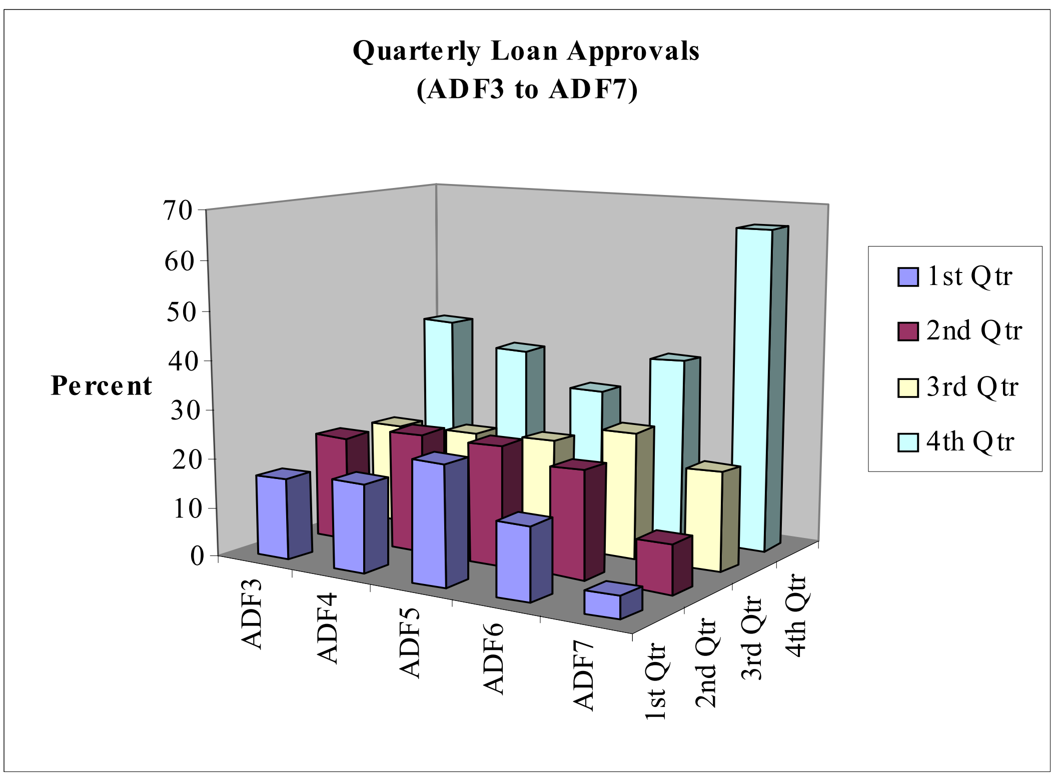
Strategic Considerations for Building a Healthy Pipeline for Bank Group Operations

By

Samuel O. Onwona*

Background

Over the years, the Bank has encountered some serious challenges as to how to generate and sustain its Lending Program from a healthy pipeline. A historical review of the quarterly loan approvals from 1982 to 1998 in the figure below shows clearly that loan approvals seem to have followed a relatively skewed distribution, with a relatively heavy bias towards the fourth quarter of every year. The trend of loan approvals across the 1982 – 1998 period seemed to have declined during the first, second and third quarters with a commensurate increase in approvals towards the fourth quarter. Although the degree of the skewed distribution seemed to have heightened in recent years, the general trend has been the same since 1982.



ADF3: 1982 – 1984　　ADF4: 1985 - 1987
ADF5: 1988 – 1990　　ADF6: 1991 - 1994
ADF7: 1996 – 1998

* The author is a Chief Agricultural Economist in the Operations Policies and Procedures Division of the Central Operations Department. The author also wishes to acknowledge the valuable comments received from Messrs. L. Umeh and C. Lufumpa, who were the main reviewers of the paper. Messrs. J. Dione and F. Ndukwe also provided useful comments to enhance the quality of the paper.

Ideally, if the lending program were evenly spread out throughout the year, their distribution is likely to follow a relatively normal distribution over the four quarters of each year. Thus, the skewed distribution points to some logistical and systemic problems encountered in the process of building the Bank's pipeline. Bunching up loan approvals to the last quarter of the year puts a lot of strain and pressure on both staff and management of the Bank Group. The net effect is that quality may suffer and more importantly, engender a sub-optimal use of Bank staff time throughout the year.

A more uniform use of staff resources across the year is likely to lead to more optimal use of staff time and energy. This, however, cannot be achieved without a thorough review of the underlying problems (exogenous and endogenous) that account for the skewed distribution of the Bank's work program in a given year. For instance, late approval of the ADF is an exogenous constraint that can contribute to delays in loan approvals, especially in the first and second years following the ADF approval. The endogenous constraints are associated with the Bank's internal processes and, therefore, represent the systemic problem areas that engender bunching of loan approvals.

Whether the causes are exogenous and/or endogenous, bunching is undesirable and must be minimized to the extent feasible. Thus, the challenge for the Bank Group is how best to assure a relatively more uniform spread (or normal distribution) of loan approvals. It is against this background that this paper has been prepared with the view to offering strategic considerations for addressing the challenge on hand.

