INVESTING IN DEVELOPMENT

Lessons of World Bank Experience

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Foreword

INVESTING IN DEVELOPMENT has been the central activity of The World Bank for more than thirty-five years.

In close partnership with its developing members—which number well over a hundred separate, sovereign, culturally diverse societies—the Bank has acquired a rich store of experience. It has worked on every continent. It has faced a wide range of local conditions. It has helped search for solutions to an evolving mixture of complex development problems.

In recent years the global economy has been swept by the energy crisis, the persistent recession, the international debt problem, and the natural catastrophe of prolonged drought. The Bank has responded to these events through an array of new lending instruments, and it will continue to look for innovative and catalytic approaches as new challenges arise. But assisting countries to invest in development—planning investments, designing projects, building institutions, and devising appropriate policies—is where the Bank's traditional strength lies. There is a consensus among the Bank's shareholder governments that investing in development should be the mainstay of future operations as well.

Over the years the Bank has published a wide selection of materials on various aspects of its work. But the present volume represents the first time we have sought to portray the full scope of the investment process. It provides a detailed and comprehensive overview of the process that none of our previous publications has attempted.

The book has been a major undertaking, and for it the Bank has called on the services of two senior World Bank officials who between them have nearly forty years of project experience. Warren C. Baum has served as vice president of the Central Projects Staff and of the Operations Policy Staff, and Stokes M. Tolbert as director of the Industrial Development and Finance Department and of the Tourism Projects Department. They, in turn, have drawn upon a group of experts in the Bank for contributions in their specialized fields.

What, then, is the goal of this volume?

It is, quite simply, to share the central lessons that The World Bank has learned during the almost four decades it has been assisting its developing member countries to achieve their investment objectives. It is an effort to distill the Bank's experience as a hands-on lender and make it available to others in as helpful a form as possible.

Foremost among the intended readers are the officials in developing countries who have the critical task of managing their societies' resources. But the book is relevant to the interests of many other groups as well: staff of development institutions and aid agencies, consultants, researchers—indeed to all those who are working in the field of development.

Let me emphasize that this book is not about how The World Bank "does" development projects. It is, rather, about what the Bank has learned, through both successes and failures, that can prove useful to developing countries in their own investment and project work. It is about what these countries—through more effective investment in development—can do to enhance their economic growth and to improve their quality of life. The Bank can help in this effort by making the knowledge and insights that it has gained available to those officials who bear the heavy burden of hastening their countries' economic and social advance.

We will go on learning from, and with, our member countries as they proceed along the path of development. The Bank's relationship with its members is characterized as much by a lively and fruitful dialogue as by the transfer of financial resources. This book, by increasing the area of common ground, should enrich and deepen that dialogue.

A. W. CLAUSEN
President, The World Bank

June 1985

Preface

THE WORLD BANK'S approach to investment lending is an integral part of its wider role as a development institution working in close relationship with its developing member countries to help promote their economic growth and social welfare. This relationship takes many forms, ranging from giving broad advice on macroeconomic policies and development strategies based on a comprehensive program of country economic and sector work, to conducting economic research and special studies on development issues, to providing technical assistance for investment planning or for any of the myriad tasks of development, to engaging in the "nuts and bolts" of project lending.

The origins of this book can be traced to an article written by one of the authors called "The Project Cycle," which appeared in *Finance & Development* in 1968. It provided, for the first time, a brief summary of how the Bank goes about its project work. In several editions and languages, it has reached a wide audience. From time to time requests have been made, both within and outside the Bank, that the project cycle be described from the viewpoint of a developing country carrying out its own projects. This we initially set out to do in this book.

It soon became apparent, however, that the usefulness of our account would be limited if we did not set project work in its proper context of investment planning and management at the national and sector levels. The World Bank has been one of the pioneers in the study of national economies as a whole and in the systematic analysis of their main sectors, which together provide an indispensable basis for selecting sound projects and determining appropriate policies. In expanding the coverage of the book to reflect these activities, we have increased its bulk greatly, but it now, we hope, constitutes a guide to the entire process of managing a country's investment resources wisely. We have had to omit many important specialized topics because of space restrictions. Our aim has been to achieve the virtues of broad, if not always deep, coverage of the investment process as a whole.

Many studies that seek to explain one aspect or another of the development process rely on—or build—theoretical models that are presumed to have not only explanatory but also predictive powers. This book takes a different tack. It is based entirely on the World Bank's observation of, and participation in, the actual successes and failures of investment efforts over the past thirty-five years in its developing member countries—which comprise most of the world's developing countries except for some of the centrally planned economies of Eastern Europe. The authors believe that a book thus firmly anchored in experience can provide a practical guide for officials and others in these countries. It has long been recognized that the knowledge and example of the developed countries constitute an invaluable resource for the developing countries to draw upon, enabling them to leapfrog some steps toward development. It is a thesis of this book that the vast accumulation of experience with the development process in the developing countries themselves is an even more fruitful resource. This book attempts to pull together some of that experience and make it readily available.