The paper takes a holistic approach by analyzing the problem from both the perspective of the Bank Group as well as that of the borrower (RMC). Although the immediate concern is at the Bank Group level, effectively redressing the problem requires a thorough understanding of the constraints faced at both the RMC level as well as the Bank Group level. By implication, the linkage between the Bank's pipeline and the Public Investment Program (PIP) of an RMC needs to be adequately understood and assessed.

The Underlying Problems

Building a healthy pipeline of projects in an RMC for any given sector is the joint responsibility of the line ministry of the RMC and the sector specialists of the Bank Group. It requires a great deal of forward planning by the relevant sector division in close collaboration with the planning units of the line ministry concerned. The necessity for forward planning also derives from the fact that in practice, the planning cycles of the PIPs vary, and do not necessarily tally with the Bank's ADF cycle. To be credible, the process must commence at the RMC level, where the Public Investment Program (PIP) is domiciled.

At the RMC level, a combination of factors, including poor budgetary and material resources, as well as relatively weak planning skills of some line ministries raise doubts as to the analytical basis and justification for the PIP components, although a lot of thinking may have gone into developing the PIP itself. This constraint has been further compounded by the lack of Economic and Sector Work (ESW) by the Bank Group to help RMCs redress these weaknesses of the line ministries.

Apart from the lack of ESW, there is also the problem of the type of lending instruments that would best suit the three-year lending cycle for the ADF program. Thus, there is a need for a more robust and flexible lending instrument that explicitly recognizes a longer programming cycle of the PIPs of RMCs than the three-year cycle of the ADF Program. With the appropriate lending instrument, the Bank Group can better plan and implement its lending program over a longer time frame than on an annual basis. This minimizes the transaction cost of doing business and fosters a more efficient use of Bank staff resources.

The Adjustable Program Loan (APL) of the World Bank is one such instrument that allows the World Bank to "buy into" the PIP of RMCs over its entire planning horizon, with the Lending Program for each year also included. Thus, the APL allows the World Bank to negotiate and more or less secure for itself, in advance, a series of project/program lending commitments spanning the entire planning horizon of the PIP. In other words, it engenders long-term commitment and secures mutual agreement up-front on specific aspects of the PIP that the World Bank is interested in lending its support to. In the absence of such background work, a flexible lending instrument and lack of ESW, the Bank Group faces a virtually impossible task of assuring quality-at-entry for its pipeline in the RMCs.

Understanding the PIP Process at the RMC Level

At the RMC level, the process of building the PIP usually involves a series of ministerial meetings in which various proposals are submitted to the National Planning Commission (NPC). As expected, there is socio-political pressure brought to bear on the process by powerful interest groups, such that the final outcome usually reflects the political clout of the respective parties and interest groups. By consequence, weaker socio-political groups, especially the poor and vulnerable groups of society, are easily marginalised, which explains why public action is needed to mobilize support for the poor in the PIP process.

Lobbying via the NPC to "lock in" potential projects into the PIP is only half of the problem. To ensure capital allocation via the budgetary process, the lobby groups have to extend their efforts beyond the PIP process to the budgetary process.

Table 1 depicts four possible slots into which the ministerial submissions to the NPC are eventually categorized. It is assumed that each project/program admitted into the PIP is socially desirable and conforms to the overall objectives of the development strategy of the RMC in question[1].

Table 1: Possible Outcomes of the PIP Process

GOVERNMENT COMMITMENT TO PROJECT	ECONOMICALLY VIABLE AND/OR SOCIALLY DESIRABLE PROJECT	
	YES	NO
YES	**A** VERY STRONG LIKELIHOOD OF SUCCESS	**B** POOR LIKELIHOOD OF SUCCESS
NO	**C** FAIR LIKELIHOOD OF SUCCESS	**D** VERY STRONG LIKELIHOOD OF FAILURE

Category A: represents economically viable and/or socially desirable projects with strong government commitment. These are the types of projects that the Bank Group needs to include in its pipeline, because their likelihood of success and sustainability are quite high.

Category B: represents non-economically viable and politically motivated projects with strong government commitment. These are the potential "white elephants" promoted by powerful interest groups. They are projects that would not typically make it into the PIP if a broad-based consultative process were adopted. However, they make it into the PIP because of the political pressure from the ruling party, the office of the President and/or Prime Minister. They are, thus, the "pet" projects of the government. Their likelihood of success is suspect, simply because they are not economically viable and/or socially desirable. Such projects need to be pushed down to Category D and eliminated from the PIP. However, this is not easily attainable, since it is people of clout in the ruling government that are behind these projects.
Eliminating such "white elephant" projects from the PIP requires a thorough understanding of the specific sector in which the proposed projects belong, as well as the economic implications of going ahead with such projects vis-à-vis the current and future trends within the domestic and international markets. It also requires good background studies (Economic and Sector Work, ESW), top level dialogue with the NPC and the Ministry of Finance, plus an active influence of the key actors (that is, the main donors) within the donor community.

Category C: covers projects that are economically viable and/or socially desirable, but which lack government commitment. Such projects are usually promoted by less powerful interest groups, so they do not make it to the PIP list despite their potential economic viability and an overall improvement in social well-being that they could bring. However, when such projects receive the backing of powerful interest groups as well as the donor community, RMCs may well "accept" them because of the additional funding they bring, but that leaves the challenge of how to secure long term commitment of the RMC in question. For such projects, persistent dialogue with the RMC can help to push them from Category C into the "favorite" list (Category A).

Category D: includes projects, which lack government commitment and are also non-economically viable nor socially desirable. Thus, as a rule, this category of projects rarely makes it into the PIP list.

In practice, the PIP list prepared at the RMC level will usually cover categories A, B and C. In terms of acceptance of projects, Category A usually poses no problem to the donor community and the RMCs alike, but this is where competition among donor agencies for "good projects" is stiffest. In the absence of a program approach to lending (as was the case in the past), the "late comers" were usually the losers, since by the time they “arrived” on the scene, the choicest projects had already been taken with only Categories B and C left. Even in a program mode, as is being currently promoted among the donor agencies, the risk of being marginalised is high if the Bank does not get involved at the onset of the dialogue on the investment program with the RMC.

Categories B and C are usually the problematic areas where differences arise as to what should be funded vis-à-vis what should not be funded. As indicated in Table 1, there are two opposing forces associated with these two categories of projects. On the one hand, RMCs would typically try to convince the donor community for assistance of Category B projects to meet their socio-political objectives. On the other hand, the objective of the donor community is to convince RMCs to abandon Category B projects in favor of Category C projects.

Without solid macro-economic and micro-economic studies, it is difficult to make an informed decision as to what is viable and what is not. However, where joint economic and sector work, including public finance reviews, have been conducted, it is easier to assure convergence among stakeholders and an RMC as to where help is needed most and why. Dialogue becomes more meaningful and objective, and chances for agreement and consensus building are much higher.

It is clear from the foregoing that, building an effective pipeline of projects poses a two-fold challenge. It calls for a thorough understanding of the PIP process at the RMC level, the constraints they face, the weaknesses inherent in the planning and budgeting process, the socio-political forces that dictate the investment decisions at the national level as well as the role and influence of the donor community. These domestic and international factors must be taken into account in order for the Bank Group to effectively play their role as to how and what to “carve out” for its development assistance program to a given RMC.

The Challenge at the RMC level

At the RMC level, the most serious challenge is to build strong institutions that have capacity to administer the PIP process. Thus, the NPC should be equipped with technically sound professionals who are up-to-date on both domestic and especially the international markets on the key sectors of the economy. The NPC needs to be equipped with modern office equipment and an efficient Management Information System (MIS) for effective planning and monitoring of the PIP process. In short, a team of well-equipped technically qualified and experienced professionals at the NPC is essential to the successful implementation of the PIP process at the RMC level.

Unfortunately, relatively low salaries have posed a major problem for RMCs in their attempts to attract and retain such locally qualified personnel. Most of such qualified personnel have been lost through the massive brain drain plaguing the continent. Several short-term solutions (including consultancies from the donor community) have been proposed, but these cannot provide lasting solutions to the problem of brain drain. In this regard, providing advanced training under donor-assisted projects to fill vacancies created by the brain drain is not an optimal solution.

What is needed to assure a long-term solution to the problem is in-depth reform of the civil service to trim it down to an optimum size where salaries of professional civil servants can be sustained at domestically competitive levels. Given the politically sensitive nature of this option, it cannot and should not be rushed as has been tried in the past. It has taken a long time, since independence, to run down the civil service of Africa; thus, any serious attempts at reforming the civil service should be implemented over the long term to minimize the risk of policy reversal engendered by political upheavals.

Apart from equipping the NPC, it also has to be strategically positioned within the ministerial hierarchy to lend credence and credibility to its work. Thus, the NPC must have a strong influence on the allocatory decisions of the capital budget, else the PIP process may not be taken seriously. This may entail "domiciling" the NPC either as an autonomous unit/ministry under the Presidency, the office of the Prime Minister, or placing it directly under the Ministry of Finance. This is critical for successful operation of the NPC. Historical evidence from a number of African countries (including Nigeria, Ghana, Mali and Sudan) shows clearly that the PIP process was most effective during regimes where the NPC or Ministry of Economic Planning (MOEP) had full autonomy over the planning and capital budget allocation functions. On the other hand, the PIP process was taken less seriously under government regimes that shifted the capital allocation function away from the NPC or MOEP.

Finally, there is also the challenge of how to fiscally decentralize the investment and decision-making function to ensure active participation by the poor masses at the grass roots level. The dual constraint here is:

(a) the cost of bringing the PIP process to the level of the poor in order to ensure their participation; and

(b) how to mobilize public action in favor of the poor. Since the poor usually have no political clout, the real constraint boils down to whether or not there is the political will to involve the poor.

In order to effectively address these constraints, the Bank Group has to play a key role via consistent high-level dialogue to sensitize RMCs about the need to involve the poor to assure their participation in the development process.

The Challenge at the Bank Group Level

(a) Implications for the Bank's Non-Lending Services

The foregoing challenges at the RMC level, in of themselves, pose a challenge to the Bank Group (as well as the donor community) as to how best to influence the PIP process and ensure optimal results from which projects can be "tapped" to develop a pipeline for a given RMC. There is a clear need for capacity building to help RMCs to build strong and credible institutions that can support the PIP process. The Bank's strategy should, therefore, aim at helping the RMCs to internalize the PIP process through on-the-job training of local staff, establishment and effective implementation of an efficient MIS as well as material support.