In writing about the investment process from the point of view of officials in developing countries, who are our primary audience, we have kept in mind that they have a wide variety of backgrounds and professional experience. For this reason, and especially to make the discussion accessible to those without formal training in economics, we have tried to keep the theoretical concepts and analytical techniques as simple as possible and to avoid technical jargon. We have also sought to make our advice practical and to present it in a way that is directly applicable and as unambiguous as the complexity of development problems permits.

In the discussion we have recognized explicitly that economic development depends in large measure on noneconomic factors. Although social, cultural, and institutional factors have been examined, we have not been able—because of limitations of time and space and of our own knowledge—to give systematic treatment to the political aspects of development. We allude to what is often the ultimately political nature of choices to be made; for example, in the allocation of resources among sectors and in the size and timing of price adjustments in the public sector. But it has not been possible to portray adequately the political pressures that officials in developing countries constantly face. Most economic decisions—certainly the important ones—involve a competition for scarce resources and a balancing of conflicting claims put forward by various sectoral, regional, commercial, or other interests. The decisionmaker is at the center of these pressures, which may delay or significantly compromise sound decisions, and indeed may sometimes overwhelm rational economic choice.

We have tried to avoid giving the impression that we believe the decisionmaker can always accept and act on sound economic advice if only he chooses to do so. But it would have been impossible, without excessive repetition, to note this at every turn. Suffice it to say that underlying the arguments presented here is an appreciation of the multiplicity of competing interests and priorities that give the decisionmaking process its real flavor. We have sought to provide a guide not toward ideal but toward better decisions, recognizing that less than optimal decisions are not simply shortfalls from an ideal but sometimes the best possible solution to complex problems amid multiple constraints.

We have not tried to minimize the persistent obstacles on the path to development. At the same time, we hope we have reflected the conviction that World Bank staff share with officials of many of our member countries: not only that the old ways must go but also that the needed new ways can be found; that the prospect of degrading poverty can be tempered with hope of a reasonable degree of shared prosperity. This book conveys the message that the economic development process, which is spreading a technological revolution to many parts of the globe, can be nurtured and hastened through the application of some relatively simple lessons.

Much of the Bank's experience has remained in the form of internal studies, reports, and memoranda or in the minds of its professional staff. The book has attempted to compile and synthesize this experience in a form usable by development practitioners. The source material for the book has accordingly come almost entirely from within the Bank. This explains the relatively few references given, especially since the only Bank documents we have cited are those available to the general public.

This analysis of the substantive lessons of the Bank's experience has drawn extensively on the competence of many other people; our heavy debt to them is acknowledged separately. We also benefited greatly from the advice and comments of others in and outside the Bank who reviewed all or most of the book in draft, including Colin Bruce, Ram Chopra, Anthony Churchill, Ernesto Fontaine, S. S. Kirmani, A. M. A. Muhith, Guy Pfefferman, Robert Picciotto, Robert Sadove, Wilfried Thalwitz, and Mervyn Weiner. Herman van der Tak undertook an especially painstaking and searching review of the entire draft. In addition, we received helpful comments on various chapters of the book from Hans Adler, George Baldwin, Michael Bamberger, Esra Bennathan, Hans Binswanger, Michael Cernea, Cynthia Cook, Maurice Dickerson, Nancy Farmer, Aklilu Habte, Clifford Hardy, Clell Harral, Ernesto Henriod, John Holsen, Ian Hume, Tariq Hussain, Keith Marsden, Katherine Marshall, Maurice Mould, Al Raizen, Visvanathan Rajagopalan, Anandarup Ray, Gloria Scott, Raghavan Srinivasan, Donald Strombom, Jeremy Warford, Larry Westphal, Christopher Willoughby, and Montague Yudelman. Peter Richardson played an important role in shaping the initial concept of the book. The two authors are responsible for the content of the book, however, including the errors that doubtless still remain.

Jeanne Rosen, our tireless editor, devoted many hours to improving our drafts, in the process making not only our writing but also our thinking clearer; her contribution was indispensable, and if the reader finds his way through the analysis with relative ease, much of the credit goes to her. Our gratitude to our secretaries, Moreen Tolerton and Virginia Acio, cannot be measured; they toiled through innumerable drafts, giving word processing new dimensions of cheerfulness, precision, and celerity, and were as committed as we to the quality of the book.

PART IV. PROJECT ANALYSIS

Technical Analysis (section on Scientific and Technological Development) *Charles Weiss*

Economic Analysis *Prem Garg*

Social Analysis *Jasper Ingersoll and Fern Ingersoll*

Social Analysis (section on Women in Development) *Shirley Boskey*

Institutional Analysis *Geoffrey Lamb*

Environmental Analysis *Robert Goodland and George Ledec*

Procurement *Charles Morse*

Use of Consultants *Charles Morse*

Abbreviations and Definitions

DFC	Development finance company
EEC	European Economic Community
FAO	Food and Agriculture Organization
GDP	Gross domestic product
GNP	Gross national product
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
ILO	International Labour Organisation
IMF	International Monetary Fund
OECD	Organisation for Economic Co-operation and Development
OED	Operations Evaluation Department (World Bank)
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
Unesco	United Nations Educational, Scientific, and Cultural Organization
UNICEF	United Nations International Children's Emergency Fund
UNIDO	United Nations Industrial Development Organization
WHO	World Health Organization

Billion is 1,000 million.
Dollars are U.S. dollars.
Hectare is 10,000 square meters or approximately 2.47 acres.