Given that the existing capacity on the ground is relatively weak, there is an urgent need to assist RMCs to build up their NPCs to the point where they can deliver an efficient and optimal PIP on a sustainable basis. This is itself a major task that can occupy the Bank's attention for the next 20-25 years. Some of this is already happening, both with the Bank and also with other donors, including the World Bank. However, this is being done in a piece-meal fashion. In order to yield lasting results, a more concerted effort is needed to properly organize and re-structure the NPCs of RMCs. The Bank could play a leadership role in this area by helping to generate grant and credit funds to consolidate the gains made to date.

Apart from assisting in institutional capacity building, the Bank, in collaboration with other donors, could play a role in positively influencing the PIP process to engender active participation of the poor and vulnerable groups of society. This would not only lend credence to both the PIP and PRSP (Poverty Reduction Strategy Paper) processes, but it would also help RMCs to adopt a more broad-based consultative approach to developing their own PIPs and PRSPs in order to ensure true ownership at all levels of society. This is, probably the most feasible way of ensuring a healthy pro-poor development program, which incidentally, is the underlying rationale behind the HIPC debt relief and the PRSP initiatives.

In order to be effective in achieving lasting results, Bank's assistance needs to be timed properly. In the short term, the Bank could help RMCs raise funding to defray the costs of local surveys and field trips to discuss program/project proposals in the PIPs/PRSPs at the district, provincial and/or local government levels respectively. As an interim solution to the problem of low civil service salaries, the Bank could use some of its TAF resources to fund studies and surveys conducted by NPC officials. The Bank could even hire NPC officials as local consultants to participate in supervision and monitoring of Bank-assisted projects.

In the long term, the Bank could spearhead efforts to mobilize grant funds to cover the costs of building the institutional infrastructure that would catalyze the fiscal decentralization process at the RMCs. Finally, the Bank could also work with RMCs to develop proposals for civil service reform and help them to raise funding for such proposals.

(b) Implications for the Bank's Lending Operations

The next challenge at the Bank Group level is linked to those activities that directly influence the process of building the Bank's Lending Program. The key ones are discussed below:

(i) Promote and Reward Economic and Sector Work

At the Bank Group level, the challenge is to work closely with the RMCs to jointly define a pipeline of projects that captures only Categories A and C projects and leaves out Category B projects. Given that the criteria adopted locally may not necessarily be economic, the onus lies with the Bank sector specialists to ensure that objective and easily monitorable criteria are adopted in delimiting the choices to arrive at the final package of potential programs and projects in the PIP. To this end, sound analytical skills, as well as background studies (ESW) that can provide clear objective leads as to the relative comparative advantages by sector is necessary.

ESW must be well tailored to the needs of the departmental work program to be effective. The Bank, like other Multi-Lateral Development Banks (MDBs), is supposed to be a lender of last resort. The implicit assumption here is that RMCs seek MDB assistance only after they have optimally allocated their own resources to finance their PIPs and there still remains financing gaps. Given that this is not necessarily the case, background in-depth sector studies are necessary to identify the potential sources of growth in the economy in order to guide the composition of the PIP.

To be realistic and effective, the ESW program should be cognizant of what the other stakeholders (including MDBs and bi-lateral agencies) are doing or have planned to do. Thus, there is a need for collaboration and partnership with other stakeholders in order to minimize duplication of effort. Also, the ESW program has to conform to the overall strategic framework defined by the Country Strategy Paper (CSP).

The CSP, in turn, must fit within the overall development strategy and objectives of the RMCs. Thus, while the CSP guides the overall development assistance strategy of the Bank Group in RMCs, the ESW program serves as the sector building blocks for the CSP, and points to those specific areas where Bank intervention is needed to achieve the stated development objectives of the RMC.

It is clear from the foregoing, that there are two concurrent processes that need to be addressed, namely the PIPs and PRSPs at the RMC level, and the CSPs and the overall ESW at the Bank Group level. The challenge for the Bank Group is to ensure that these two processes converge, so that both the Bank and the RMCs can operate "at the same frequency", so to speak. This also means that the PRSPs and the CSPs should mimic each other in terms of providing a common strategic framework to guide the development of both the PIPs of RMCs as well as the Bank's Lending Program.

The practical implication of the above is that the Bank needs to strengthen its own capacity to prepare sound CSPs based on solid economic and sector work in order to be able to adequately influence the PRSP/ PIP process at the RMC level. This calls for adequate time and forward planning to ensure that the quality of the final product is not compromised. It also raises an issue about the adequacy of Bank staff skills, not only in terms of numbers, but also in terms of areas of expertise (skill-mix). To this end, a skills-gap analysis may be necessary to determine the level and nature of on-the-job training required by Bank as well as RMC staff.

(ii) Formalize and Enhance the Role of the Country Teams

The Country Teams (CTs) are the most appropriate and representative technical groups that are qualified to liaise with their RMC counterparts to build the Bank's pipeline. Unfortunately, the CT concept has not been formalized in the Bank, although the Operations Manual (OM 340) expects them to play a major role in the building of the Bank's Pipeline. There is, therefore, a gap as to *what is*, vis-à-vis *what should be*, the role of the CTs. This gap needs to be eliminated or at least minimized.

To be effective, the CTs must have clearly defined Terms of Reference (TORs) backed by some degree of autonomy in their operations. The staff time required to work in the CTs must be institutionally recognized and budgeted for accordingly to truly release appointed staff to do the work. Most importantly, the Bank should develop easily monitorable performance criteria to reward successful CTs, including staff promotions. The reward system must also place emphasis on group performance in order to engender teamwork in the CTs.

Another critical requirement for effective operation of the CTs is the level of experience of the person selected to lead the CTs. The present organization of the Operations Complex does not have a strong center (at the departmental level) around which the Bank's pipeline can be scrutinized regularly. That function is currently jointly played by the Country Directors (CDs) with assistance from the Departmental Coordinators (DCs). The existing arrangement is costly and relatively inefficient for two reasons. First, it puts an awful amount of pressure on the time demands of the CDs who are already quite busy. Secondly, the DCs, by virtue of their experience and placement in the organizational hierarchy of the Bank do not have the necessary clout to influence the process of building the departmental pipeline.

An experienced and relatively senior professional (a PL2/PL1 level, whose position could be titled "Operations Advisor", OA) is needed to work closely with the CTs to supervise the development of the Bank's pipeline at the departmental level. The OAs should operate from the CDs' front office and report directly to the CDs to lend credibility to the CTs work. Thus, each country department should have one OA to report directly to the CD. The OA should have cross-sectoral experience in order to qualify to lead the CTs in scrutinizing the "readiness" of any project proposal for the pipeline, and more importantly for the lending program of each year. Country experience is important, but not necessary, since with time, the OAs can gain the requisite experience through intermittent participation in Bank missions.

The appointment of the OAs could ease a lot of burden on the Review Process. Currently, all project and program documents have to "pass through" OCOD for review and clearance before they are returned to the CDs for onward transmission to the office of the Operations Vice President for final approval. If an OA were to be appointed, his/her role would extend beyond supervision of the departmental pipeline to include the review of all projects emanating from the department. The OA would pre-screen all Issues Papers and other documents to determine if and when an OCOD review is necessary. Thus, the OA will become the in-house departmental quality control person to determine if an Issues Paper has enough thorny issues to warrant an external review by OCOD. This will speed up the Review Process remarkably, and also put the onus of quality control of documents on the originating department.

Then, there is also the issue of the link between the CTs and the field offices. The field offices have just been opened, and are yet to be fully operational. However, with time, if Bank Group portfolio grows to the point where it is difficult to supervise it from the headquarters, it may be advisable to seriously consider relocating the relevant CTs to the resident mission office to work directly under the supervision of the Resident Representative.

Appointment to the membership of the CTs should be made by the respective division managers who know their staff best. However, to lend more credibility to the exercise, the nominations should be cleared by the respective CDs. Also, for similar reasons, appointment of the OAs should be made by the CDs and cleared by the Operations Vice President.

Given their command of the department's pipeline of projects, the OAs should represent and/or join their CDs at OMT meetings where the Bank's pipeline is discussed. The OAs, along with members of the CTs, should have the authority to question project proposals submitted by every division within the department for consideration into the department's pipeline. In order to ensure consistency of approach, this would require utilization of uniform criteria for acceptance/rejection of projects by the OAs and their respective CTs in every department.

(iii) Strengthen the Role of the Task Manager

The role of a Task Manager (TM) needs to be re-examined carefully to ensure that TMs are adequately empowered as team leaders responsible for several tasks both at the headquarters and in the field when conducting official missions on behalf of the Bank. Primarily, a TM is supposed to solve problems, build consensus on thorny development issues, encourage stakeholder participation and help RMCs to overcome obstacles to project development.

The TM, thus, plays a dual role. S/he is, first and foremost, the spokesperson for the Bank Group as to what is acceptable/unacceptable to the Bank in terms of policy on sector and macro-economic issues. But, also, s/he is a spokesperson for the RMC in providing feedback to the Bank Group as to what is acceptable/unacceptable to the RMC. S/he must learn the art of how to strike a delicate balance between the priorities of the RMC and those of the Bank Group, including meeting deadlines established in-house for processing Bank Group operations. These seemingly opposing roles reinforce the need for consensus building by the TMs. Thus, the TM must play the role of a diplomat and also a bureaucrat (that is, a *"diplomatic bureaucrat"*) who can respond to the needs of his/her clients, not only on timetables, but also areas of focus and where real adjustments are needed in the development agenda, by either the RMC and/or the Bank.

The TM must be the initiator of project ideas and based on her/his knowledge of the RMC's economy and the specific sector s/he works in, propose development strategies for discussion with the RMC. S/he must play a lead role in the formulation of the CSP and in the conduct of the Public Finance

Reviews (PFRs). S/he must have a full handle on the "economic temperature" of the RMC that s/he is assigned to work on, and be able to advise both the RMC and the Bank on where action is needed the most to ensure pro-poor growth, which is the over-arching objective of the Bank Group Vision.