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Investing in Development

Woman carrying water, Ethiopia

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Introduction

ECONOMIC DEVELOPMENT is transforming the lives of millions of people throughout the developing world. The character of development, its direction and pace, and the way people share in its benefits are largely determined by how a country manages its investment resources. This book is about that investment process, viewed from the experience of the World Bank, which has been a leading source of finance for development for more than thirty-five years.[1]

Much of the book is concerned with investments in the form of specific projects: how to identify the most promising projects in each sector, how to prepare them, how to carry them through to successful completion, how to operate and maintain them afterward. The project, sometimes described as the "cutting edge of development," has become an important means of marshaling a country's resources, human and material, for investing in development.

But this book is about more than projects; to put it another way, it treats the project approach to investment in the broadest context. The approach comprises analyses and decisions at the *national* level, where projects are aggregated into a national investment plan and a framework of macroeconomic policies is put in place; at the *sector* level, where sector investment strategies and priorities, along with supporting policies, are elaborated; and at the *project* level, where specific projects are identified, prepared, and implemented.

In the years after World War II, a new-found concern with raising the living standards of the two-thirds of mankind in the developing world led to international cooperation for development on an unprecedented scale. International lending agencies were established and programs of bilateral aid launched to transfer resources and provide technical assistance to developing countries. In conjunction with these efforts, development economics emerged as a major field of intellectual endeavor, seeking to identify the factors that stimulate economic growth and to design techniques to overcome constraints to that growth. Theories and doctrines of development appeared rapidly: physical capital formation, balanced growth, and the "big push"; dependency theories; backward linkages; industrialization or rural development; import substitution or export promotion; structuralism or market-based development; and, recently, investment in human capital with an emphasis on basic needs. In retrospect, it is clear that these offered not so much a comprehensive theory of development as a guide to a better understanding of one aspect or another of the complex process of development.

THE PROJECT APPROACH

Amid this ferment and the frequent changes of emphasis that it encouraged, the project approach has endured as a disciplined way to

1. For convenience or variety, we shall also refer to the World Bank as "the Bank." Its formal name is the International Bank for Reconstruction and Development.

manage the use of resources to achieve important development objectives. This approach has assisted developing countries to establish the viable institutions indispensable for orderly economic growth, to effect the policy changes needed for good project performance, and to make investments that are properly engineered, financially feasible, and economically sound.

The project approach accords well with the increasingly pragmatic view of development found in many countries today. The international community has become much more knowledgeable about the development process, recognizing that there is no single blueprint or prescription for overcoming the problems of underdevelopment. Economic development is now perceived as a long, slow, and often painful process of learning from experience. The complexity and interdependence of the modern global economy have imposed discipline and realism on policymakers; this has been reinforced by recent vicissitudes—recession, reduction in foreign aid, debt crisis. Instead of constructing elaborate models for central planning, governments are concentrating more of their efforts on the two primary means within their control for guiding the growth process: a sound public sector investment program that allocates scarce resources to high-priority public needs, and a policy framework that elicits the desired behavior from both public and private entities. The emphasis is on being practical rather than doctrinaire, on learning by doing, and on using what works and abandoning what does not. This is increasingly true of centrally planned as well as market economies. In this context, the project approach has proved a flexible, useful tool—regardless of a country's economic system, type of government, or stage of development.

Origins of the Project Concept

The notion that investment can and should be planned and executed in the form of specific projects is itself relatively new. Although the use of the term project, in the general sense of a plan, design, or scheme for doing something, can be traced back for several centuries,[2] it is only in the postwar period, beginning in the 1950s, that development practitioners and academics have focused on projects as the units into which investments could be packaged.

It is fair to say that the World Bank has played a key role in developing and applying the project concept. The Articles of Agreement adopted at the Bretton Woods conference in 1944, on which the work of the Bank rests, stipulate that "loans made or guaranteed by the Bank shall, except in special circumstances, be for the purpose of specific projects of reconstruction or development." No doubt specific projects were regarded as a way of ensuring that capital was invested only for "productive" purposes, in accordance with the primary objective of the Bank as set forth in the first Article. This was a reaction to the experience of

2. In 1711, Addison wrote that "new projects were every day set on foot for money, which served only to offend and incense the people." (Addison, Spectator no. 5 [1711], p. 13, cited in the *Compact Edition of the Oxford English Dictionary* [1981 ed.], vol. 2, p. 2320.)