Thus, the TM must be the in-house expert to advise Bank management regularly on potential solutions to implementation problems encountered on the ground throughout the project cycle. The TM must also be on top of every situation relating to his/her project, and should keep his/her Division Manager abreast with pertinent issues that can influence the outcome of the projects assigned to him/her. In short, the TM is responsible for the quality of the project at the entry point (that is identification), and is expected to maintain that quality throughout the project cycle (up to completion). As a team leader, the TM must know how to build consensus through his/her ability to seek and share the views of colleagues on issues and ideas of relevance to the RMC and the specific projects assigned to him/her.

The foregoing requirements pose two types of challenges for the Bank's management. First, it clearly points to the very demanding nature of the job of the TM. This calls for regular and solid on-the-job training to constantly beef up his/her skills in order to remain on top of development issues affecting his/her projects and the RMC economy as a whole. This is where Division Managers have a major role to play in helping to properly assess the training needs of their staff to ensure that they are making progress in sharpening their professional expertise. The annual evaluation process should become a tool for enhancing such skills and defining real career growths for staff to foster such dynamism required in career prospects and professional development of Bank staff. In other words, the annual evaluation of staff should be more forward-looking and less backward looking.

Second, it raises an issue about the level of responsibility and accountability of TMs in the Bank. In order to effectively play the stipulated role above, TMs need to have a bit more leverage in decision making on their projects, and also be held accountable for the decisions taken. This must be backed by a reward system that recognizes and rewards good performance, but which also penalizes avoidable errors and lapses. Where staff experience is lacking, training may be required before delegating staff to become full-fledged TMs. In this regard, it is important to recognize that not all newly recruited staff may have the requisite experience to become TMs within their first year of joining the Bank[2] . However, seasoned staff with good experience and technical expertise in their areas of profession need to be encouraged to take key decisions on their projects, be held fully accountable for such decisions, and rewarded as necessary for providing sound advice to Bank management.

In the new spirit of collaboration and partnership with other multi-lateral finance institutions, it is important that the Bank's TMs have the same leverage to participate effectively in joint programs. To this end, the Bank needs to select those seasoned and experienced TMs who can actively and assertively participate in the PRSP process at the RMC level, else the risk of the ADB being marginalized could be quite high.

(iv) Streamlining the Process of Building the Pipeline

So far, attempts to build the Bank's pipeline have focused a great deal of effort on the internal processes in regard to close monitoring of deadlines and delivery dates for specific programs. The review process has been relied upon to assure quality at entry. However, this paper contends that, sound as the review process may be, attempting to improve the Bank's pipeline without addressing the foregoing problems is tantamount to "putting new wine in old wineskins", because as the old adage goes, the old wineskins will stretch beyond their retention capacity and burst.

A healthy pipeline of projects cannot be built if the PIP process is not well understood and taken into account by TMs and operations staff. It must be preceded by a regular and a thorough review of the macroeconomic and sectoral issues of relevance to the subject under question. As has been pointed out already, there are socio-political realities on the ground, which literally dictate the outcome of the PIP process, and unless these are factored into the overall analysis and effort, the likelihood of building a healthy pipeline is questionable.

The role of the CTs needs to be examined in a dynamic context, and adjusted as necessary to make them effective and relevant. Thus, if for example, the Bank's portfolio in an RMC grows to the level where it is virtually impossible to effectively supervise it from the headquarters, it may become necessary to move part or entire CTs to the field mission to ensure adequate implementation assistance. In this regard, the re-opening of the Bank's field offices is a step in the right direction. Alternatively, if the cost of transferring CTs to the filed is deemed to be too high, then local professionals can be recruited and trained to support the work of the CT at the RMCs in question. Finally, the role of the TMs need to be enhanced and given high visibility to unleash the capacity of staff to take informed decisions and defend them accordingly. This must be backed by a system of incentives, which reward performance and innovativeness, whiles also, penalizing avoidable lapses.

(a) The Process

Having established the fundamentals, it is also important to take a critical look at the process itself. For ease of analysis, the discussion focuses attention on building the Bank's pipeline at the divisional level, since this is the most representative unit of the department. Another rationale for this is that the pipeline for a given RMC is also generated by sectors and the sector divisions are the focal points for dialogue with the RMCs.

Building a healthy pipeline must begin with a clear Strategic Business Plan (SBP), which is essentially an Action Plan that maps out a program of action for delivering the division's work program for the next three years. This must be prepared once every three years by the division manager, and should be revised and/or updated every year. It is a plan, and therefore, must include underlying objectives for the division's work program, assumptions on what is deliverable, when and why. The SBP should be based on background macro-economic and sector studies (from ESW work including PFRs), PCRs, and OPEV studies from which lessons learned and best practice examples can be adopted for future design of projects.

The SBP must mimic the CSP, in terms of providing a strategic framework for building the division's work program. The difference between the two is that while the CSP provides the overall strategic framework for development assistance to all the key sectors of an RMC, the SBP is a sector-based planning tool for administering/implementing the work program of a (sector) division. The SBP should also reflect the Bank's sectoral policy and Vision, particularly with poverty reduction as the central goal. It must identify the sectoral constraints of the RMC, along with the potential sources of growth vis-à-vis the Bank's area of potential intervention as guided by its Vision and sector policy. The SBP must also agree with the overall sector strategy of the RMC as outlined in the PRSP, and have a strong link with the proposed projects in the PIP of the RMC in question.

Through high profile intensive dialogue (led by the CDs if necessary) during annual consultations and portfolio reviews with the government, the DM should be able to broadly define a list of potential projects and programs with their associated time-lines on expected delivery dates. The SBP should be prepared by the DM, latest, by the last quarter of the year to allow adequate time for finalizing the overall departmental business plan before the new year begins. Given that the PIP planning cycle of RMCs may differ from the Bank's ADF lending cycle, proper timing of the annual consultations is key to efficient delivery of the SBP, and hence, the Bank's lending program.

(b) Existing Guidelines for Building the Bank's Pipeline

The existing guidelines, as outlined in the revised Operational Manual (OM 340), for building the Bank's pipeline make room for a three-year Rolling Lending Program (RLP) in which potential projects are proposed by CTs for inclusion in Year 1, Year 2 or Year 3 of the RLP. Year 3 projects are those for which project preparation have begun or a specific schedule for preparation has been established, and for which appraisal is expected to be done in two years' time. Year 2 projects are those for which preparation is well advanced and appraisal can be done within a year, while Year 1 projects are usually projects that are ready for appraisal.

The guidelines also provide for a Provisional Lending Program (PLP) and the Final Lending Program (FLP). Both the PLP and the FLP contain all three sets of projects under Year 1, Year 2, and Year 3 of the RLP. The difference is that each year before Board approval of the RLP, the PLP needs to be revised (or finalized) into the FLP. The FLP is called the Indicative Lending Program (ILP) which becomes the official Lending Program of the Bank after Board approval. Each potential project is "initiated" into the RLP through preparation of an Initial Project Brief (IPB) which is supposed to undergo successive revision as and when necessary until it is accepted into the FLP.

(c) Streamlining the Existing Guidelines

A critical examination of the guidelines reveals a few areas where the process has to be tightened and streamlined to introduce adequate checks and balances to ensure that the final product is sustainable and meets the overall objective of the Bank Group.

(i) Reclassify Projects in the Pipeline

A more objective classification of the projects needs to be made in line with their readiness for the FLP. Potential projects should, therefore, be classified as Active, Standby, Reserve, or Passive as follows:

Active: projects that have been appraised and are ready for negotiations and Board approval.

Standby: projects that have been prepared (including all background studies and Environmental Impact Assistant (EIA) where necessary) and are ready for appraisal, but have to be kept on hold for a number of reasons including: commitment problems; sanctions due to arrears; non-readiness of RMC line ministry due to other pressing engagements; and/or internal difficulties (staffing problems, etc.).

Reserve: projects that: (a) have been prepared but have not completed outstanding studies (EIA, field surveys, etc.); (b) are under preparation, or (c) would be prepared within the quarter.

Passive: projects that have been identified, but dialogue is still ongoing with the RMC to ensure that they are featured in their PIPs.

The foregoing classification is more self-explanatory than mere placement of a project under Year 1, Year 2 or Year 3 of the FLP, although there may be an obvious overlap between the two classifications. With the proposed classification, the Annual Work Plan of each sector division (or department) would typically comprise of the Active and Standby projects, so one would expect to find only projects coded *"A" or "S"* in Year 1 of the FLP. In practice, these two categories of projects are those projects that can be safely processed in any given year without compromising on their quality at entry.

In order to make adequate room for maneuver, the active and standby projects should constitute at least 150 percent of the annual work program of a given division/department at any point in time. Thus, a 50 percent buffer is proposed throughout each year's lending program in order to minimize the risk of bunching as has been experienced to date. Projects under the reserve category could be slated for Year 2, while only "passive" projects would be left in Year 3. This implies that each sector division has two years lead time to process a "passive" project and transfer it into its active lending program.

(ii) Fine-tune the "Initiation" and Review Process of the Project Briefs

Apart from ensuring a more objective and easily monitorable classification of projects in the pipeline, the process by which projects are "admitted" (or "initiated") into the Bank's pipeline also needs some fine-tuning. Currently, the process begins with the preparation of the IPB which is prepared for every project in the PLP and revised through to the FLP stage. There is, therefore, no clear distinction between the Project Briefs (PBs) except that one can infer that projects in Year 1 are likely to have more "finalized" PBs while those in Years 2 and 3 may have more of draft PBs.

The stage of processing of the PB is critical and should reflect, as much as possible, the readiness of the project for inclusion in the annual lending program of every division or department. The paper proposes that the IPB should be prepared for every category P project, and reviewed at the divisional level under the guidance of the Division Manager. However, in order to "graduate" from category P to category R, the IPB needs to be revised as the Revised IPB (RIPB) and submitted to the CT and OA for review and approval. Thus, beyond category P projects, approval of the PBs for all other project categories should be taken over by the CT and the OA (head of the CT) in order to ensure uniformity and consistency of approach at the department level.

In order to "cross over" from category P to categories S and A projects, the same review process needs to be adopted for the reasons mentioned above. At this stage, the RIPB has to be revised into the Final Project Brief (FPB). Thus, compared to the existing guidelines under OM 340, three (instead of two) revisions of the PB are proposed in this paper. Since the FBP is associated directly with potential projects in the annual lending program of the department, the paper proposes that the Country Department Director chair the review of the FBP to lend credence to the review process of the FPBs.

(iii) Adopt a more flexible set of Lending Instruments

The Bank's three-year planning horizon is linked directly to the three-year Rolling Lending Program under the ADF. However, the PIP of RMCs may span over longer horizons (10, 15, 20 or even 25 years) and implemented over longer cycles of five or seven years. This potential mis-match in planning horizons between the PIPs of RMCs and the Bank's Lending Program cycle raises an issue as to the appropriateness of existing lending instruments. In addition, the increasing emphasis on program lending must be accompanied by the adoption of new lending instruments that will allow the Bank to package programs from the PIPs of RMCs for lending over longer horizons in a phased manner. Thus, a more flexible lending instrument that allows the Bank to commit itself, at least, on a tentative basis, beyond it's three-year planning horizon of the ADF is needed.

The Adjustable Program Loans (APLs) and the Learning and Innovative Loans (LILs) approved by the World Bank Boards allow the World Bank to lock into the PIP of an RMC and released in "tranches" without necessarily going through repeated Board approvals for the same program. These lending instruments allow the World Bank to adopt a pilot approach to program lending, in which implementation is restricted initially to a limited size to minimize the risk of failure. Lessons learned and best practice examples identified at the pilot phase are then incorporated into the final design of a much bigger program to enhance the likelihood of success.

The Bank needs to adopt similar flexible lending instruments that would allow for pre-testing of project ideas on a small and manageable size before their expansion into full development programs proposed by RMCs. The current shift from project lending to program lending as envisaged under the Comprehensive Development Framework (CDF) and Sector Investment Programs (SIPs) poses a real challenge as to the appropriateness of existing lending instruments. In this regard, a more flexible set of lending instruments is needed to provide a logical transition from project lending to program lending.

Conclusion

Building a healthy pipeline for Bank Group operations requires a holistic approach that recognizes all the forces at work in the development of national PIPs as well as the Bank's internal processes that help to guide and generate the pipeline of "bankable" projects/programs. Since the Bank's pipeline, must of necessity be derived from the national PIPs, it is imperative that the process begins with a thorough understanding of the PIP process itself.

At the RMC level, capacity building issues need to be carefully analyzed and assessed to ensure that the PIP process is relatively efficient. In addition, the need to sensitize RMCs through intensive and persistent dialogue about the importance of decentralizing the PIP process to assure participation at the grassroots level is essential. This helps to drum up support and public action to assist the poor and vulnerable groups of society who usually have no political clout, and, therefore, stand a high risk of being marginalized in the national PIP process.

At the Bank Group level, existing processes for both lending and non-lending services need to be streamlined to enhance efficiency and cost-effectiveness in Bank Group operations. To this end, efforts are needed to promote and reward good ESW. In addition, the CTs need to be formalized and their roles strengthened for them to play their leadership roles envisaged in the Operations Manual (OM 340). Closely related to this, the concept of a Task Manager needs to be re-examined to assure greater responsibility and accountability of TMs, if they are expected to play a key role in the building up of the Bank's pipeline. More importantly, this is necessary to ensure that the Bank's TMs have fairly the same leverage in decision-making and responsibility-taking in their association with other TMs of multi-lateral finance institutions with which the Bank intends to collaborate. This is critical for effective participation of Bank staff in the PRSP process at the RMC level, else the risk of Bank staff being marginalized could be fairly high.

Furthermore, a more objective and easily identifiable classification of potential projects in the Bank's pipeline is needed. The corresponding Project Briefs (PBs) must be revised intermittently to match the respective categories of projects at each stage of the pipeline building process.

Finally, a more flexible set of lending instruments are needed, not only to secure a smoother implementation of the Bank's pipeline, but also to allow the Bank to commit itself to development programs beyond the three-year planning horizon engendered by the three-year lending cycle of the ADF.

Notes and References

1. Socially desirable here does not reflect a Pareto-optimal situation; rather, it simply reflects the outcome of socio-political decisions taken by an RMC government on its PIP.

2. This is also the case in comparable Multi-lateral Development Banks (MDBs), such as the World Bank, the Inter-American Development Bank, and the Asian Development Bank.

African Development Bank, *Revised Operations Manual*, June 1999.
The World Bank, *The Task Manager's Handbook*.

QUARTERLY LOAN APPROVALS
(ADF-III to ADF–VIII)

ADF SOURCE	Quarterly Approvals March 1982–June 2000				
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Grand Total
ADF–III	23	30	29	57	139
	(17)	(22)	(21)	(41)	(100)/a
ADF–IV	36	49	43	73	201
	(18)	(24)	(21)	(36)	(100)
ADF–V	70	70	63	85	288
	(24)	(24)	(22)	(30)	(100)
ADF–VI	52	76	90	131	349
	(15)	(22)	(26)	(38)	(100)
ADF–VII	10	22	45	147	224
	(4)	(10)	(20)	(66)	(100)
ADF–VIII	25	29	15	32	101
	(25)	(29)	(15)	(32)	(100)
Grand Total	216	276	285	525	1302
	(17)	(21)	(22)	(40)	(100)

/a. Percentages are in parentheses. The figure in the text is based on the percentages in this table.
Source: Compiled by author